



**PERFORMANCE AUDIT REPORT
ON
NATIONAL INCUBATION CENTERS
UNDER IGNITE NATIONAL
TECHNOLOGY FUND COMPANY
AUDIT YEAR 2022-23**

AUDITOR-GENERAL OF PAKISTAN

Preface

The Auditor-General of Pakistan, under Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973, read with Sections 8 and 12 of the Auditor-General’s (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 conducts audit of receipts & expenditure of the Federal and of the Provincial Governments and the accounts of any authority or body established by, or under the control of, the Federal or a Provincial Government. Performance Audit of the project, “National Incubation Centre” executed by Ignite National Technology Fund Company under MoIT&T was conducted accordingly.

Directorate General Audit, Postal and Telecommunication Services, Lahore conducted Performance Audit of the aforementioned project during May, 2023 with a view to report significant findings to stakeholders. Audit examined the economy, efficiency and effectiveness aspects of the project. In addition, Audit also assessed, on a test check basis, whether the management complied with applicable laws, rules and regulations in managing the project. The Audit Report indicates specific actions that, if taken, will help the management realize the objectives of the project. The audit findings included in this report have been finalized in light of the discussions in the DAC meeting held on 23.06.2023.

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

Islamabad
Dated: 13th March, 2024

Sd/-
(Muhammad Ajmal Gondal)
Auditor-General of Pakistan

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Abbreviations & Acronyms

AGP	Auditor-General of Pakistan
BOD	Board of Directors
BOQ	Bill of Quantity
CEO	Chief Executive Officer
DAC	Departmental Accounts Committee
FM	Financial Management
HR	Human Resource
ICT	Information Communication Technology
IPRs	Intellectual Property Rights
KPI	Key Performance Indicator
LUMS	Lahore University of Management Sciences
MoA	Memorandum of Association
MOITT	Ministry of Information Technology and Telecommunication
MOU	Memorandum of Understanding
MVP	Minimum Viable Product
NIC	National Incubation Centre
P&TS	Postal & Telecommunication Services
PAO	Principal Accounting Officer
PD	Project Director
PMAC	Project Management Appraisal Committee
PPRA	Public Procurement Regulatory Authority
PPRs	Public Procurement Rules,2004
R&D Fund	Research & Development Fund
RFP	Request for Proposal
SOP	Standard Operating Procedure
VC	Venture Capital
VFM	Value for Money

Executive Summary

Directorate General Audit, Postal and Telecommunications Services conducted a Performance Audit of the project titled, “National Incubation Centre” executed by Ignite National Technology Fund Company which functions at five major stations of Islamabad, Lahore, Karachi, Quetta and Peshawar. Audit selected NIC’s Islamabad and Lahore for performance audit on completion of five years project life in November, 2021 and December, 2022 respectively. The main objectives of Performance Audit of NIC’s were to examine the economy, efficiency and effectiveness aspects of the project. Audit also assessed adherence of the Company and the NIC’s to applicable laws, rules and regulations. Performance Audit of both the projects was conducted in May, 2023 as per guidelines provided in Performance Audit Manual and instructions issued by the Auditor-General of Pakistan in line with the INTOSAI Auditing Standards. The audit team evaluated performance of the project on the basis of project record for the financial years 2016 to 2022.

The objectives of establishing NIC’s were to set up an ICT entrepreneurship development platform and focus on creating a strong economic impact by supporting start-ups and emerging technology companies to transform their innovative ideas into sustainable businesses.

The idea of establishing the NIC’s has a perfect strategic fit but its success depended upon the performance of the agency having the mandate to implement it. Having examined the relevant record, audit is of the view that the projects did not yield the desired outcome/impacts mostly due to poor project planning and execution.

Audit finds that Ignite neither undertook feasibility of the project nor ascertained required specifications, drawings of civil works, and list of BoQs etc. to set performance standards accordingly. Further, a total of 403 incubatees were inducted by both the NIC’s, out of which only 264 (65% success rate) could complete their graduation; meaning thereby that 35% of start-ups remained unsuccessful. The high percentage of

unsuccessful start-ups can be ascribed to the deficiency at initial screening stage and lack of monitoring of NIC's by Ignite during incubation period.

During the execution of Audit, feedback of graduated start-ups was obtained through a questionnaire about their experience with NIC's wherein 26.3% of participants were of the view that NIC's management and mentors were not professionally helpful in devising business, financial, marketing and operational strategies and collating the business plans with market survey and research. About 40% of the graduated start-ups complained about financial hardships and stated that NIC's did not have pool of serious investors ready to take investment initiatives. Last but not least, 72.2% of the graduated start-ups gave their feedback that they would have shared marginal (minimal) profits or revenues or equity in the form of endowments, had the Federal Government financed their businesses.

Audit also discerned that no study was conducted to assess the impact of NIC's in generating economic activity, revenue and creation of employment opportunities. In fact, huge differences were found in figures provided to audit, figures in annual reports of Ignite and figures uploaded on NIC's websites.

Launching of NIC's was a significant initiative for establishing a platform to promote ICT entrepreneurship; however, its performance was affected by the shortcomings in the planning, execution, monitoring and evaluation of the project as reflected in the Audit Report. Since, the Federal Government is contemplating launching more NIC's in the length and breadth of the country, it is high time to undertake tangible corrective actions to ensure the success of the NIC's and pocket their benefits on a sustainable basis.

Key Audit Findings and Recommendations

a) Key Audit Findings

- i. An independent evaluation mechanism for incubation process was not employed during the incubation cycle.
- ii. The use of resources on NIC's for incubation process without taking the investment needs of start-ups into account rendered the whole process inefficient.
- iii. The cost was incurred on incubation of unsuccessful start-ups due to non-incorporation of the KPIs into the funding agreement of NIC's.
- iv. The figures for investment committed and revenue generated by NIC's remained doubtful due to absence of reconciliation.
- v. The projects were marred by poor project planning, monitoring and performance measurement.
- vi. The management of NIC's appointed staff in violation of defined HR criteria.
- vii. Intellectual Property Rights (IPRs) were not registered in the name of Ignite against the provisions of funding agreement.
- viii. The contract with M/s PMCL was extended in violation of the provision of Memorandum of Association.

Recommendations:

- i. The independent evaluation mechanism may be incorporated at start, middle and at the end of incubation process.
- ii. The business process of National Incubation Centres may be re-aligned with the project objectives of establishing an entrepreneurial eco-

system. Ignite needs to adopt an augmented process for funding in lieu of endowments in the form of profit, revenue or equity sharing arrangements with start-ups.

iii. Ignite needs to identify the reasons for failure of incubatees and take appropriate actions to mitigate the risk of failures in future incubations.

iv. Policy for ensuring reliability of investment committed and revenue generated may be devised to depict the actual impact of NIC's.

v. Non-defining of performance measurements of NIC management according to the set criteria may be inquired into and responsibility fixed against the person(s) at fault.

vi. Appointments must be made against defined hiring criteria and generally accepted best practices.

vii. Ignite must ensure monitoring of the NIC's' management in accordance with guidelines provided in the project monitoring manual.

viii. Ignite should evolve a mechanism for registration of IPRs in the name of Ignite.

ix. Management of the Company needs to investigate the issue pointed out by audit regarding violation of Articles of Memorandum of Association.

1. Introduction

The Federal Government established a Fund called the Research and Development Fund under Sub-Section (1) of Section 33-C of Pakistan Telecommunication (Re-organization) (Amendment) Act, 2006. The Research and Development Fund is under the control of the MoITT and consists of the followings:

- a) Grants made by the Federal Government
- b) Prescribed contribution by licensees
- c) Loans obtained from the Federal Government
- d) Grants and endowments received from other agencies.

At present, the Fund receives prescribed contributions from the licensees. As on May 15, 2023, the balance of R&D Fund was Rs11,150 million. The Fund is required to be utilized for prescribed Research and Development activities in the field of Information and Communication Technology (ICT) through Ignite National Technology Fund Company, a non-profit company limited by guarantee established under Rule (4) of the Research and Development Fund Rules, 2006. The Company is managed by the Board of Directors headed by Minister of IT as Chairperson to run the affairs of the company.

