AUDIT REPORT
ON
THE ACCOUNTS OF RECEIPTS OF MINISTRY OF PETROLEUM & NATURAL RESOURCES
AUDIT YEAR 2016-17

AUDITOR-GENERAL OF PAKISTAN

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ABBREVIATIONS & ACRONYMS

AGPR	:	Accountant General Pakistan Revenues
BMR	:	Balancing Modernization and Replacement
DAC	:	Departmental Accounts Committee
DG	:	Director General
DGPC	:	Director General Petroleum Concessions
DHCL	:	Dawood Hercules Chemical Limited
DP	:	Draft Para
ECC	:	Economic Coordination Committee
E&P	:	Exploration and Production
FBR	:	Federal Board of Revenue
FRRs	:	Final Revenue Requirements
FTO	:	Federal Treasury Office
FY	:	Financial Year
GD	:	Goods Declaration
GDS	:	Gas Development Surcharge
GENCO	:	Generation Company
GIDC	:	Gas Infrastructure Development Cess
GTPS	:	Gas Turbine Power Station
HRL	:	Habib Rahi Limestone
IPSAS	:	International Public Sector Accounting Standards
KIBOR	:	Karachi Inter-bank Offered Rate
LIBOR	:	London Inter-bank Offered Rate
MFDAC	:	Memorandum for Departmental Accounts Committee
ML	:	Management Letter
MMBTU	:	Million Metric British Thermal Unit
MMCFD	:	Million Metric Cubic Feet per day
MPCL	:	Mari Petroleum Company Limited
MPNR	:	Ministry of Petroleum and Natural Resources
NBP	:	National Bank of Pakistan
OGDCL	:	Oil and Gas Development Company Limited
OGRA	:	Oil & Gas Regulatory Authority
PAC	:	Public Accounts Committee
PAO	:	Principal Accounting Officer
PC	:	Petroleum Concession

PCA	:	Petroleum Concession Agreement
PL	:	Petroleum Levy
PPL	:	Pakistan Petroleum Limited
SBP	:	State Bank of Pakistan
SNGPL	:	Sui Northern Gas Pipelines Limited
SSGCL	:	Sui Southern Gas Company Limited
TPS	:	Turbine Power Station
US	:	United States
WAPDA	:	Water and Power Development Authority

PREFACE

Articles 169 and 170 of the Constitution of Islamic Republic of Pakistan, 1973 read with Section12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 require the Auditor-General of Pakistan to conduct audit of receipts of Government of Pakistan.

The Report is based on audit of receipts collected by and/or on behalf of the Ministry of Petroleum and Natural Resources for the Financial Year 2015-16. The Directorate General of Audit, Customs & Petroleum, conducted audit during the period from July, 2016 to November, 2016 on test check basis with a view to reporting significant findings to the relevant stakeholders. The main body of this Audit Report includes audit findings having value of Rs. 1 million or more. Relatively less significant issues are listed in the Annexure-I to this Audit Report. The audit observations listed in the Annexure-I shall be pursued with the Principal Accounting Officer (PAO) at the DAC level. In those cases where the PAO does not initiate appropriate action, the audit observations will be brought to the notice of the Public Accounts Committee through next year's Audit Report.

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

Audit observations included in this Report have been finalized in the light of discussions in DAC meeting held on 3rd February, 2017.

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

Dated: 26 February 2017 (Rana Assad Amin)

Auditor-General of Pakistan

EXECUTIVE SUMMARY

The Directorate General of Audit, Customs & Petroleum, has the mandate to conduct financial attest and compliance with authority audit of receipts collected by and/or on behalf of the Ministry of Petroleum and Natural Resources (MPNR) in terms of Articles 169 and 170 of the Constitution of Islamic Republic of Pakistan read with Sections 7 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. The Directorate General carried out audit on test check basis in accordance with Financial Audit Manual. It utilized 2,025 man-days incurring an expenditure of Rs.9.30 million (approximately) on audit of three Directorates General of the Ministry dealing with collection of receipts.

The MPNR is responsible for coordinating the development of natural resources of energy and minerals in Pakistan. It aims at ensuring sustainable energy supply for economic development of Pakistan. It is required to facilitate and promote exploration and production of oil, gas and mineral resources in the country. Apart from the aforesaid functions, MPNR is also responsible for collection of a number of receipts of Government of Pakistan from oil, gas and mineral sectors.

a. **Scope of Audit**

MPNR collected revenue of Rs. 330,204 million during Financial Year (FY) 2015-16 on account of Gas Development Surcharge (GDS), Royalty on Gas, Petroleum Levy, Royalty on Oil, Discount Retained on Local Crude Oil Price, Windfall Levy against Crude Oil, Gas Infrastructure Development Cess (GIDC) and miscellaneous receipts against original estimates of Rs.409,619 million and revised estimates of Rs. 378,904 million. Thus there was a less collection of Rs. 48,700 million or 13 per cent under the revised estimates.

The Directorate General of Audit, Customs & Petroleum conducted audit of above receipts on test check basis in accordance with audit methodology as envisaged in Financial Audit Manual.

b. **Recoveries at the instance of Audit**

Audit pointed out recovery of Rs. 59,262 million during audit year 2016-17 against which an amount of Rs. 16,430 million was recovered by the MPNR during the period from 01.02.2016 to 31.01.2017.

c. **Audit Methodology**

The audit activity started with development of audit plan, detailed audit planning, and development of audit programmes, determining resource requirements and timing. The planned activities were executed as per audit programmes and results thereof were evaluated at appropriate level before issuance of reports to the audited organizations. High-value and high-risk items were selected on professional judgement basis for substantive testing.

d. **Audit Impact**

- The Ministry recovered an amount of Rs.16,430 million on pointation of Audit.

- Due to pursuance by Audit, a reference was made to Federal Board of Revenue (FBR) and Law Division simultaneously for clarification of rates of Petroleum Levy (PL), date of Goods Declaration (GD) filing or actual removal, applicable on oil removed from bonded warehouses. Law division upheld the Audit point of view, which not only resulted in savings of millions of rupees but also resolved the issue arisen in previous years.

- Amendments were made in the new Exploration& Production (E & P) Rules for imposition of Surcharge in case of delayed payment of Royalty on Oil and Gas.

- A reference was made to Law Division for clarification of indexation of rates of rent on license and lease due to the issue raised by Audit. Law Division had upheld the viewpoint of Audit which is likely to enhance revenue substantially.

- On pointation of Audit, the Law Division has clarified that the share of Production Bonus of state owned companies like GHPL will be borne by other sharing companies of the same concession area. So the share of all companies will be recovered which will enhance the collection of Production Bonus.

e. **Comment on Internal Control and Internal Audit Department**

Audit evaluated the control environment as well as effectiveness of the internal controls and identified certain weaknesses. Adequate and effective monitoring system was not in place to ensure timely realization of receipts of the Ministry. Internal Audit did not exist at the MPNR. The Ministry is required to institutionalize Internal Audit for ensuring financial discipline.

f. **Key Audit Findings of the Report**

This Report includes significant audit paras of Rs.59,262 million in respect of compliance with authority audit. The key audit findings are:

(i) Non- production of record relating to GDS- Rs. 9,880.86 million[1]

(ii) Non/Short-realization of GIDC- Rs. 22,193.17 million[2]

(iii) Non- realization of GDS- Rs.8,103.27 million[3]

(iv) Non/Short-realization of Royalty from E&P Companies- Rs. 2,834.07 million[4]

(v) Short-realization of GDS-Rs.1,678.35 million[5]

(vi) Non-realization of Petroleum Levy on direct and indirect sale of petroleum products - Rs. 1,296.24 million[6]

(vii) Non-realization of Discount Retained on Crude Oil and Windfall Levy- Rs. 623.20 million[7]

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[1] 2.4.1;
[2] 2.4.2, 2.4.4, 2.4.6, 2.4.19
[3] 2.4.3
[4] 2.4.5, 2.4.16
[5] 2.4.4, 2.4.5
[6] 2.4.7
[7] 2.4.10

(viii) Non/Short-realization of License and Lease Rent-Rs.368.76 million[8]

(ix) Non-realization of Interest on late payment of GDS/GIDC-Rs. 250.39 million[9]

(x) Non-realization of Production Bonus-Rs.63 million[10]

(xi) Non/Short-realization of Social Welfare Obligation - Rs.36.16 million[11]

(xii) Non-realization of Marine Research Fee-Rs.5.23 million[12]