The Federal Government outlined a vision of accelerated digitization and transformation of Pakistan into a knowledge-based economy to spur economic growth through innovative techniques and ICT entrepreneurship. Keeping in mind the critical role, the start-ups could play in economic growth, reducing income divide and building a knowledge-based economy, the Ignite Company launched a program to build a network of National Incubation Centres in different cities of Pakistan.

At initial stage, it was decided to establish NIC's in Islamabad and Lahore. The management of NIC Islamabad and Lahore was outsourced to Pakistan Mobile Communications Limited (PMCL/Mobilink) and Lahore University of Management Sciences (LUMS) respectively. NIC Islamabad

was established in July, 2016 and NIC Lahore was established in August, 2017. As up to May, 2023, both the NIC's completed their initial project life of five years and both projects are in extension phase.

The projects received funds by submitting invoices to NIC's management in accordance with Disbursement Schedule upon completion of deliverables as per Milestone Chart of the agreement. Monitoring of the NIC's envisaged three tiers mechanism i.e., Overall supervision of Ignite Board, monitoring of operations/activities of NIC's by Ignite management and monitoring by Incubator's managements themselves.

Major responsibilities of NIC's included incubation of 40 incubatees (start-ups) per year for a period of five years. The NIC's selected incubatees in two incubation cycles. The incubation process of start-ups was as under:

- a. Start-up intake programme through emails, web applications, university boot camps and awareness campaigns.
- b. Screening, evaluation and selection of start-ups.
- c. Evaluation of business potential, commercial viability and submission of Business Plans.
- d. Central business support and Mentorship during Incubation.
- e. Graduation of start-ups.
- f. Investment by Venture Capital and Acceleration programme.

The start-ups selected for incubation were required to successfully complete the incubation programme in order to attain the graduation status. For successful completion of incubation, the start-ups entailed to complete the idea validation with potential customers, completion of competitive research of their product/business model, provision of basic functionality and scope of product and business model, completion of mock-ups/wire-frames of product/business model, development of Minimum Viable Product (MVP), testing of product by potential customers, provision of minimum user base, provision of financial projections for preceding 12 months, completion of basic brand identity (logos, website, social media pages etc.), registration of company and acquisition of NTN, minimum required core team, contracts with

employees and service providers, high profile advisors/mentors secured, first major business proof (%age of paying customers) achieved and setting up of company bank accounts.

1.1 Project Objectives

The Key objectives of establishing National Incubation Centres (NIC's) were to set up ICT entrepreneurship development platform and focus on creating a strong economic impact by supporting start-ups and emerging technology companies to transform their innovative ideas into sustainable businesses.

In order to accomplish these objectives, NIC's management was outsourced to professional institutions/organizations with the mandate of site management, marketing, training, mentorship, management resources, physical space, shared IT services and assistance in obtaining finance/start-up capital to ensure enterprise growth. NIC's managements were tasked to provide key support and networking with leading entrepreneurs, corporate chieftains, top professionals, investors and global entrepreneurial organizations etc.

The following targets were claimed to have been achieved by NIC's operating in four provincial headquarters and one in Islamabad since inception up to June 2022:

KPIs	NIC Islamabad	NIC Lahore	NIC Karachi	NIC Quetta	NIC Peshawar
No. of start-ups incubated	295	245	224	135	147
No. of start-ups graduated	173	136	88	65	50
% age of graduation	58.6%	55.5%	39.3%	48.1%	34%
Investment committed (Rs In Million)	4321.62	3130.38	6797.33	72.37	669.66
Revenue generated (Rs In Million)	3047.27	580.56	3989.94	95.40	446.41

(Source: Ignite Annual Report, 2022)

1.2 Time Phasing

The dates of commencement of the NIC Islamabad and Lahore were 29th July, 2016 & 24th August, 2017 respectively and dates of completion were 29th November, 2021 and 23rd December, 2022 respectively.

1.3 Project Cost approved by Ignite Board of Director

The NIC's Islamabad and Lahore were approved with the cost of Rs 564.84 million and Rs 600.950 million respectively. Funds disbursement positions upto May, 2023, in respect of both the NIC's were as under:

(Rupees in Million)

Years	Funding to NIC ISB	Funding to NIC LHR
2016-17	47.98	-
2017-18	40.09	60.58
2018-19	23.52	115.97
2019-20	99.26	90.26
2020-21	101.52	33.98
2021-22	108.70	132.86
2022-23	67.87	66.96
Total	488.95	500.61

1.4 Source of Funding and Life of the Project

The NIC's Islamabad and Lahore were being financed from R&D Fund. The project's initial life cycle was five years. The funds disbursement to NIC's was made by Ignite through reimbursement of expenditures incurred by the management of NIC's on achieving the project's milestones.

2. Audit Objectives

The main objectives of Performance Audit were to:

- i) Assess the achievement of the targets which include:
 - a) The success rate of start-ups (launched their business, secured funding and achieved profitability).
 - b) The quality of mentorship, training, and networking.
 - c) The impact of Incubation Centers (investment inducted, revenue generation and Job creation).
 - d) The effectiveness of resource utilization (funding spaces, equipment).
- ii) Examine internal controls related to payments/reimbursements made to the contractors.
- iii) Evaluate procurement and contract management (value for money, development of contract conditions, implementation and monitoring of the contract clauses).

3. Audit Scope

The scope of audit covers the last (5) five years of the projects, namely, NIC Islamabad and NIC Lahore, starting from FY 2016 to FY 2022. The scope also includes the Company's headquarter at Islamabad, to collect data for performance evaluation.

4. Methodology

Audit adopted the Mixed Method Approach for collection of data. Audit examined RFP, tender documents, funding agreements, procurements record, minutes of BoD and its sub- committee, annual reports and previous audit reports. Audit also retrieved information from data available on the websites of Ignite & NIC's, besides feedback obtained through questionnaire from the participants of the graduated start-ups. The fundamental approach of audit was to focus on the performance/financial aspects and compliance with relevant rules and regulations. Audit was conducted as per guidelines provided in Performance Audit Manual (PAM) of the Auditor-General of Pakistan, PPRs, and funding agreements.

5. Audit Findings and Recommendations

5.1 Organization and Management

No organization can grow without organizational structure with well-defined roles and responsibilities and adequate management policies. Audit examined the organizational and management aspects of the NIC's to see that the process of incubation cycle went economical, efficient and the management achieved the intended objectives. During performance audit, certain deviations and deficiencies were observed which impacted the economy and efficiency of the NIC's as under:

5.1.1 Inadequate planning and inefficient evaluation of induction process

Clause 3.3.6 of the RFP, required that the Incubator's Management shall be responsible for successful implementation and routine monitoring of the Incubatees projects.

The incubation process of NIC's was not evaluated by any independent source; resultantly, significant cost was incurred on incubation of unsuccessful start-ups. The business process of NIC's was observed to have been ineffective as it did not cater to the financing needs of graduated start-ups, which was considered to be a major bottleneck in establishing the ICT Entrepreneurial ecosystem.

Audit contends that due to inadequate planning, criteria or binding instructions relating to screening of start-ups at the time of induction were not incorporated in the agreements and the process of induction was delegated to the NIC's management. Besides, there was a significant variation in the incubation cycles of both the NIC's. The incubation cycle of NIC, Islamabad was one year, whereas the incubation period of NIC, Lahore was six months. Moreover, the Company's management did not devise any monitoring and evaluation mechanism through independent

sources and paid Rs. 26,400,000 to NIC, Islamabad as incentive for quality incubation process. It is worth mentioning that NIC, Lahore got an academic partnership with Stanford Seed Spark, whereas, NIC Islamabad did not undertake such endeavour with any international accelerator¹.

The matter was reported to the management during May, 2023. The management informed that the Request for Proposal (RFP) published by the Ignite provided clear guidelines for selecting start-ups which included but not limited to ICT-focused business concepts, capable entrepreneurial teams, alignment with incubator objectives etc. Most cohorts were year-long, except for cohorts 9 and 10, which lasted for six months. The graduation bonus of Rs 200,000 was disbursed after successful graduation.

Audit did not agree with the reply as the Ignite Company did not include any mechanism to monitor the evaluation of incubation process through independent sources and no feedback was obtained from the start-ups about the performance of NIC's.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite management that the incubation process be refined and an impact assessment of NIC's be conducted. A presentation on issues pointed out by audit be given to PAO and record may be got verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives and it also stresses upon; (i) incubation cycle of all the NIC's may be standardised (ii) the curriculum of NIC's may be got reviewed/accredited from a reputable degree awarding university in the field of ICT (iii) independent evaluation mechanism of incubation cycle may be incorporated at least at the start, middle and end of incubation period, so that the public fund spent may bring forth value for money.

¹OM No 15

5.1.2 Ineffective business process of NIC's

According to Section 33-C(4) of Pakistan Telecommunication Re-organization (Amendment) Act, 2006. The Research and Development Fund shall consist of (a) grants made by the Federal Government; (b) prescribed contributions by licensees; (c) loans obtained from the Federal Government; and (d) grants and endowments received from other agencies.

The business process in vogue for the NIC's was output-oriented rather than focusing on outcomes and socio-economic impact of NIC's. The role of NIC's was restricted to induction, training, mentoring, business plan development and graduation of incubatees. The graduation of incubatees was the output of the NIC's as target given by Ignite, which restricted NIC's to focus only on completing incubation. The process was incomplete because it did not complement the prime objective of the project to establish an entrepreneurial ecosystem in the field of ICT. It was observed that after graduation, the incubatees found it difficult to attract investors to finance their businesses². Ignite Board in its 77th meeting held on 12.03.2021 also raised the concern for the start-ups not being sustainable to generate revenue due to non-access to the capital despite conducting investor's summits and conferences.

The matter was reported to the management during May, 2023. The management informed that the NIC's continued to provide investment opportunities beyond graduation by organizing investor summits and conferences in each cohort. Furthermore, the Ignite Company also provided global investment opportunities to all start-ups that enabled them to pitch their ideas to potential global investors and make investor linkages for international exposure at leading global summits such as GITEX, 4YFN, LEAP etc.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite Company to set up a portal under the

²OM No 20

supervision of PAO for creating linkages with domestic and international investors and the record may be got verified from audit. No further progress was reported till finalization of this report.

Audit recommends that the business of NIC's may be re-aligned based on clear targets so that the start-ups that graduated from NIC's may have access to finances to set up their businesses in lieu of endowments in the form of profit, equity and revenue sharing formulae, besides compliance of the DAC directives.

5.1.3 Sunk cost incurred on incubation of unsuccessful start-ups

According to Clause 3.2 of the RFP Incubator's management will define selection criteria for the incubatees on the basis of following qualities, a business concept/canvass converging on ICT, a capable and motivated entrepreneurial team, compatibility of business to incubators objectives, completion of application package, projected revenue, profitability potential of business, impact upon masses etc. Further, clause 4.1.2 of funding agreement, stipulates that the principal duties of the parties are to provide a conducive environment to host 40 numbers of incubates per year.

The Ignite Company management did not incorporate KPIs as given in clause 3.2 of the RFP, into the funding agreement of NIC's therefore, the successful graduation rate of the incubatees remained at 65%. The record transpired that NIC's inducted 403 incubates against a requirement of 400 start-ups during the project life of five years. Out of these 403, only 264 incubatees successfully graduated. A failure rate of 35% of start-ups graduation indicated that process of induction and initial evaluation of start-ups at the time of induction was deficient, which resulted in wasteful cost of Rs. 278,730,000 incurred on unsuccessful graduates.³.

The matter was reported to the management during May, 2023. The management informed that during technical evaluation, the proposals

³OM No 02

were evaluated on the basis of curriculum and graduation methodology to ensure that this important factor was taken into account. They offered monetary incentive of Rs. 200,000, per successful graduating start-up, to executing parties to keep them motivated so that they could put in extra efforts to increase successful start-ups graduation percentage. NIC's did not graduate all incubated start-ups to get incentives. They graduated only those start-ups that fulfilled the graduation criteria.

Audit contends that the requisite criteria related to the process of induction and initial evaluation of start-ups were not devised due to which the NIC's failed to achieve the intended objectives.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite management to formulate KPIs for improvement in initial screening of incubatees, devise a monitoring mechanism of NIC's to improve the graduation rate of incubatees and get the record verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

5.1.4 Appointments in NIC's against hiring policies

As per HR Plan and Process Manual, the criteria of screening process for recruitment required that (1) On receipt of resumes, all resumes will be assessed on basis of defined Hiring Criteria. (2) It is assumed that HR will assist process of CV screening and will forward resumes to concerned Head of the Departments after initial screening. (3) Head of the departments will finalize the list of shortlisted candidates and send that list to HR for interview scheduling. (4) The HR will maintain list of shortlisted candidates and initiate, and administer the process of interviews. Further, as per para 3.3.6 selection criteria of NICL Human Resource Manual, shortlisting criteria shall focus on the factual requirements of the job specification.

The Ignite management neither incorporated baseline hiring requirements for NIC's' management in RFP and agreements nor devised appropriate internal controls for oversight of hiring process and identifying deviations from recruitment policy. On test check basis of HR record of NIC's, it was observed that appointments were made in violation of the set qualifications and experience criteria (**Annexure-I**). The success of the NIC projects reasonably depended upon the professional management of NIC's. The appointment of staff against the stated HR policy of NIC's was violation of contractual agreement which had significant impact on the performance of the project in achieving its objective⁴.

The matter was reported to the management during May, 2023. The management informed that the Company was not involved in the hiring process of staff for NIC, Islamabad. The best applicants were hired by NIC Islamabad itself from the available pool of applicants based on their qualifications and practical experience.

The reply was not tenable. The hiring of the personnel was made contrary to the HR policy and advertisement of the Ignite Company. The Company was required to conclude a contract agreement with clear terms and conditions to safeguard the Company's interests.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC took serious notice and directed the Ignite management to inquire into the matter of making appointments against the defined hiring criteria. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

5.1.5 Delayed submission of Audited Financial Statements by NIC Islamabad

As per Clause 4.1(vi) of the funding agreement, PMCL shall complete and deliver all the deliverables and perform all its obligations under this agreement within the time stipulated in project portfolio. Time

⁴OM No 14 & 29

shall be the essence of this agreement. Further as per Appendix-B, of the Project Portfolio, the PMCL was required to submit Annual External Financial Audit Report by “A” rated Chartered Accountant firm within 30 days after completion of 4th quarter of each year.

Audit observed that the NIC Islamabad failed to ensure timely submission of Audited Financial Statements which delayed persistently throughout the life of the project. The Ignite Company did not take corrective action against NIC Islamabad to ensure smooth sailing of the project and achievement of the intended objectives⁵. Non-submission of the Audit Financial Statement was the key milestone that the NIC Islamabad failed to deliver. This signifies inefficient management of the Ignite Company.

The matter was reported to the management during May, 2023. The management informed that COVID-19 pandemic impacted on various operations, including audit processes.

Audit does not agree with the reply as NIC, Islamabad was commenced in 2016 well before COVID-19 but the external audit reports were submitted late throughout the project timelines.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite management to ensure timely submission of annual audit reports henceforth and get them verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

5.1.6 Non-utilization of the scheduled training hours by NIC, Lahore

According to clause 4.1(v) of funding agreement, NICL shall perform and deliver the deliverables listed in Project Portfolio with care,

⁵OM No 3

skill, diligence, honesty and integrity and with generally accepted standards of best practices and prudence.

As per financial proposal submitted by Lahore University of Management Science (LUMS) for NIC Lahore, a total of 4,960 hours were agreed and scheduled to be utilized by entrepreneurial behaviour change Consultants, design thinking workshop Consultants, mentors & legal tax Finance Consultants for 5 years i.e., 2017-2022.

Audit observed that LUMS management utilized only 1,570 hours against 4,960 hours; thereby leaving 3,381 hours unutilized, which adversely affected the performance of the incubatees, besides impacting the incubation process of the NIC, Lahore.⁶

The matter was reported to the management during May, 2023. The management informed that NIC Lahore was committed to its deliverables related to learning and development, which included training and mentorship sessions. Paid training was imparted; though mentorship sessions were generally conducted by entrepreneurs pro-bono/free of cost. Therefore, the budget remained under-utilized.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC reiterated and directed the Ignite Company to set clear targets for NIC's, measure their performance against these targets and get the record verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

5.1.7 Non- submission of timely deliverables by NICL

As per Annex-C of funding agreement of NICL, the deliverables were required to be provided within 15 days to 30 days after completion of the quarter.