(xiii) Non-encashment of bank guarantees/postdated cheques and non-realization of financial obligations - Rs.11,928.79 million[13]

(xiv) Non-realization of United States (US)$ 10.14 million/ mis-utilization of Rs.606.59 millionof training fund and variation of Rs.0.101 million relating to expenditure between cash book and bank statement[14]

(xv) Recurring loss due to non-framing the rules under GIDC Act,2015[15]

Audit paras for the Audit Year 2016-17 involving procedural violations, internal control weaknesses and irregularities not considered worth reporting to the Public Accounts Committee (PAC) have been included as Annexure –I to this Report.

g. **Recommendations**

MPNR is required to:-

(i) Ensure production of auditable record relating to GDS- Rs. 9,880.86 million;

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[8] 2.4.11, 2.4.13
[9] 2.4.12, 2.4.14
[10] 2.4.15
[11] 2.4.17
[12] 2.4.18
[13] 2.4.20
[14] 2.4.21
[15] 2.4.22

(ii) Take action for recovery of amount pointed out by Audit:

- GDSRs. 9,781.61 million and interest on GDS Rs. 183.04 million
- GIDCRs. 22,193.17 million and interest on GIDCRs. 67.35 million;
- Royalty on Oil and Gas Rs. 2,834.07 million;
- Bank guarantees / post-dated cheques of - Rs. 11,928.79 million
- Petroleum levy on direct and indirect sale of petroleum products - Rs. 1,296.24 million

(iii) Take measure for framing new rules under Gas Infrastructure Development Cess Act,2015 for prescribing time and manner for payment of GIDC and recovery of arrears;

(iv) Establish internal audit wing and strengthen the legal cell to prevent recurring violations and irregularities;

(v) Review the amendments made in Natural Gas (Development) Rules, 1967 where by the deposit of Gas Development Surcharge was conditional with the payment received from vendor. Time and manner should be conditional with time of supply of gas by the companies to consumer in line with Sales Tax Act, 1990 so that provision of interest @15% per annum can be invoked on late payment cases.

SUMMARY TABLES

Table 1: Audit Work Statistics

(Rs. in million)

S.No.	Description	No.	Revenue
1	Total entities (Ministries/PAOs) in audit jurisdiction	1	330,204*
2	Total formations in audit jurisdiction	15	330,204
3	Total entities (Ministries/PAOs) audited	1	330,204
4	Total formations audited	15	330,204
5	Audit & Inspection Reports	15	59,360

**Financial Statements for the FY 2015-16*

Table 2: Audit Observations regarding Financial Management

(Rs. in million)

S.No.	Description	Amount
1	Unsound asset management	-
2	Weak financial management	-
3	Weak internal controls relating to financial management	59,262
4	Others	-
Total		**59,262**

Table 3: Outcome Statistics

(Rs. in million)

S.No.	Description	Audit Year 2016-17	Audit Year 2015-16
1	Outlays audited (Revenue Receipts)	330,204	310,077
2	Monetary Value of Audit Observations	59,360	169,813
3	Recoveries pointed out by Audit	59,262	120,526
4	Recoveries accepted/established at the instance of Audit	32,532	105,577
5	Recoveries realized at the instance of Audit	16,430	16,277

*****Recoveries realized include amount recovered and verified from 01.02.2016 to 31.01.2017.

Table 4: Table of irregularities pointed out

(Rs. in million)

S.No.	Description	Amount Placed under Audit Observation
1	Violation of Rules and regulations and violation of principles of propriety and probity in public operations.	1,678
2	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	-
3	Accounting Errors (accounting policy departure from IPSAS, misclassification, over or understatement of account balances) that are significant but are not material enough to result in the qualification of audit opinions on the financial statements.	-
4	If possible quantify weaknesses of internal control systems.	-
5	Recoveries and overpayments, representing cases of establishment overpayment or misappropriations of public money.	47,703
6	Non-production of record.	9,881
7	Others.	-

Table 5: Cost-Benefit

(Rs. in million)

S.No.	Description	Audit Year 2016-17	Audit Year 2015-16	Audit Year 2014-15
1	Outlays audited (Item 1 of Table 3)	330,204	310,077	305,712
2	Expenditure on Audit	9.30	6.9	6.81
3	Recoveries realized at the instance of Audit	16,430	16,277	8,875
Cost-Benefit Ratio		**1:1766**	**1:2359**	**1:1303**

CHAPTER-1 PUBLIC FINANCIAL MANAGEMENT ISSUES

1.1 Audit Paras

Significant paras framed during audit of Ministry of Petroleum & Natural Resources (MPNR) for FY 2015-16 are as under:

1.1.1 Non-reconciliation of receipts of Petroleum Levy (C-03901) Rs. 149,358 million

According to para 5 (e) read with para 5 (d) of the System of Financial Control and Budgeting, 2006 dated 13.09.2006, in the matter of receipts pertaining to the Ministry/Division, Attached Departments and Subordinate Offices, the Principal Accounting Officer is expected to ensure that adequate machinery exists for due collection and bringing to account of all receipts of any kind connected with the functions of the Ministry/Division(s)/Departments and Subordinate Offices under his control and the Principal Accounting Officer shall make sure that the accounts of receipts shall be maintained properly and reconciled on monthly basis.

The Director General (DG) Oil, Islamabad neither maintained any accounts of Petroleum Levy (C-03901) collected Rs. 149,358 million nor reconciled it with the figures of concerned sub-office of Accountant General of Pakistan Revenues during the Financial Year 2015-16. In the absence of actual figures of collection of Petroleum levy, Audit could not verify its accuracy and completeness. Similar irregularity had already been pointed out in previous three years Audit Reports. Non-reconciled figures impair the authenticity of financial statements of the Federal Government.

Management response was awaited till finalization of this Report. Para was not discussed in DAC meeting held on 03 February, 2017.

The steps are required to be taken to prepare the actual figures of collection of Petroleum Levy and get it reconciled with the respective sub-offices of AGPR.

[ML-4]

1.1.2 Non-authenticity/verification of deposited Royalty on Crude Oil and Natural Gas (C-03905 and C-03906) from the data of Federal treasury– Rs. 2,153.84 million

According to para 5(d) of the System of Financial Control and Budgeting, 2006 each Principal Accounting Officer is required to make sure that accounts of revenue receipts are maintained properly and reconciled on monthly basis.

The Director General Petroleum Concession (DG PC), Islamabad maintained a register of royalty showing challan wise deposits for the FY 2015-16. An amount of Rs. 2,153.84 million of Royalty on Crude Oil and Natural Gas (C-03905 and C-03906) deposited by E&P companies were shown as deposited at NBP/SBP Islamabad but the same amount was not appeared in Federal Treasury Office Islamabad. It resulted into non-authenticity of data and reconciliation maintained and conducted by DG (PC), Islamabad.

Management response was awaited till finalization of this Report. Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends that credit verification of amount pointed out be got verified form the Federal Treasury Office.

[ML-1]

1.1.3 Non- authenticity/verification of Windfall Levy – Rs. 16.46 million

According to para 5(d) of the System of Financial Control and Budgeting, 2006 each Principal Accounting Officer is required to make sure that accounts of revenue receipts are maintained properly and reconciled on monthly basis. According to Para 3.4.2.12 of the Accounting Policies and Procedural Manual, each entity is required to reconcile its books of accounts with the bank record at the close of each month.

The DG Oil, Islamabad did not take notice of non-authenticity and non-availability of a deposit of Rs. 16,462,124 by M/s Attock Refinery Rawalpindi in the data as provided by Federal Treasury Office (FTO) Islamabad. M/S Attock Refinery had paid its share of windfall levy retained on local crude oil price for the month of March, 2016. The said challan dated 16.05 .2016 was not found/ entered in the record of Federal Treasury Islamabad under head C-03915 Wind

Fall Levy. This resulted into un-authenticated deposit of Rs. 16,462,124 under the head Wind Fall Levy.

It was required that deposit under Wind Fall Levy of Rs. 16,462,124 may be got verified /authenticated from the FTO /AGPR Islamabad.

Management response was awaited till finalization of this Report. Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends that the issue may be looked into and necessary measures be taken to get actual figures of collection and reconciled with the FTO/AGPR.