⁶OM No 30

Audit observed that the management of LUMS failed to provide the deliverables ranging from 3 months to 6 months within the stipulated timelines. Further, it was also noticed that the LUMS management did not provide annual reports for 4th year and 5th year⁷.

Audit contends that failure of the LUMS management to provide the deliverables and annual reports within the given timelines indicates the inefficiency of the NIC's and of the Ignite Company to implement the project with due diligence.

The matter was reported to the management during May, 2023. The management informed that all deliverables that are being submitted to Ignite were subject to review and due diligence. These deliverables go through multiple alterations and revisions before acceptance which might result in delays. Furthermore, no payments were made without submission and acceptance of deliverables.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite Company to ensure the submission of deliverables within due dates. The DAC also directed to provide annual reports for verification to the Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

5.1.8 Inadequate disclosure of information on NIC's website

According to clause 1.1(j) of the contract executed between Ignite and PMCL, the "Information" means all information or data (whether provided orally, visually, in writing or in any other method) which directly and indirectly disclosed to or made available to a party hereto, by the other party (including its employees, officers, advisers, agents or representatives) in relation to the agreement or deliverables. Further,

⁷OM No 31

clause 2.1(iv) of the agreement requires that neither party is in violation of any applicable law, violation of which, individually or in aggregate, would affect performance of its obligations under this agreement.

The Federal Government took initiative of establishing NIC's for promotion of ICT entrepreneurship across the country. Accordingly, NIC Islamabad developed a web portal as per funding agreement.

Audit observed that the information on the portal contained inadequate disclosure. The tabs "About us" and "Board", on the web page of the NIC Islamabad contained inconsistent information relating to M/s Teamup management only. The tabs were highlighting the Board of the NIC management instead of Board of Directors of the Ignite Company. Audit also revealed that neither the required information repository was created nor the requisite reports viz. establishment reports, quarterly progress reports, start-ups development/progress reports, quarterly financial & internal audit reports and annual reports were uploaded by NIC's managements⁸.

Audit contends that non-disclosure of adequate information on the websites of NIC's is repudiation of contractual terms which has undermined the significant initiative of the Federal Government.

The matter was reported to the management during May, 2023. The management informed that the details are available on the website's "About us" tab where all requisite information including, but not limited to, logos of founding partners, mission, vision and NIC's journey since launch has been mentioned. Logos of Ignite and MoITT have been on the website since inception. NIC Islamabad is managed by its steering committee, and not by the Ignite board. Further, the observation regarding uploading the required information on web portals of NIC's is well noted and compliance to the display of relevant information on all NIC's web portals has been made.

⁸OM No. 9 & 18

The reply is not tenable as the misleading information on the webpage undermined the initiative of the Federal Government. About 20% of the graduated start-ups did not know that the NIC was the initiative of the Federal Government.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite Company management to revise the content of the website. The website may be updated to create awareness among people that NIC's are Federal Government's initiatives. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

5.2 Financial Management

A robust financial management system and adherence to applicable laws, rules and regulations are key to any project's success. Besides, prudence and effective oversight in financial management ensure economy and add value to money of the project. Audit examined the financial management system of the Company and NIC's and observed certain deviations which are highlighted as under:

5.2.1 Non-deduction of Income tax from salaries in NIC Islamabad

According to section 149 of Income Tax Ordinance 2001, income tax at prescribed rates was required to be deducted at source on account of payment of salaries. Further, Clause 7.5 of the funding agreement with PMCL requires that PMCL shall be responsible to comply with relevant tax laws as applicable in Pakistan. All taxes shall be deducted as per applicable law of Pakistan.

The financial proposal of M/s PMCL included an amount of Rs 66,000,000 chargeable as Income/Sale tax to the project accounts during currency of the project for 5 years.

Audit observed that NIC Islamabad did not deduct income tax of Rs 17,841,536 from the salaries of Mr. Pervaiz Abbasi and Mr. Zohair

Abdul Khaliq, Programme Director and General Manager respectively since beginning of the project in July, 2016 till date of audit; thereby causing a huge loss to the public exchequer. Audit also revealed that the NIC Islamabad did not levy income tax on the lecture fees of the speakers.

Audit contends that, due to imprudent financial management and effective oversight of the Ignite Company, NIC's did not deduct taxes from the employees and caused loss to the public exchequer. It is worth mentioning that the non-deducted tax amount was 37% of the total allocation made for taxes in the project budget.⁹

The matter was reported to the management during May, 2023. The management informed that a similar para was raised by AGP in the year 2022. The Ignite Company has already engaged M/s PWC which is in the process of finalizing the report.

The reply is not tenable. It was a simple tax matter and could be clarified from FBR. The hiring of a private firm adversely affected the project's economy.

The matter was also discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite Company to seek clarification from FBR and record may be got verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives / recovery of the tax amounts.

5.2.2 Non-deduction of Income tax from lecture fee paid to the guest speakers in NICL

According to section 153(1)(b) of the Income Tax Ordinance for services other than mentioned above: In any other case tax @ 10% for filers and 20% non-filers be levied.

⁹O.M No.12

NIC Lahore hired the services of different trainers and guest speakers and paid an amount of Rs 4,050,000 with effect from 2017 to 2022.

Audit observed that income tax amounting to Rs 405,000 @10% was not deducted from the lecture fees paid to the trainers and guest speakers in NICL.¹⁰

Audit contends that, due to imprudent financial management and effective oversight of the Ignite Company, NIC Lahore did not deduct tax from the trainers and guest speakers on lecture fees and caused loss to the public exchequer.

The matter was reported to the management during May, 2023. The management informed that the trainers were hired from LUMS faculty and their income tax was deducted by LUMS HR department. The trainers were on the regular payroll of LUMS, and their training payment had been processed through monthly payrolls.

Audit did not agree with the reply as the management could not produce any evidence of tax deductions made by LUMS from the salaries of trainers and guest speakers.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite Company to get the record of deducted income tax verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

5.2.3 Unrealistic financial proposals by NIC's and unauthorized re-appropriations

According to clause 8.2.8 of the contract agreement, no amount from contingency budget head, as per approved budget attached in the project proposal, shall be spent unless approved by the company.

¹⁰OM No.28

NIC Islamabad and Lahore had a total budget allocation of Rs 564.84 million and Rs 600.95 million respectively for the Opex and Capex during the currency of the project of five years. Both the NIC's had a contingencies provision of Rs.37,400,000 in original budget submitted in bidding documents.

Audit observed that the NIC's made unauthorized re-appropriations from contingency heads and utilized in other heads of accounts in violation of the contract agreement. Audit also revealed that NIC Islamabad re-appropriated an amount of Rs. 49.026 million from Utilities in Opex to different heads which made 37% of the original allocation. Out of this, an amount of Rs. 22.042 million was re-appropriated for HR cost and Rs 21.197 million for Capex. Audit further noticed that NIC Lahore utilized Rs 497.76 million (83%) upto the end of the project; thereby leaving a balance of Rs 103.19 million as un-utilized.

Unauthorized re-appropriations in contingency heads reflect that the financial proposals of the NIC's were un-realistic and did not match the actual requirements which affected the financial performance and economy of the projects.¹¹

The matter was reported to the management during May, 2023. The management informed that no contingency budget head existed in the approved budget and financial proposals; hence no re-appropriations were made.

The reply of the management is not based on facts. Provisions for contingencies existed in the budget, from where re-appropriations were made and utilized by the NIC's accordingly.

The matter was discussed in the DAC meeting held on 23rd June, 2023. DAC directed the Ignite Company to get their stance verified from the Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

¹¹OM No.32

5.2.4 Non-deduction of sales tax on services by NIC Islamabad

According to Sr. No 13 of Table-I of Islamabad Capital Territory Tax on Services Ordinance 2001, Services provided by other consultants including but not limited to human resource and personnel development services; market research services and credit rating services, tax @ 16% may be levied.