[ML-3]

1.1.4 Late payment of Royalty on Oil and Gas by E&P companies

According to Rule 36 of Pakistan Petroleum (Exploration and Production) Rules, 1986, the holder of a lease shall pay a royalty at the rate of 12.5 per cent of the wellhead value of the petroleum produced and saved. Royalty was required to be paid on monthly basis within ten days from the expiry of the relevant calendar month. The companies under E&P Rules 2001 are required to pay royalty within 45 days of the month of production respectively. According to Article 161 of the Constitution of Islamic Republic of Pakistan, the net proceeds of the Royalty collected by the Federal Government, shall not form part of the Federal Consolidated Fund and shall be paid to the Province in which the wellhead of natural gas is situated.

Seven E&P companies under the jurisdiction of DGPC, Islamabad deposited Royalty on Crude Oil Rs. 199.75 million in 20.cases and Royalty on Natural Gas Rs. 86.23 million in 18 cases aggregating to Rs. 285.97 million in 38 cases. The aforesaid amount was deposited later than the prescribed time with delays ranging from 38 to 420 days.

Non-compliance of Rules by E & P companies, week monitoring and delayed payment of proportionate share of royalty to the provinces causing financial loss to the public exchequer.

Management replied that under E&P Rules, 1986 there is no provision to impose fine or penalty at the companies for delayed payment of Royalty. Companies are being advised for timely payment. Audit is of the view that due to non-availability of fine clause, the Department should be more active to recover the Royalty on Oil and Gas timely from the companies being operated under E&P Rules, 1986.

Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends affective steps for timely recovery of royalty from E & P companies besides rules may be amended to ensure penalty clause for delayed payment of Royalty which is directly transferable to the related provinces.

[Annexure-3]

CHAPTER-2 MINISTRY OF PETROLEUM & NATURAL RESOURCES

2.1 Introduction

Ministry of Petroleum and Natural Resources (MPNR) was created in April, 1977. Prior to that, the subject of Petroleum and Natural Resources was a part of the Ministry of Fuel, Power and Natural Resources. MPNR is responsible for coordinating the development of natural resources of energy and minerals in Pakistan. It aims to ensure, secure and make available sustainable energy supply for economic development of the country. It facilitates and promotes exploration and production of oil, gas and mineral resources in the country. The MPNR also collects a number of receipts of government of Pakistan through DG (PC), DG (Oil) and DG (Gas). The DG (PC) deals with receipts of Royalty on Oil and Gas, Rent of Lease/Licensed Area, Marine Research Fee, Production Bonus etc. The DG (Oil) deals with Petroleum Levy, Discount Retained on Local Crude Oil Price and Windfall Levy against crude oil. The DG (Gas) deals with Gas Development Surcharge and Gas Infrastructure Development Cess.

2.2 Comments on Budget and Accounts

This chapter deals with Royalty on Oil and Gas, Gas Development Surcharge, Petroleum Levy, Windfall Levy and Discount Retained on Local Crude Oil price collected by Ministry of Petroleum and Natural Resources.

2.2.1 Revenue Collection vs Targets

A comparison of revised estimates and actual receipts of the Ministry for the financial year 2015-16 is tabulated as follows:

(Rs in million)

Nature of Receipt	Original Target* 2015-16	Revised Target 2015-16*	Collection 2015-16	Difference from Revised Target	
				Absolute (4-3)	Percentage
1	**2**	**3**	**4**	**5**	**6**
Petroleum Levy	135,000	135,000	149,358	14,358	11
Development Surcharge on Gas	30,000	32,000	32,654	654	2
Royalty on Oil	18,373	17,433	17,690	257	1
Royalty on Gas	40,246	38,211	39,990	1,779	5
Discount Retained on Local Crude Oil Price	21,000	8,400	9,108	708	8
Windfall Levy	18,000	2,860	1,633	(1,227)	(43)
Gas Infrastructure Development Cess	145,000	145,000	79,771	(65,229)	(45)
Petroleum Levy on LPG	2,000	0	0	0	0
Total	**409,619**	**378,904**	**330,204**	**(48,700)**	**(13)**

**Explanatory Memorandum of Federal Receipts 2016-2017 and Financial Statements of Federal Government 2015-16*

The Ministry collected Rs. 330,204 million against revised estimates of Rs. 378,904 million for the FY 2015-16. It showed less collection of Rs. 48,700 million (13%) as compared with the revised estimates of the receipts. The major amount less realized was relating to GIDC (45%) and Wind Fall Levy (43%) as compared with revised estimates.

2.2.2 Comparison of actual receipts between the Financial Years 2014-15 and 2015-16

A comparison of actual receipts between the Financial Years 2014-15 and 2015-16, is tabulated as follows:

(Rs in million)

Nature of Receipt	Collection		Difference	
	FY: 2015-16	**FY: 2014-15**	**Absolute**	**Percentage**
1	**2**	**3**	**4**	**5**
Petroleum Levy	149,358	131,356	18,002	12
Development Surcharge on Gas	32,654	25,816	6,838	21
Royalty on Oil	17,690	31,988	-14,298	-81
Royalty on Gas	39,990	42,049	-2,059	-5
Discount Retained on Local Crude Oil Price	9,108	10,926	-1,818	-20
Windfall levy	1,633	10,921	-9,288	-569
Gas Infrastructure Development Cess	79,771	57,021	22,750	29
Petroleum Levy on LPG	0	0	-	-
Total	**330,204**	**310,077**	**20,127**	**6**

Source: Financial Statements of the Federal Government for the FYs 2014-15 and 2015-16.

The table showed increase in collection of Rs. 20,127 million (6%) in receipts of the Ministry during the financial year 2015-16 as compared with financial year 2014-15.

2.3 Brief Comments on the Status of Compliance with PAC Directives

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

Audit year	PAC directives	Compliance received	Compliance not received	Percentage of compliance
1990-91	04	04	-	100
1991-92	01	0	01	0

1992-93	04	04	-	100
1993-94	01	0	1	0
1994-95	01	01	-	100
1995-96	01	01	-	100
1996-97	05	05	-	100
1997-98	03	01	02	33
1998-99	15	15	0	100
1999-00	04	04	-	100
2000-01	05	-	05	0
2001-02	01	-	01	0
2002-03	1	-	1	0
2003-04	1	01-	0	100
2004-05	04	0	04	0
2005-06	02	01	1	50
2006-07	0	0	0	0
2007-08	04	0	4	100
2008-09	15	10	05	67
2009-10	07	0	7	0
2010-11	29	13	16	45
2013-14	25	05	20	80
2014-15	No PAC held	-	-	-
2015-16	No PAC held	-	-	-
Total	**133**	**65**	**68**	**49**

The table showed average compliance of PAC's directives. The Ministry needs to take the issue of compliance of PAC's directives seriously to improve present position.

2.4 Audit Paras

Non production of record

2.4.1 Non production of auditable record regarding government revenue of GDS Rs. 9,880.86 million (Approximately)

According to section 14(1) of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 the Auditor-General shall, in connection with the performance of his duties under this Ordinance, have authority:

(a) to inspect any office of accounts, under the control of the Federation or of a Province or of a district, including treasuries, and such offices responsible for the keeping of initial or subsidiary accounts;

(b) to require that any accounts, books, papers and other documents which deal with, or form, the basis of or otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may direct for his inspection; and

(c) to enquire or make such observations as he may consider necessary, and to call for such information as he may require for the purpose of the audit.

(2) The officer in charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition.

(3) Any person or authority hindering the auditorial functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person.

The DG (Gas), Islamabad was requested to produce accounts of revenue receipts for the period 2015-16 vide letter No.475-DACP/I.R/A.P/2016-17 dated 18-10-2016 and No. DACP/FAT-III-K/SSGCL/ 2016-17 dated 19.10.2016. Whereas the Managing Director M/S Sui Southern Gas Company Limited, (SSGCL) Karachi did not produce the record regarding sales of gas Rs. 83,403,424,597 involving collected Gas Development Surcharge (GDS)

Rs. 9,880,864,213 and other government revenue due to the reasons that the decision of Oil & Gas Regulatory Authority (OGRA) for determination of final revenue requirement (FRR) was not finalized so far as intimated vide letter No. Audit/2015-16 dated 19-10-2016.

The lapse was pointed out in July, 2016. No progress was reported by the Department till finalization of the Report.

Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends that record may be produced immediately.

[DP No.05- GDS/K]

Irregularity & Non-Compliance

2.4.2 Non-realization of Gas Infrastructure Development Cess - Rs. 13,602.21 million

According to section 3(1) of the Gas Infrastructure Development Cess Act 2015 the cess shall be levied and charged by the Federal Government from gas consumers or the company at the rates as provided in second schedule to this Act. The gas company shall be responsible for billing of cess to gas consumers, its collection from consumers and its onward payment to the Federal Government in the manner as prescribed by the Federal Government. The company shall collect and pay cess at the rates specified in the second schedule and in such manner as the Federal Government prescribe: A mark up at the rate of Four percent above three months KIBOR shall be payable by the gas consumer or the company , if the amount due is not paid within the prescribed time.

The DG (Gas), Islamabad did not realize GIDC amount from M/s SNGPL Lahore who had supplied gas to 15 consumers of gas relating to Fertilizer sector and power sector units of WAPDA. This resulted into non-realization of GIDC Rs. 13,602,209,869 during Financial Year 2015-16 as detailed below:-

S.No	Sector	Name of company	Name of consumer	Amount of GIDC due (Rs.)
1	Fertilizer	M/s SNGPL Lahore	M/s Agri Tech Limited	251,003,419
2			M/sEngro Chemical	7,712,580,757
3			M/s DHCL	576,032,537
4	Power	M/s SNGPL Lahore	TPS Muzafar Garh	436,157,722
5			GTPS Guddu power	2,212,591579
6			SPS Faisalabad	114,395,847
7			GTPS Faisalabad	272,099,112
8			GTPS Lahore	8,427,284
9			M/s Orient power	56,086,200
10		M/s PPL Karachi	GENCO –II	1,541,186,000
11	Industrial	M/s SNGPL Lahore	DG Khan Cement	103,890,514
12			Sitara Energy Limited	110,247,794
13			ICI Khewra	129,075,336

14			Packages (Bullahay Shah Paper Mills)	47,194,138
15			Colony Textile Mills	31,241,630
Total				**13,602,209,869**

The non-payment of GIDC attracted levy of mark up at the rate of four percent above three months KIBOR.

The lapse was pointed out in July and September, 2016.

In the DAC meeting held on 03 February, 2017 the Department informed that Rs. 298.20 million had been recovered in respect of M/s Agri-tech and Packages (Bulhay Shah) further added that in respect of IPPs, Rs. 11.48 billion has been recovered without intimating the details whereas the other cases were sub-judice. DAC directed the DG (Gas) to get verified the recovered amount, pursue the court cases vigorously and provide copy of the stay orders to Audit. Para in respect of M/s PPL was not discussed in the DAC meeting.

Audit recommends that recovered amount may get verified from Audit and to recover the balance amount besides pursuing of court cases.

[DP Nos. 11/K,.3546,3547,3548 & 3549-GIDC]

2.4.3 Non-realization of Gas Development Surcharge (GDS) – Rs. 8,103.27 million

According to section 3 of the Natural Gas Development Surcharge Ordinance 1967, every company shall collect and pay to the Federal Government a development surcharge equal to differential margin, in respect of gas sold by it. An amount of interest @15% per annum, under sub section (3), shall be payable in addition to the amount due if the amount is not paid within the time specified for such period. The Natural Gas Development Surcharge (GDS) Rules 1967, amended dated 24.12.2014 provides that collected amount shall be paid by gas company in respect of the collection during a calendar month within one month of the close of that month and if not paid within due date then interest will accrue. According to Rule 8 of General Financial Rules, all moneys received by or on behalf of the government either as dues of the Government or for deposit/remittance or otherwise shall be brought into the Government Account without delay.

The DG (Gas), Islamabad did not realize GDS from M/s Mari Petroleum Company Ltd. (MPCL) and M/s Pakistan Petroleum Limited (PPL) as due on gas sold to Central Power Generation Co and Foundation Power Co and Generation Company (GENCO)-II on the grounds that amount was not received from the consumers. This resulted in non-realization of GDS of Rs. 8,103,268,639 during Financial Year 2015-16. Late payment of GDS also attracted the provisions of interest under Natural Gas Development Surcharge Rules, 1967.

The lapse was pointed out in July and August, 2016. The Department replied that an amount of Rs. 2,298.98 million had been recovered from M/s MPCL and Rs. 828.91 million had been recovered from M/s PPL. For the remaining amount it was contended that issue relates to circular debt and would be resolved. Moreover, interest on late payment was not applicable after amendment in GDS Ordinance and Rules.

Audit held that reported recovery is yet to be verified in respect of M/s PPL. As per amended Rules, GDS was payable within one month of the receipts from the buyer companies but no time limit was prescribed for payment by these gas companies. These rules are contradictory to the General Financial Rules and GDS Ordinance, 1967. The time limit for payment of GDS cannot be left at the discretion of gas buying companies.

The DAC in its meeting held on 03 February, 2017 settled the para to the extent of amount recovered from M/s MPCL and directed to recover the balance amount of Rs. 4,975.38 million. The DAC further directed the DG (Gas) to examine the revision, if any, in GDS rules and recover the interest accordingly.

Audit recommends recovery of remaining amount of GDS and interest leviable thereon law through making amendments in the rules in line with GFR Rule 8 and GDS Ordinance, 1967.

[DP Nos. 09-GDS/K, 3538 & 3539-GDS]

2.4.4 Non-realization of Gas Infrastructure Development Cess- Rs. 6,973.04 million

According to article 199(4 A) of the Constitution of Islamic Republic of Pakistan, 1973 read with section 3(1) of the Gas Infrastructure Development Cess Act 2015 an interim order made by the High Court shall cease to have effect on expiry of a period of six months. The Cess shall be levied and charged by the Federal Government from gas consumers or the company at the rates as provided in second schedule to this Act. The company shall collect and pay cess at the rates specified in the second schedule and in such manner as the Federal Government prescribe: A mark up at the rate of Four percent above three months KIBOR shall be payable by the gas consumer or the company, if the amount due is not paid within the prescribed time.

The DG (Gas), Islamabad did not realize GIDC, from M/s MPCL in respect of gas sold to M/s Fatima Fertilizer on the plea that it was not received from that consumer due to having Stay Order from the court of law despite the expiry of six months. This resulted into non-realization of GIDC Rs. 6,973,042,971 during Financial Year 2015-16. The non-payment of cess within prescribed time attracted the provisions of mark-up prescribed under the Act ibid.

The lapse was pointed out in August, 2016. The Department replied that matter was sub judice and being pursued. Audit held that department did not mention any stay order meaning there by that no stay order has been granted against the recovery. So the amount involved may be recovered.

The DAC in its meeting held on 03 February, 2017 directed to pursue the matter vigorously.

Audit recommends pursuance of case in court of Law, and recovery of dues as no stay order is there.

[DP No. 3536-GIDC]

2.4.5 Non-realization of Royalty on Oil and Gas from E&P companies- Rs. 2,783.27 million

According to Rules 28, 36 and 35 of the E&P Rules 1949, 1986 and 2001, the holder of a lease or the license shall pay a royalty at the rate of 12.5% of the wellhead value of the Petroleum produced and saved. Royalty was payable monthly within 10 days of the expiry of the calendar month in question. In case of Rules 2001 this period was 45 days and in Rules of 1949 one time in the year was prescribed. If payment of royalty is delayed beyond this stipulated period would attract fine at rate of LIBOR plus two per cent as per Rules of 2001. In the event royalty obligation remain un-discharged for two consecutive months following expiry of the month of production in question to which the payment of royalty relates, the Government may take such action as it may deem appropriate in accordance with these rules.

The DG (PC), Islamabad did not realize the amount of Royalty from five E&P companies who had not paid their share of royalty due on production and sale of crude oil and gas from their concerned fields. This resulted in non-realization of Royalty on Oil and Gas Rs. 2,783,271,236 during Financial Year 2015-16.

The lapse was pointed out in July and September, 2016. No reply was received from the Department till finalization of this Report.

Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends that immediate recovery may be made under intimation to Audit.

[DP Nos.10/K, 3519,3526,3527,3528,3532 & 3533-PC]

2.4.6 Non-realization of Gas Infrastructure Development Cess - Rs. 1,615.23 million

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

Federal Government in the manner as prescribed by the Federal Government. The company shall collect and pay cess at the rates specified in the second schedule and in such manner as the Federal Government prescribe: A mark up at the rate of Four percent above three months KIBOR shall be payable by the gas consumer or the company, if the amount due is not paid within the prescribed time.

The DG (Gas), Islamabad did not realize GIDC, from M/S MPCL in respect of gas sold to M/s Foundation Power Co and Central Power Generation Co Ltd on the basis that amount was not received from the companies. Non-payment of cess within prescribed time attracted a mark-up at the prescribed rates from the company. This resulted into non-realization of cess of Rs. 1,615,229,075 during Financial Year 2015-16 along with mark-up accrued.