M/s Teamup, the implementing partner of M/s PMCL executed a turn key contract agreement with M/s Impact Design International Co (Pvt) Ltd for design service for Rs.44,906,476.

Audit observed that M/s Teamup did not deduct Islamabad Capital Territory Sales tax on consultancy services @ 16% amounting to Rs 7,185,036.¹²

The matter was reported to the management May, 2023. The management informed that M/s Teamup, being a partnership firm, was not a withholding agent in terms of Eleventh Schedule, read with sub-section 7 of Section 3 of the Sales Tax Act, 1990, hence, not liable to deduct Sales Tax while making payment to M/s Impact Design International Co (Pvt.) Limited.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed Ignite to seek clarification regarding deduction of sales tax on services from concerned department and record may be got verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

5.3 Procurement and Contract Management

A prudent procurement and effective contract management system minimizes the cost of goods and services and safeguards the interests of

¹²OM No.24

the Company. The NIC's have two-tier procurement and contract management system at the level of Ignite and the level of NIC's. Ignite observed the PPRs during the award of contracts to NIC's but failed to manage the contracts. However, NIC's did not adhere to PPRs and found the following deviations:

5.3.1 Non-obtaining of performance guarantees from NIC's

According to Rule 39 of Public Procurement Rules (PPRs) 2004, where needed and clearly expressed in the bidding documents, the procuring agency shall require the successful bidder to furnish a performance guarantee which shall not exceed ten percent of the contract amount.

The Ignite Company signed contract agreements with M/s PMCL Islamabad and M/s LUMS Lahore for execution of the NIC's at the costs of Rs. 564.00 million and Rs. 600.95 million.

Audit observed that the Ignite Company did not obtain performance guarantees amounting to Rs.116,495,000 from the service providers during execution of the contract agreements as detailed below:

(Rs in million)		
Name of Contractor	Contract Amount	Performance Guarantee @ 10%
PMCL	564.00	54.40
LUMS	600.95	60.09
Total	1164.95	116.49

NIC's were new projects that required the upfront expenditure in Y0 (establishment phase) which rendered the project inherently risky. Therefore, it was necessary to mitigate the risk by requiring performance guarantees from bidders to indemnify their default risk. Non-obtaining the performance guarantees shows inefficient/risky procurement and undue favour to the bidders by Ignite.¹³

¹³OM No.16

The matter was reported to the management during May, 2023. The management informed that all NIC projects are based on a reimbursement model where the implementing partner (winning bidder) first makes payments for all allowable expenses and then submits invoices for reimbursement on quarterly basis. Such invoices undergo extensive monitoring/scrutiny before payment is made, ensuring safeguard and best utilization of public money.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite Company to include the performance guarantee clause in all future RFPs. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

5.3.2 Non-obtaining of bid security from NIC's

According to Rule 25 of Public Procurement Rules (PPRs) 2004, the procuring agency may require the bidders to furnish a fixed amount of bid security not exceeding five percent of the estimated value of procurement determined by the procuring agency.

The Ignite Company signed contract agreements with M/s PMCL Islamabad and M/s LUMS Lahore for execution of the NIC's at the costs of Rs. 564.00 million and Rs. 600.95 million.

Audit observed that the Ignite Company did not obtain bid security of Rs.58,250,000 from both the service providers as required in Public Procurement Rules as detailed below:

(Rs in million)		
Name of Contractor	Contract Amount	Bid Security@5%
PMCL	564.00	28.20
LUMS	600.95	30.05
Total	1164.95	58.25

Non-obtaining of bid security reflects inefficient/risky procurement, undue favour to the service providers and non-adherence to the provisions of PPRs as best practices.¹⁴

The matter was reported to the management during May, 2023. The management informed that observation of a similar nature was settled by the DAC dated 26th February 2022 and subsequently by PAC on 17th March, 2022. Audit did not agree with the reply as bid security is the prerequisite of contract management to safeguard the Company against defective liability, if any.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite Company to get the Board's decision regarding exemption from bid security and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

5.3.3 Non-imposition of LD charges for delay in completion of civil work

As per clause 10 of the agreement between M/s Teamup and M/s Impact Design for civil work, in case the project in totality is not completed to the satisfaction of the Client and the premises are not handed over to the client accordingly within the time period, the Consultant shall pay to the client liquidated damages at the rate of one percent of the contract price for each day of delay upto a maximum of ten (10%) of the contract price. Thereafter, the contract shall stand automatically terminated.

M/s Teamup, the delivery partner of PMCL, executed a contract with M/s Impact Design for civil work at contractual price of Rs.48,006,476 with projected timeline of three months.

¹⁴OM No.04

Audit observed that the contractor did not complete the civil work within the given timelines and delayed by a period of five months from 19.08.2016 to 15.01.2017. Neither, M/s Teamup imposed liquidated damages of Rs. 48,006,476 @ of 10% according to the contract clause nor Ignite Company deducted the LD charges from the payment of M/s PMCL (M/S Teamup). Later on, the contract was terminated.

Audit contends that termination of the contract without completion of the work and non-imposition of LD charges thereon reflects weak contract management and falls within the ambit of inefficiency.¹⁵

The matter was reported to the management during May, 2023. The management informed that Ignite's contract with PMCL did not include any penalty for late completion. M/s Teamup had its contract with M/S Impact Design International for NIC renovation. M/s PMCL adhered to the contractual terms and exercised its rights within the stipulated provisions. The decision to terminate the contract was made after careful consideration and in line with the best interests of all parties involved.

Audit did not agree with the reply as it was the responsibility of the Ignite Company to deduct the LD charges from the reimbursement claims of M/s Teamup.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed that LD charges be adjusted and record relating to termination of contract with M/s Impact Design may be got verified from the Audit. No further progress was reported till finalization of this report.

Audit recommends compliance of the DAC directives.

5.3.4 Irregular extension of contract agreement to M/s PMCL

According to Article-III (18) of the Memorandum of Association of the Ignite, the Company was not to provide any assistance to organizations, institutions and firms in which any of its Board Members, or any close relative of the Board Members, was sponsoring officer,

¹⁵OM No.6

employee or trust and or member of the Board of Directors or governing body of such other organization.

The Ignite Company awarded the management of NIC Islamabad to M/s PMCL in July, 2016 for a period of five years at the cost of Rs.488.95 million. The service provider did not complete the assigned task within the given timelines.

Audit observed that the Ignite Company granted extension to M/s PMCL against the savings of Rs 156.736 million accrued during the execution of the project in presence of PMCL's CEO being board member of Ignite in contravention to the Memorandum which reflects inefficiency of Ignite.¹⁶

The matter was reported to the management during May, 2023. The management informed that at the time of signing of contract agreement of NIC, Islamabad, Mr. Aamir Ibrahim was not a board member of Ignite. Therefore, any concerns related to potential conflicts of interest are unfounded, as he was not involved in the decision-making process or in any capacity that would grant him undue influence or favour.

Audit contends that extension in contract to M/s PMCL was granted on 30.11.2021, whereas Mr. Aamir Ibrahim was appointed as board member of Ignite in 2019; therefore, the reply of the management is not plausible.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite Company that the provisions of Memorandum of Association (MoA) be strictly followed. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

¹⁶OM No 05

5.4 Asset Management

Efficient and effective asset management is a prerequisite for the financial health of any organization. Any weakness in asset management leads to financial mismanagement and default of the organisation as well as lesser economy in the acquisition of assets.

5.4.1 Non-accountal of NIC's assets in Ignite's books of accounts

According to clause 10.1 of the funding agreement, all property, moveable, immovable, tangible or otherwise acquired or purchased by utilizing sum representing the grant, and all deliverables at any stage of the progress of the project and whether in draft form or completed (the Equipment) shall be and remain the absolute property of the company, provided that the company may in its sole discretion, upon successful completion of the project, transfer title to some or all of the movable and immovable properties to NIC's.