The lapse was pointed out in August, 2016. In the DAC meeting held on 03 February, 2017 the Department informed that an amount of Rs. 1615.23 million has been recovered and mark up accrued for late payment is still recoverable from M/s MPCL which will be determined in the light of rules framed under Act 2015. DAC settled the para to the extent of amount recovered and position towards recovery of mark up be got verified from Audit.

Audit recommends that Rules may be framed under the GIDC Act, 2015 and amount of mark-up may be recovered.

[DP Nos. 3537 & 3541-GIDC]

2.4.7 Non-realization of Petroleum Levy on direct/indirect sale of petroleum products –Rs. 1,296.24 million

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

The DG (Oil), Islamabad did not recover Petroleum Levy Rs. 1,188,123,434 from M/s BYCO and PRL Karachi and Additional Petroleum Levy Rs. 108,121,279 from M/s BYCO, PSO, SPL and Total PARCO due to non-monitoring. This caused non-realization of Petroleum Levy of Rs. 1,296,244,713 million during Financial Year 2015-16 on direct sale and indirect sale of petroleum products.

The lapse was pointed out in July and November, 2016. No reply was received from the Department till finalization of this Report.

Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends recovery of government revenue besides fixing responsibility for non-recovery.

[Annexure-4]

2.4.8 Short-realization of Gas Development Surcharge due to supply of gas excess than quota and application of incorrect rate of GDS Rs. 852.76 million

According to section 3 of the Natural Gas Development Surcharge Ordinance 1967, every company shall collect and pay to the Federal Government a development surcharge equal to differential margin, in respect of gas sold by it. An interest @15% per annum under sub section (3) of the Ordinance shall be payable, if the amount is not paid within the time specified. PAC in its meeting held on 09.09.2016 has directed to finalize the inquiry, calculate the financial impact and recover the amount in a similar nature para 2.4.10 of Audit Report MPNR for the year 2013-14.

The DG (Gas), Islamabad did not realize GDS actually due from M/s MPCL on gas sold to M/s Fauji Fertilizer-3 contrary to the cut imposed by the Prime Minister limiting supply to 60 MMCFD for feed stock and made recovery of GDS at the rates of Rs 29.63 to 106.22 per MMBTU instead of fuel rates Rs 394.45 to 506.22 per MMBTU applicable for excess supply of gas for normal feed stock. This resulted in short-realization of GDS of Rs. 852,758,869 during Financial Year 2015-16.

The lapse was pointed out in October, 2016. The Department replied that M/s MPCL was supplying 60 MMCFD to power sector. There was no restriction on M/s MPCL to produce additional gas as per gas sale agreements and its supply to consumer while maintaining 60 MMCFD supply to Guddu Power Plant. Audit is of the view that management is agreed with Audit view point to the extent of excess supply.

In the DAC meeting held on 03 February, 2017 the Department informed that ECC of the Cabinet has authorized the MPCL to divert / supply of un-utilized volumes of any customer to any other customer on its dedicated network at notified price. DAC directed the DG Gas to provide ECC decision for verification by Audit.

Audit recommends that case may be re-examined in the light of earlier PAC directives on the inquiry report in question as well as ECC decision and recovery of government dues.

[DP No. 3540-GDS]

2.4.9 Short-realization of Gas Development Surcharge due to inadmissible benefit of incremental wellhead price/ volume –Rs. 825.58 million

According to section 3 and 3(3) of the Natural Gas Development Surcharge Ordinance 1967, every company shall collect and pay to the Federal Government a development surcharge equal to differential margin, in respect of gas sold by it. An amount of interest @15% per annum, shall be payable in addition to the amount due if the amount is not paid within the time specified for such period. According to SRO (I)/2016 issued by OGRA, dated 11-8-2016 subject to meeting minimum gas supply of 577.500 MMCFD from Habib Rahi Limestone Reservoir of Mari field, the prescribed price for entire incremental production over and above 525 MMCFD from the said reservoir will be Rs. 488.23/MMBTU from 09.02.2016 to 30.06.2016 to the extent of gas supplied to WAPDA Power station Guddu and Engro Fertilizer Limited. DG (Gas) in its letter dated 24.03.2016 fixed quota out of 60 MMCFD gas as 31 MMCFD for EFL and 29 MMCFD for WAPDA Guddu.

The DG (Gas), Islamabad did not realize GDS actually due from M/s MPCL in respect of gas sold to M/s Engro Fertilizer and M/s Central Power

Generation Co of Water and Power Development Authority (WAPDA) and extended inadmissible benefit of incremental volume and price, on the dates when production of gas from HRL reservoir was less than the prescribed bench mark of 577.50 MMCFD. This resulted in short-realization of GDS amounting to Rs. 696,257,137.

Moreover, 29 MMCFD quota of gas supply was fixed for WAPDA Guddu Power Plant at normal feed stock but excess gas was supplied to the plant and granted incremental volume price resulting into short-realization of GDS Rs. 129,326,086. This caused short-realization of GDS Rs. 825,583,223 during Financial Year 2015-16 as tabulated below:

S.No	DP No	Period	Gas sold by	Gas sold to	Short realized GDS (Rs)
1	3542-GDS	26-02-16 to 11-05-16	M/s MPCL	M/s Central Power (WAPDA)	514,998,570
2	3543-GDS	27-02-16 to 17-05-16	M/s MPCL	M/s Engro Fertilizer	181,258,567
3	3544-GDS	10-02-16 to 30-06-16	M/s MPCL	M/s Central Power (WAPDA)	129,326,086
Total					**825,583,223**

The lapse was pointed out in October, 2016. In the DAC meeting held on 03 February, 2017 the Department informed that amount pointed out has been adjusted / deposited by the M/s MPCL. The DAC directed to get the position verified from Audit.

Audit recommends that relevant record may got be verified from Audit.

[DP Nos.3542, 3543, 3544-GDS]

2.4.10 Non-realization of Windfall levy and Discount Retained on local Crude Oil price and including Insurance and Wharfage – Rs. 623.20 million

According to relevant clauses of Petroleum Concession Agreements between government of Pakistan and certain E&P companies who supplied crude oil to the nearest refinery the amount of discount and wind fall levy was required to be retained by the refinery and it is subsequently required to be deposited into government treasury.

The DG (Oil), Islamabad did not realize Windfall Levy and Discount Retained on Local Crude Oil price and including Wharfage and Insurance from M/s Attock Refinery Rawalpindi, M/s National Refinery Limited and M/s Pakistan Refinery Limited Karachi. This resulted into non-realization of discount and wind fall levy of Rs. 623,198,726 during Financial Year 2015-16.

The lapse was pointed out in July and August, 2016. The Department replied that an amount of Rs 554.14 million from Attock Refinery Limited has been recovered. No reply was received from the Department in respect of M/s National Refinery Limited and M/s Pakistan Refinery Limited till finalization of this Report.

Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends recovery of government revenue.

[DP Nos. 30, 04, 07, 08 WFL, 3553-Oil]

2.4.11 Non/short-realization of License and Lease Rent from E & P companies Rs. 288.80 million

According to Petroleum Exploration and Production Policies issued time to time read with Pakistan Petroleum (Exploration and Production) Rules 1986, 2001 and 2009, the licensee shall pay rent to the Government annually in advance, at rates prescribed therein which have been indexed vide DG PC's letter No. Accounts-3(31) AR-2008-09Vol-3 Pt (Per Audit) dated 31.08.2015 and so on for the next years' time to time.

The DG (PC), Islamabad did not realize the lease and license rent from three E & P companies in 31.cases and short-realized in 25 cases due to non-monitoring by the department. This resulted into non/short-realization of lease and license rent of Rs. 288,803,383 during Financial Year 2015-16.

The lapse was pointed out in July, 2016. No reply was received from the Department till finalization of this Report.

Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends recovery of the government revenue.

[DP Nos. 3518 & 3523-PC]

2.4.12 Non-realization of Interest on Late payment of Gas Development Surcharge – Rs. 183.04 million

According to section 3 of the Natural Gas Development Surcharge Ordinance, 1967 every company shall collect and pay to the Federal Government a development surcharge equal to differential margin, in respect of gas sold by it. Under sub section (3), interest @15% per annum shall be payable if the amount is not paid within the time specified for such period. The Natural Gas Development Surcharge Rules 1967, amended dated 24.12.2014 provides that collected amount shall be paid by gas company in respect of the collection during a calendar month within one month of the close of that month and if not paid within due date then interest will accrue.

The DG (Gas), Islamabad realized a portion of GDS late from M/s MPCL due on gas sold to M/s FFC –III for the period 01.01.2016 to 15.04.2016 due to the fact that BMR rates were expired on 31.12.2015. Moreover, M/s PPL paid a huge amount of GDS late. This resulted in non-realization of Interest on late payment of GDS Rs. 762,790 from M/s MPCL and Rs. 182,274,000 from M/s PPL aggregating to Rs. 183,036,790 during Financial Year 2015-16.

The lapse was pointed out in July and October, 2016. In the DAC meeting held on 03 February, 2017 the Department informed that interest was not due in case of M/s MPCL. The DAC directed to submit the revised reply after re-examination of para. However, para in respect of M/s PPL was not discussed in the DAC meeting.

Audit recommends that recovery may be effected.

[DP Nos.12 /K & 3545-GDS]

2.4.13 Non- realization of License Rent of offshore fields–US $ 765,204 equal to Rs. 79.96 million

According to Rule 32 of the Pakistan Offshore Petroleum (Exploration and Production) Rules, 2003 read with para 9.6 of the concerned Petroleum Sharing Agreements, the E & P companies/contractors are required to pay in advance annual acreage rental at the rate of US$ 50,000 plus US$10 per square kilo meter of area included in the contract area. However, these rates being indexed on yearly basis and were issued vide DG PC's letter No. Accounts-3(31) AR-2008-09Vol-3 Pt (Per Audit) dated 03.09.2014 at the rate of US$147,494 Plus US$ 29.50 per square kilo meter.

The DG (PC), Islamabad did not recover the license rent from M/s ENI Pakistan Limited. This resulted into non-realization of license rent of US $765,204 equal to Rs. 79,963,852 during Financial Year 2015-16 as tabulated below:

S. No	Block	Period	Rules Applicable /Type of rent	Index Rate(2014-15)	Area (sq)km	Amount Due (US $)
1	OFFSHORE (N)	25.8.2013 to 24.8.2015	2,003 /License	$ 147,494+ 29.50 $/sqm	2,498.28	221,193
2	OFFSHORE(C)	12.10.2013 to 11.10.2015	2,003 /License	$ 147,494 +29.50 $/sqm	2,493.51	221,053
3	OFFSHORE (G)	1.11.2015 to 30.10.2015	2,003 /License	$ 147,494 +29.50 $/sqm	5,947.95	322,959
Total						**765,204 @104.5 = Rs 79.964 million**

The lapse was pointed out in August, 2016. No reply was received from the Department till finalization of this report.

Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends that recovery may be effected.

[DP No. 3520-PC]

2.4.14 Non-realization of interest on late payment of Gas Infrastructure Development Cess – Rs. 67.35 million

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

The DG (Gas), Islamabad did not realize interest on late payment of GIDC from M/s PPL. This resulted in non-realization of interest on late payment of GIDC Rs. 67,353,000 million during Financial Year 2015-16.

The lapse was pointed out in July, 2016. The Department replied that according to GIDC Ordinance the gas company shall collect and pay Cess to the Federal Government. Whereas GENCO-II paid Cess after the due date and did not pay interest on late payment instead of constant follow up. Audit was of the view that in time collection and payment of Cess is the sole responsibility of the company failing which the amount of interest becomes due on late payment.

Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends recovery of government revenue.

[DP No.13- GIDC/K]

2.4.15 Non-realization of Production Bonus on start of commercial production- Rs. 63 million (US$ 600,000)

According to para 4.1.2 of the Petroleum Policy 2012 the production bonus will be payable on a contract area at the time of start of commercial production or the cumulative production reaches at the stages of 30,60,80 and 100 (MMOBE) the amount of USD 600,000, 1,200,000, 2,000,000 5,000,000 and 7,000,000 respectively. The local operator will pay their share of production bonus in Pakistan Rupee equal to US dollars at the prevailing exchange rate on the day of transaction. The production bonus will be deposited in respective DCO's account and will be expended on social welfare projects as per its guidelines separately issued.

The DG (PC), Islamabad did not realize production bonus from M/s MPCL Islamabad who was an Operator of a Block/ field namely Sajjawal (SAJJAWAL Block). They had declared starting of commercial production w. e. f 23-2-2016 but did not pay the production bonus. Due to non-deposit of amount by M/s MPCL production bonus of US Dollar 600,000 @ Rs 105 equal to Rs. 63,000,000 during Financial Year 2015-16 was not realized.

The lapse was pointed out in July, 2016. No reply was received from the Department till finalization of this Report.

Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends recovery of government revenue.

[DP No. 3522-PC]

2.4.16 Short-realization of Royalty on Natural Gas and Oil due to application of lesser price/value-Rs. 50.80 million

According to Rule 35 of the E&P Rules 2001, the Royalty on petroleum produced and saved shall be paid at the rate of 12.5% of wellhead value .The royalty shall be payable monthly within a period not exceeding forty five days and if delayed beyond this stipulated period would attract fine at rate of LIBOR plus two percent. If royalty obligation remains un-discharged for two consecutive months following expiry of the month of production the Government may take such action as it may deem appropriate in accordance with these rules.

The DG (PC) Islamabad short-realized Royalty on Oil and Gas from three E & P companies as per actual supply invoices in respect of Safedkoh according to the prices notified by OGRA. This resulted into short–realization of Royalty of Rs. 50,802,461 during Financial Year 2015-16.

The lapse was pointed out in July and September, 2016. The Department informed that difference is due to dispute between working interest owners of Safedkoh Join Venture and the Federation. Audit is of the view that being regulatory body DG (PC) may take steps to resolve the dispute and recover the amount involved.

Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends that recovery of government revenue may be effected.

[DP Nos. 3531&3524-PC]

2.4.17 Non/short deposit of Social Welfare Obligation by E&P companies - US $ 345,736 equal to Pak Rs. 36.16 million

According to Annexure VII of the Pakistan Petroleum (Exploration and Production) Policy, 1994 and other policies time to time introduced read with clause 6 of revised social welfare guidelines, 2014, E & P companies will open a joint bank account with DCOs/DCs concerned and will deposit the social welfare contribution fund within one month of signing of PCA and subsequently by 31st January each year. The amount of social welfare funds pledged by the companies (Local and Foreign) in their respective agreement and deposited in the joint account opened for the purpose are required must to be utilized to give lasting benefit to the communities.

The DG (PC), Islamabad did not realize the amount of Social Welfare Obligation from ten E & P companies in respect of twenty one blocks who did not deposit Social Welfare obligation in concerned DCO/DCs joint accounts. This resulted into non/short-realization of social welfare fund of US $ 345,736 equal to Rs. 36,163,986 during Financial Year 2015-16.

The lapse was pointed out in July, 2016. The Department reported that an amount of US$ 127,480 had been recovered and balance amount was being recovered. Audit was of the view that recovered amount is yet to be verified.

Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends recovery of government revenue may be effected.

[DP No.3525-PC]

2.4.18 Non-realization of Marine Research Fee from the E&P Company US $ 50,000 (Pak Rs. 5.23 million)

According to clause 31.4 of article XXXI of the Offshore Production Sharing Agreement for BLOCK No 2267-1 (OFF SHORE INDUS – R,) read with clause xii of the Petroleum Policy 2001, between the government of Pakistan and GHPL and OGDCL, the contractor shall pay a marine research fee of USD 50,000 for each contract year from the effective date until the announcement of the first Discovery. After the Petroleum Policy of 2009 it is advised to be deposited into bank account of respective DCO, maintained for this purpose.

The DG (PC), Islamabad did not realize Marine Research Fee from M/s OGDCL in respect of Indus off shore –R field. This resulted into non–realization of Marine research Fee USD 50,000 @ 104.6 equal to Rs. 5,230,000 during Financial Year 2015-16.

The lapse was pointed out in August, 2016. No reply was received from the Department till finalization of this Report.

Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends that recovery of revenue may be effected.