NIC Islamabad and NIC Lahore acquired multifarious assets of Rs.188.14 million during the currency of the project through funds they received from the Ignite Company, as tabulated below:

(Rs in million)	
Name of NIC	Contract Amount
NIC Islamabad (PMCL)	101.54
NIC Lahore (LUMS)	86.60
Total	188.14

Audit observed that the assets generated by NIC's were not accounted for by Ignite in its book of accounts. Audit further noticed that on completion of the contractual period of NIC's, The Ignite Company will be in the process of undertaking new RFPs for sourcing services of new competitive bidders for these NIC's but no mechanism existed in the funding agreements that, in case, if the current management got changed and operations of NIC's would be handed over to new management, what would be the policy framework for handing/taking over of the assets upon

termination of the contracts. Further, the Ignite Company did not incorporate safety measures such as indemnification of assets in the agreement with NIC's by obtaining any collateral for security of assets.

Audit contends that non-accountal of the assets in Ignite's books of accounts and non-inclusion of safety measures in the agreements reflect inefficiency on the part of Ignite management which has increased the risk of theft and misappropriation of the assets¹⁷.

The matter was reported to the management during May, 2023. The management informed that the Company prepares its annual financial statements as per guidelines of the Code of Corporate Governance, 2013 and International Accounting Standards set by International Federation of Accountants (IFAC). The assets procured for funded projects are not capitalized in the Company's accounts as the same does not qualify the criteria of assets as set by IAS.

Audit did not agree with the reply. As per agreements, assets arising out of NIC's project belonged to Ignite, therefore, the IAS does not restrict recognition of these assets in Ignite's books of accounts. These assets were neither taken on charge by the NIC's in their accounts nor accounted for by the Ignite Company. Further, there was no policy regarding recovery of assets at the end of project.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite Company to get the assets retrievable policy approved from Ignite Board and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives, besides inquiring the matter as to why the assets of NIC's were not taken into the books of accounts of Ignite and why necessary mechanisms for transfer of assets and indemnification of assets were not incorporated in the agreements.

¹⁷OM No 17 &22

5.4.2 Non-registration of IPRs in the name of Ignite Company

As per clauses 11.1.1 and 11.1.4 of the funding agreements among PMCL, LUMS and Ignite, all Intellectual Property Rights created or generated in the course of the project shall vest in and be the absolute property of the company.

Fourteen (14) start-ups completed their graduation successfully and generated revenue of Rs 5,699,000,557.

Audit observed that the successful start-ups did not register their IPRs in the name of Ignite National Technology Fund Company¹⁸.

Audit opines that IPRs were the property of Ignite Company and were required to be registered in the name of Ignite but due to weak and inefficient asset management the Company failed to acquire these IPRs in its name.

The matter was reported to the management during May, 2023. The management informed that the referred clause is regarding the new IP generated, if any, during the execution of the project by the executing agency while completion and submission of deliverables. This kind of novel IP can include, but is not limited to, website development, portal development, training content development etc.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite Company to prepare the IPRs policy, get it approved from the Board and verified from audit. No further progress was reported till finalization of this report.

Audit recommends the compliance of the DAC directives.

¹⁸OM No 21

5.5 Monitoring and Evaluation

The success of NIC's project depended upon the close monitoring and evaluation of their activities toward achievement of project's objectives. Ignite did not incorporate quantitative and qualitative KPIs for performance measurement of NIC's management teams in the funding agreements. As a result, performance of the NIC's could not be monitored and measured to assess the quality of their works and successful achievement of the intended objectives. The impacts of non-setting of KPIs and inadequate monitoring mechanisms are highlighted as under:

5.5.1 Lack of monitoring and evaluation

As per clause 3.3.1 of the RFP and clause 4.1 (iv) of the funding agreement, the successful bidder shall appoint professional management team to run the operations of Incubators. Clause 3.4 of the RFP requires that regular monitoring of NIC will be carried out by the Ignite Company. Further, clause 3.5 of the RFP describes the quantitative and qualitative criteria/KPIs for performance measurement of NIC's management which includes evaluation of quality of incubatees selected, proper incubator setup, efficient utilization of space, number of successful seminars/training program, workshops, incubatees survival rates, industry alignment and awareness generated, incubatees satisfaction surveys, arrangements of pitching events, arrangements of venture capital/angel investors, number of successful graduates, mentoring sessions, road shows to exhibit successful projects, collaboration activities with other incubators, level of innovation.

The Ignite Company reimbursed an expenditure of Rs 430.783 million (Rs 401.380 million HR cost of both the NIC's and Rs 29.383 million of NIC Islamabad on account of workshops, advertisements, outreach, Guest Speakers Sessions, Domain Specialist and Mentorship sessions) during the currency of the project.

Audit observed that the Ignite Company, in the light of aforementioned criterion, neither assigned any target nor conducted the

performance measurement of the NIC's throughout the currency of projects. However, all the KPIs described in clauses 3.4 and 3.5 of the RFP were left at the discretion of NIC's which had significant direct impact on project's viability and sustainability in terms of cost and success of the project¹⁹.

The matter was reported to the management during May, 2023. The management informed that both of these NIC's were solicited projects of the Ignite Company. The HR cost was part of the financial proposal and approved budget and was accordingly reimbursed to the respective NIC's on actual basis. Further, as per funding agreement of NIC-Islamabad, KPIs were termed as milestones and deliverables that included all activities, events, seminars, investor summits, workshops, outreach and mentorship sessions etc.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite Company to conduct performance measurement of both NIC's in terms of KPIs in clause 3.5 of the RFP and record may be got verified from audit. No further progress was reported till finalization of this report.

The reply is not plausible as non-conducting the performance measurement of the NIC's management was inefficiency on the part of Ignite Company.

Audit recommends compliance of the DAC directives.

5.5.2 Monitoring of NIC's by Project Department of Ignite

The Project Management and Appraisal Committee (PMAC) of Ignite, in its 4th meeting held on 20th December, 2022, directed that the monitoring of all projects of Ignite including NIC's shall be conducted by Monitoring Department of Ignite with effect from 1st January, 2023.

¹⁹OM No. 23 & 25

The Project Department of the Ignite Company was responsible for project designing, execution and look after of the affairs of the NIC's.

Audit observed that monitoring of the NIC's was carried out by the Project Department instead of Monitoring Department of the Ignite Company in contravention of the above stated instructions. The Project Department was found encroached upon the function of the Monitoring Department which reflects weak organizational management, due to which the NIC's did not achieve the intended objectives.²⁰

The matter was reported to the management during May, 2023. The management informed that monitoring of NIC's was performed by the Project Department till 2022 on the direction of Project Management and Appraisal Committee. The monitoring of NIC's was transferred to Monitoring Department with effect from 1st January, 2023. The Monitoring Department had formally taken over all files of NIC's on 3rd January, 2023.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite Company to inquire into the matter for not following the approved procedure of Operation Manual. DAC further directed to improve the monitoring process and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

5.6 Impact Assessment

The prime objective of establishing National Incubation Centres was to develop an ICT Entrepreneurship Platform, with focus on creating a strong economic impact, by supporting start-ups to create and commercialize knowledge-intensive products and services. To evaluate the impact of NIC's, an impact assessment was carried out wherein certain shortcomings and inconsistencies were pointed out by audit as under:

²⁰OM No 13

The Ignite Company had shown a revenue of Rs 6,299,679,000 generated by the start-ups incubated at both NIC's of Islamabad and Lahore. Audit revealed that no sufficient, complete and adequate evidences in support of the revenue figures were found available to substantiate the authenticity of the revenue generated. Further, there was a significant variance in the figures provided to audit, figures reported in Annual Report of Ignite and figures uploaded by NIC's on their websites. As per figures provided to audit, the start-ups of NIC Islamabad generated revenue of Rs 3,152,127,000, the figures of revenue reported in Annual Report of Ignite for the year 2021-22 was Rs 3,042,270,000, whereas figures displayed on the website was Rs 6,420,000,000.²¹

The Ignite Company had also shown the investment of Rs 3,329,648,000 by the start-ups incubated at both NIC's of Islamabad and Lahore. Audit observed that no sufficient, complete and adequate evidences in support of the investment figures were found available to substantiate the authenticity of the investment inducted for the start-ups of the NIC's. Further, there was a significant variance in the figures provided to audit, figures reported in Annual Report of Ignite and figures uploaded by NIC's on their websites. As per figures provided to audit, the start-ups of NIC Islamabad inducted investment of Rs 2,784,823,000, the figures of investment as reported in Annual Report of Ignite for the year 2021-22 was Rs 4,321,620,000, whereas the website of NIC Islamabad displayed the figures of investment as Rs 6,210,000,000. Audit also revealed that the incentive @0.5% on the investment amount was neither paid by Ignite nor was claimed by NIC's. The above incentive, in turn, was also a Key Performance Indicator (KPI) to evaluate the whole process of incubation and investment induction by venture capital in start-ups. Any actual investment by venture capital in start-ups would have indicated the organic growth and development of ICT entrepreneurship as envisioned by the Federal Government²².

²¹OM No 08 & 11

²²OM No 07 & 10

Audit contends that the disclosure of unauthentic figures of revenue generated and investment inducted by start-ups creates doubt about the effectiveness and impact of NIC's on economy as claimed by Ignite.

The matter was discussed in the DAC meeting held on 23rd June, 2023. The DAC directed the Ignite Company to devise a proper policy, get it approved from its Board and incorporate the KPIs/targets in this regard in funding agreements. The DAC also directed to provide the relevant record of revenue generated and investment inducted by start-ups and get them verified from audit. No further progress was reported till finalization of this report.

Audit recommends compliance of the DAC directives.

5.6.1 Results of Survey Conducted

To evaluate the performance of the NIC's a questionnaire was circulated among the start-ups graduated. The survey form was forwarded to a sample of 75 graduated start-ups through their emails. 20 participants responded to the questionnaire (**Annexure-II**). While responding to the question of whether they knew that NIC was the initiative of federal government, 20% of them responded negatively. They were also of the view that the mentors did not possess the required professional skills and the curriculum of training was not relevant to their needs. While responding to a question of whether the NIC management and mentors were professionally helpful in devising business, financial, marketing and operational strategies and linking them with business plan, 26.3% of the participants contended that the management of NIC's were not professionally helpful.

The results of the questionnaire made startling revelations about the performance of the NIC's. In response to question of whether NIC management organized exhibitions, conferences and events, 33.3% of the start-ups stated that NIC's did not arrange such events. They were also of the view that the NIC's managements were not organized in terms of scheduling to achieve the deliverables of each course. They further added

that there should be a set schedule in place before the start of each cohort, and a calendar should be made available well in anticipation instead of bi-weekly containing both information about the classes as well as the deliverables. The start-ups also suggested that the module should be updated well in advance to include all deliverable templates, besides making adequate arrangements for start-up members who intend to join online.

The participants were further of the view that NIC's must be supportive in case of pivot of idea by the start-ups after market research and consultation be made between the founders and the NIC's about their future course of action.

Last but not least, while responding to the question about pool of serious investors available with NIC's, 40% of the participants were of the view that the NIC's had no pool of serious investors ready to take investment initiative. They suggested that NIC's needed more serious investors and must call early-stage investors at investor summit instead of calling big names for the sake of their presence. While responding to the question of whether start-ups were willing to share nominal share of profit, revenue or equity in the form of endowments if the federal government finance their business through the Ignite, 72.2% said that they were willing to share their revenue with government if government finances their businesses.

5.6.2 Regression Analysis

The purpose of analysis was to identify the relationship among Ignite funding to NIC's, the investment inducted and revenue generated by NIC's. The analysis is based on dependent and independent variables related to the figures of funding to NIC's for incubation of start-ups, revenue generated and investment inducted by NIC's. In this analysis, fund disbursement is independent variable and revenue generation and investment inducted are dependent variables. The data selected for analysis was taken from the Annual Reports of Ignite. Though audit raised observations regarding reliability of data, yet for analysis purpose the data reported in the Annual Reports of Ignite was assumed to be correct.

a) **Relationship of Funds Disbursement to Revenue**

I. Objectives of Analysis

- i. Whether there is any correlation between funds disbursement to NIC's and revenue generated by start-ups?
- ii. Whether funds disbursement to NIC's and revenue generated by start-ups incubated in NIC's have any linear regression?

II. Methodology for Analysis

Step-1 Model Specification

Revenue generated by start-ups was assumed to be the function of many independent variables having direct and indirect effects thereon. However, in the current analysis all independent variables except fund disbursement are assumed to be constant. The detail of independent variables in this model was given as under:

- a) Funds disbursement (F)
- b) Investment inducted (I)
- c) Quality of Research and Innovation (R&I)
- d) Market demand (D)
- e) Marketing plan (M)
- f) Other factors (O)

The functional specification of the model is as under:

$$R = f (\bar{F}, \bar{I}, \bar{R\&I}, \bar{D}, \bar{M}, \bar{O})$$

Where 'R' represents the Revenue generated by start-ups being dependent variable, 'f' is notation for 'function' of the independent variables.

Step-2 Correlation Analysis

(Rupees in million)

Years	Funds Disbursed (X)	Revenue Generated (Y)
upto 2017	148.65	-
2018-19	139.49	618.42

2019-20	189.52	92.28
2020-21	135.5	251.99
2021-22	241.56	1,049.28

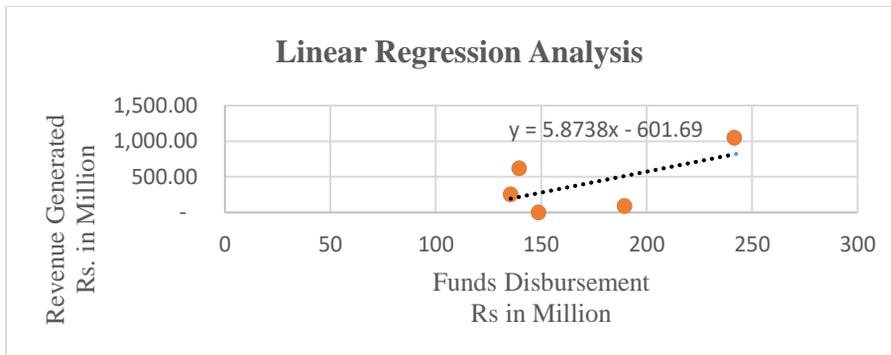
Source Annual Reports of Ignite

The data of funds disbursement and revenue generated by start-ups as shown in the above table was analysed to see whether there is any correlation between funds disbursement to NIC's and revenue generated by start-ups. The data analysis showed that funds disbursement and revenue generated by start-ups were positively correlated having correlation of 0.61 between independent and dependent variables as shown in the table below.

	<i>Funds Disbursed</i>	<i>Revenue Generated</i>
Funds Disbursed	1	
<i>Revenue Generated</i>	0.611150688	1

Step-3 Regression Estimate of Revenue Generated

In the graph below, X-axis represents the funds disbursement, whereas Y-axis represents revenue generated by start-ups. The analysis generates the trend line/equation of regression line, as shown below, which depicts the impact of funds disbursement on revenue generated by start-ups of both the NIC's.