[DP No.3529-DGPC]

2.4.19 Short-realization of GIDC due to application of incorrect rates of GIDC-Rs. 2.69 million

According to section 3(1) of the Gas Infrastructure Development Cess Act 2015, the cess shall be levied and charged by the Federal Government from gas consumers, other than domestic sector consumers, or the company at the rates as provided in second schedule to this Act. The gas company shall be responsible for billing of cess to gas consumers, its collection from consumers and its onward payment to the Federal Government in the manner as prescribed by the Federal Government. The company shall collect and pay cess at the rates specified in the second schedule and in such manner as the Federal Government prescribe: A mark-up at the rate of Four percent above three months KIBOR prescribed by the Federal Government shall be payable by the gas consumer or the company on any amount due, if the amount is not paid within the prescribed time. The mark up payable by Gas Company or by the gas consumer to the gas company shall be deposited in such manner as the Federal Government prescribe.

The DG (Gas), Islamabad short-realized gas infrastructure development cess actually payable on natural gas which was supplied by M/s SNGPL to certain CNG stations due to applying lower rates Rs. 200 per MMBTU instead of Rs. 263.56 per MMBTU as per supply register of the Company. This resulted into short-realization of GIDC of Rs. 2,685,903 during Financial Year 2015-16 in addition to four percent prescribed mark up.

The lapse was pointed out to the DG Gas Islamabad in November, 2016.

The Department replied that the rates were correctly applied. Audit was of the view that rates were not correctly applied on gas supplied to CNG stations and it required further reconciliation and verification as per regions specified. The DAC in its meeting held on 03 February, 2017 settled the para subject to verification of position explained by M/s SNGPL.

Audit recommends that position may be got verified from Audit and recover the amount accordingly.

[DP No.3551-GIDC]

Internal Control Weaknesses

While conducting regularity audit for the year 2015-16, internal control environment of MPNR and its field formations was evaluated and the weaknesses observed therein are given in the following paragraphs.

2.4.20 Non-encashment of bank guarantees /post-dated cheques and non-realization of financial obligations– Rs. 11,928.79 million

According to article 25.1 &25.2 of Model PCA (2013) approved, read with its Annex VIII and provisions of bidding and granting licenses under E&P Rules 2001 and 2009, the licensee of petroleum rights and each of WIOs shall provide a bank guarantee in favour of DG PC for a sum in US dollar which represent 25%of minimum financial obligations for the initial exploration period of each block under the respective concession agreement which would be reduced annually by an amount proportionate to 25% of the discharge agreement. Further a parent company's guarantee as per Annex IX as prescribed in the PCA will also be produced to the DG PC as an arrangement to secure recovery of the financial obligations payable by the E&P Company obtaining petroleum rights.

The DG (PC), Islamabad did not take timely action to en-cash financial instruments. Due to inaction and non-encashment of bank guarantees within validity periods, the amount secured, was not realized. This resulted into non-realization of Rs. 11,928,788,672 during Financial Year 2015-16 on account of various obligations.

The lapse was pointed out in July, 2016. No reply was received from the Department till finalization of this Report.

Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends that financial instruments may be en-cashed and recovery may be effected.

[Annexure-5]

Other

2.4.21 Non-realization/utilization of Training Funds from various companies and month wise variation in income & expenditure between cashbook and bank statement

The Rule 60 of E&P Rules 2001, provided that holder of a petroleum right shall arrange for the training in Pakistan and abroad, of nationals of Pakistan to fill the aforesaid positions. The number of Pakistani personnel to be employed or trained shall be determined in consultation with the DGPC. The Government may require that the holder shall provide training for Government personnel in order to develop the capability of such personnel to efficiently perform their duties related to petroleum industry. Clause 2.3.7 of Policy 2001 has provided that training shall be provided by foreign and local E&P companies. An expenditure of US Dollars 10,000 per licence year during exploration stage till commercial production (Pre-Commercial Production stage) and US Dollars 25,000 per lease year during the Post Commercial Production stage will be incurred as per guidelines. The clauses 12.2 and 12.3 0f Policy 2007 provides that funds generated through sale of technical data and unspent training amount generated under PCAs shall be utilized for capacity building, remunerations of outside professionals engaged on contract, part time legal advisors/technical consultants, policy promotional activities, workshops, seminars, conferences & symposia etc.

The DG (PC), Islamabad did not recover the training funds from thirty companies amounting US$ 10.14 million, in addition where the amount was collected the same was spent Rs. 606.59 million for the purposes other than training such as legal charges and contractual staff salaries etc. Moreover, Audit also observed variation of Rs. 0.101 million in cash book and bank statements during Financial Year 2015-16.

The lapse was pointed out in September, 2016. The Department replied that US$ 10.14 million was outstanding as on 31-12-2015 and recoverable. The legal consultants and officials were hired to face the Court cases being faced by the Ministry. The expenditure on salary was incurred as per Petroleum Policies. It is always difficult to spare officials to pursue training programmes. Audit was of the view that Training Funds were required to be used for training purposes as per relevant Rules.

Para was not discussed in DAC meeting held on 03 February, 2017.

Audit recommends that recovery may be effected, irrelevant use may be justified and variation may be reconciled.

[DP No. 3534- PC]

2.4.22 Recurring loss due to non-framing the rules under Gas Infrastructure Development Cess Act, 2015

According to section 3(1) of the Gas Infrastructure Development Cess Act 2015, the cess shall be levied and charged by the Federal Government from gas consumers, other than domestic sector consumers, or the company at the rates as provided in second schedule to this Act. A mark up at the rate of Four percent above three months KIBOR prescribed by the Federal Government shall be payable by the gas consumer or the company on any amount due, if the amount is not paid within the prescribed time, mark up payable by gas company or by the gas consumer to the gas company shall be deposited in such manner as the Federal Government prescribe. Further, as per section 6 of the Act ibid Federal government may by notification make rules which may provide the manner and time of payment of cess and the manner of collection and recovery of arrears of cess etc.

The DG (Gas), Islamabad did not initiate steps for framing new Rules under the GIDC Act, 2015. So time frame was not prescribed for the payment of GIDC by the gas supplying companies. Due to non-prescribing time period for payment, mark up provision could not be invoked. The non-framing of rules as required by the Act resulted late payment of GIDC and recurring loss millions of rupees on account of mark up.

The lapse was pointed out in November, 2016. In the DAC meeting held on 03 February, 2017 the Department replied that Rules under GIDC Act, 2015 had been issued vide SRO 220(I)/2016 dated 18.03.2016. Audit was of the view that the said notification was irrelevant and called GIDC Utilization Rules, 2015 whereas audit para relates to non-framing of rules for prescribing time and manners for payment of GIDC. The DAC directed the Department to re-examine the matter.

Audit recommends to frame the relevant rules to avoid recurring loss to the Federal Government. The responsibility may be fixed for non-framing the Rules.

[DP No. 3552-GIDC]

<u>Annexure-1</u>

MFDAC

Statement of observations/paras included in MFDAC

(Rs. in million)

S. No.	Name of Office	DP/Para No. of AIR	Subject	Amount	Nature of observation
1	DG Gas Islamabad (SNGPL) Lahore	8	Delay in determination and non-decision of final revenue requirement by OGRA	0	Procedural
2	DG Oil Islamabad Field Formation	3554-Oil	Improper Maintenance of record of ex-bonding of imported Petroleum Products by OMCs.	0	Procedural
3	DG PC Islamabad	3521-PC	Non- credit verification of deposited amount of Production Bonus	63	Credit Verification
4	DG PC Islamabad	3530-PC	Non authenticity / non-credit verification of deposited Marine Research fee	4.36	Credit Verification

Annexure-2

Audit Impact Summary

- The Ministry recovered an amount of Rs.16,430 million on pointation of Audit.

- Due to pursuance by Audit, a reference was made to Federal Board of Revenue (FBR) and Law Division simultaneously for clarification of rates of Petroleum Levy (PL), date of Goods Declaration (GD) filing or actual removal, applicable on oil removed from bonded warehouses. Law division upheld the Audit point of view, which not only resulted in savings of millions of rupees but also resolved the issue arisen in previous years.

- Amendments were made in the new Exploration & Production (E & P) Rules for imposition of Surcharge in case of delayed payment of Royalty on Oil and Gas.

- A reference was made to Law Division for clarification of indexation of rates of rent on license and lease due to the issue raised by Audit. Law Division had upheld the view point of Audit which is likely to enhance revenue substantially.

- On pointation of Audit, the Law Division has clarified that the share of Production Bonus of state owned companies like GHPL will be borne by other sharing companies of the same concession area. So the share of all companies will be recovered which will enhance the collection of Production Bonus.

Annexure-3
Para 1.1.4

Late payment of Royalty on Oil and Gas by E&P companies

S. No.	DP No	Name of Company	No. of Treasury Challan	Delay period in days	Royalty on Oil (Rs)	Royalty on Gas (Rs)
1	3536-PC	Zaver	2	326 to 420	4,757,956	0
2	do-	MND	1	390	25,867	0
3	do-	OPL	8	42 to 326	16,569,361	19,186,115
4	do-	GHPL	24	44 to 45	176,731,928	65,221,252
5	do-	IPR	1	38	0	1,782,529
6	do-	Polish	1	38	1,661,217	0
7	do-	MPCL	1	38		34,673
Total			**38**		**199,746,329**	**86,224,569**

<u>Annexure-4</u>
Para 2.4.7

Non-realization of Petroleum Levy on direct/indirect sale of petroleum products

S. No.	DP No.	Name of Company	Sale of Petroleum Product	Amount of PL due (Rs)
1	1-PL/K	M/s. BYCO Petroleum	Indirect sale	318,112,434
2	2 -PL/K	M/s. BYCO Petroleum	Direct sale	10,768,641
3	6 -PL/K	M/s.PRL Karachi	Indirect sale	870,011,000
4	14 -PL/K	M/s.PSO Karachi	Direct sale	2,429,524
5	15 -PL/K	M/s.PSO Karachi	Direct sale	2,362,040
6	16 -PL/K	M/s.PSO Karachi	Direct sale	274,933
7	17 -PL/K	M/s.Shell Pakistan Limited	Direct sale	1,020,717
8	18 -PL/K	M/s.Shell Pakistan Limited	Direct sale	514,694
9	19 -PL/K	M/s.Shell Pakistan Limited	Direct sale	3,216,028
10	20 -PL/K	M/s.TPML Karachi	Direct sale	11,896,318
11	21 -PL/K	M/s.TPML Karachi	Direct sale	13,340,729
12	22 -PL/K	M/s.TPML Karachi	Direct sale	16,520,330
13	23 -PL/K	M/s.TPML Karachi	Direct sale	18,680,757
14	24 -PL/K	M/s.TPML Karachi	Direct sale	12,478,558
15	25 -PL/K	M/s.TPML Karachi	Direct sale	14,618,010
Total				**1,296,244,713**

Annexure-5
Para 2.4.20
DP No.3517

Statement showing detail of non-encashment of bank guarantees/post-dated cheques and non-realization of Financial Obligations of US $ 101,627,581 and PKR Rs.1, 298,543,699 aggregating to Rs. 11,928,788,672

S. #	Company Name	Block Name	Date of grant of license/ acceptance of bank guarantee	Expiry date	Amount outstanding	Currency Name	Type of obligation	Detail of documents secured
1	Piage	Multanai	24.04.2003	23.01.08	307,700	US$	Liquidated Damages	Detail of financial instruments was not provided
					123,580	US$	Social Welfare	
					43,552	US$	Training Fund	
					14,868,162	PKR	Rent	
					15,710,000	PKR	Fine	
2	Piage	Murga faqirzai	06.11.1999	05.11.9	1,600,000	US$	Liquidated Damages	Detail of financial instruments was not provided
					85,713	US$	Social Welfare	
					45,891	US$	Training Fund	
					961,686,646	PKR	Rent	
3	Nativus	Huramzai	27.04.2005	26.04.08	401,653	US$	Liquidated Damages	Detail of financial instruments was not provided
					103,525	US$	Social Welfare	
					43,515	US$	Training Fund	
					29,923,219	PKR	Rent	
4	Nativus	Ladgasht	27.04.2005	26.04.08	320,000	US$	Liquidated Damages	Detail of financial instruments was not provided
					103,525	US$	Social Welfare	
					43,515	US$	Training Fund	
					28,537,526	PKR	Rent	
5	Nativus	Lugai	11.04.2002	10.04.10	2,025,000	US$	Liquidated Damages	Detail of financial instruments was not provided
					133,936	US$	Social Welfare	
					43,604	US$	Training Fund	
					31,774,128	PKR	Rent	
6	RDC	Changai	27.04.2005	26.10.09	110,000	US$	Liquidated Damages	Detail of financial instruments was not provided
					96,274	US$	Social Welfare	
7	Techno	Islamgarh	26.01.2006	30.03.10	3,700,000	US$	Liquidated Damages	Detail of financial instruments was not provided
					181,973	US$	Social Welfare	
					45,493	US$	Training Fund	
					29,257,328	PKR	Rent	

8	Pyramid	Punjab	06.04.2009	05.04.12	435,000	US$	Liquidated Damages	Detail of financial instruments was not provided
					120,110	US$	Social Welfare	
					30,027	US$	Training Fund	
					21,168,966	PKR	Rent	
9	Pyramid	Cholistan	06.04.2009	05.04.12	450,000	US$	Liquidated Damages	Detail of financial instruments was not provided
					120,603	US$	Social Welfare	
					30,151	US$	Training Fund	
					21,878,236	PKR	Rent	
10	Pyramid	Shakargunj West	06.04.2009	05.04.12	415,000	US$	Liquidated Damages	Detail of financial instruments was not provided
					120,110	US$	Social Welfare	
					30,027	US$	Training Fund	
					21,770,981	PKR	Rent	
11	Dewan Petroleum Islamabad	Khangarh	18.06.2010	17.06.14	2,500,000	US$	Liquidated Damages	Amount was secured by bank guarantees
					45,112	US$	Social Welfare	
					13,945	US$	Training Fund	
					19,757,997	PKR	Rent	
12	Dewan Petroleum Islamabad	Yazman	18.06.2010	17.06.14	1,000,000	US$	Liquidated Damages	Amount was secured by bank guarantees
					115,833	US$	Social Welfare	
					18,931	US$	Training Fund	
					23,735,779	PKR	Rent	
13	Dewan Petroleum Islamabad	Rukanpur	18.06.2010	17.06.14	1,000,000	US$	Liquidated Damages	Amount was secured by bank guarantees
					115,833	US$	Social Welfare	
					18,931	US$	Training Fund	
					23,579,772	PKR	Rent	
14	Dewan Petroleum Islamabad	Kalchas South	18.06.2010	17.06.14	8,800,000	US$	Liquidated Damages	Amount was secured by bank guarantees
					115,753	US$	Social Welfare	
					13,945	US$	Training Fund	
					19,769,898	PKR	Rent	
15	OGIL	Baran	28.07.2010	27.07.15	62,400,000	US$	Liquidated Damages	Detail of financial instruments was not provided
					63,790	US$	Social Welfare	
					32,979	US$	Training Fund	
					7,561,035	PKR	Rent	
16	PEL	New Larkana	03.06.2005	02.12.13	4,700,000	US$	Minimum work obligation	Amount secured as per Hypothecation agreement
17	PEL	Kaloi	25.09.2007	24.09.13	6,110,000	US$	Minimum work obligation	Amount secured as per Hypothecation agreement

18	PEL	Mirpur Khas west	25.09.2007	24.09.13	145,000	US$	Social Welfare	Detail of financial instruments was not provided
19	Hycerbex	Peshawar	04.06.2010	03.06.13	23718	US$	Training Fund	Amount was secured by seven post dated cheques of silk bank No 11553422 to 11553428 all dated 16.05.2016 for an amount of USD 236,945
					137,167	US$	Social Welfare	
					62,500	US$	Training Fund	
					14,610,414	PKR	Rent	
20	Hycerbex	Karachi	04.06.2010	03.06.13	137,167	US$	Social Welfare	Detail of financial instruments was not provided
					62,500	US$	Training Fund	
					12,953,612	PKR	Rent	
21	New Horizon	Jherruck	24.09.2008	01.05.11	2,685,000	US$	Minimum work obligation	AS per bank guarantee No IGTPFG0002/01083
22	Tullow	Block 28	14.01.1991	N/A	0			Detail of financial instruments was not provided
23	PEL	Sanghar East	25.09.2007	24.09.13	0			Detail of financial instruments was not provided
24	Heritage	Zamzama North	15.12.2007	14.12.10	0			Detail of financial instruments was not provided
25	PEL	Mirpur Mathelo	03.06.2002	07.09.13	0			Detail of financial instruments was not provided
26	OGDCL	Jandran	20.09.1989	N/A	0			Detail of financial instruments was not provided
27	Tullow	Block 28	14.01.1991	N/A	0			Detail of financial instruments was not provided
		Total			***101,627,581+ 1,298,543,699**	**US$ PKR**		
					11,928,788,672	**PKR**		

* Exchange Rate as on 03-10-2016 was 104.60 (101,627,581*104.6=10,630,244,973 PKR)