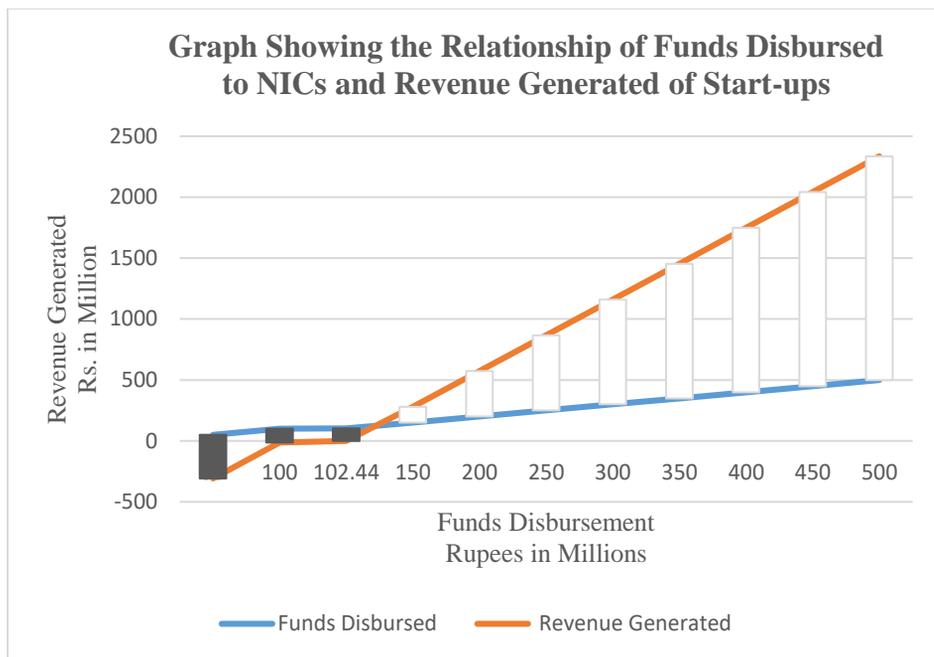


The equation of regression line was estimated as $Y=5.8738X-601.69$ as elaborated in **Annexure-III**. A projection of revenue generation showing sensitivity to incremental change in funding to NIC's by Ignite is given in the table below:

(Rs in millions)

Disbursement(X)	$Y=5.8738X-601.69$
50	(308.00)
100	(14.31)
102.44	0.02
150	279.38
200	573.07
250	866.76
300	1,160.45
350	1,454.14
400	1,747.83
450	2,041.52
500	2,335.21

The incremental change in funding to start-ups by Ignite has also been extrapolated in the following graph.



Results of Analysis:

The above analysis shows that there is a positive correlation of 0.61 between funds disbursement to NIC’s and the revenue generated by start-ups incubated. The funding to NIC’s and revenue generated by start-ups has a linear relationship having regression line of $Y=5.8738X-601.69$ which indicates that funding upto the extent of Rs 102.44 million does not generate revenue, therefore, Ignite has to provide funds over and above the minimum threshold of Rs 102.44 million. The regression analysis also indicates that funding to the extent of Rs 500 million to NIC’s would generate revenue upto Rs 2335.21 million.

b) Relationship of Funds Disbursement to Investment Inducted in Start-ups

I. Objective of Analysis

- i. Whether there is any correlation between funds disbursement to NIC's and investment inducted in Start-ups?
- ii. Whether funds disbursement to NIC's and investment inducted by Start-ups has any linear regression?

II. Methodology for Analysis

Step-1 Model Specification

Investment inducted in start-ups is the function of many independent variables that have direct and indirect effects on the investment inducted in start-ups. However, in the current analysis, all other independent variables except fund disbursement have been assumed to be constant. The detail of independent variables is given as under:

- a) Funds disbursement (F)
- b) Revenue generated (R)
- c) Quality of research and innovation (R&I)
- d) Market demand (D)
- e) Marketing plan (M)
- f) Other factors (O)

The functional specification of the model is given is given as under:

$$I = f (F, \bar{R}, \bar{I}, \bar{R\&I}, \bar{D}, \bar{M}, \bar{O})$$

Where 'I' represents the Investment inducted by start-ups being dependent variable, 'f' is notation for 'function' of the independent variables.

Step-2 Correlation Analysis

(Rs in millions)

Years	Total Funds Disbursed (X)	Total Investment Committed (Y)
upto 2017-18	148.65	0
2018-19	139.49	3152.79
2019-20	189.52	80.7
2020-21	135.5	753.72
2021-22	241.56	2561.53

Source Annual Reports of Ignite

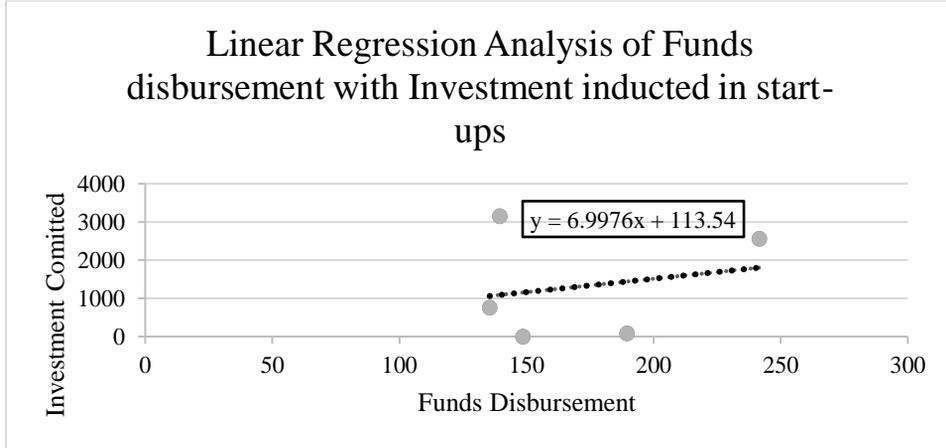
The data of funds disbursement and investment induced by start-ups as shown in above table was analysed to see whether there is any correlation between funds disbursement to NIC's and investment induced in start-ups. The data analysis shows that funds disbursement and investment induced in start-ups are positively correlated having correlation of 0.215 between independent and dependent variables as shown in the table below.

Correlation in Funds disbursement and Investment induced

	<i>Total Funds Disbursed</i>	<i>Investment Committed</i>
Total Funds Disbursed	1	
Total Investment Committed	0.215686727	1

Step-3 Regression Estimate of Investment Induced

In the graph below, X-axis represents the funds disbursement, whereas Y-axis represents investment induced by start-ups. The analysis generates the trend line/equation of regression line, as shown below, which depicts the impact of funds disbursement on investment induced by start-ups of both the NIC's.

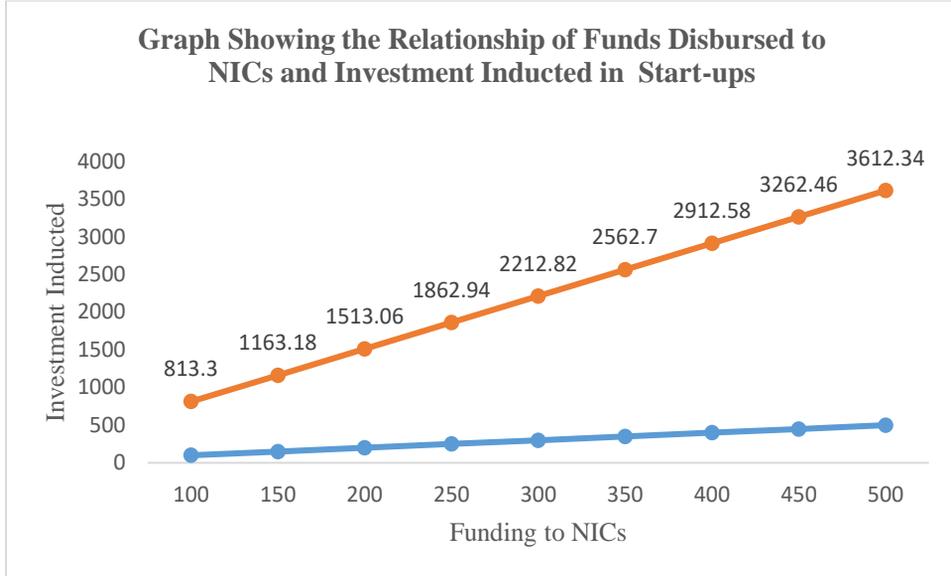


The equation of regression line was estimated as $Y=6.9976X+113.54$ as elaborated in **Annexure-III**. A projection of investment induction showing sensitivity to incremental change in funding to NIC's by Ignite is given in the table below.

(Rs in million)

Funds Disbursement (X)	Investment Inducted (Y) ($Y=6.9976X+113.54$)
100	813.3
150	1163.18
200	1513.06
250	1862.94
300	2212.82
350	2562.7
400	2912.58
450	3262.46
500	3612.34

The incremental change in funding to start-ups by Ignite has also been extrapolated in the following graph.



Results of Analysis:

The above analysis shows that there is a positive correlation of 0.215 between funds disbursement to NIC's and the investment inducted by start-ups incubated. The funding to NIC's and investment inducted by start-ups has a linear relationship having regression line of $Y=6.9976X+113.54$. The regression analysis indicates that funding to the extent of Rs 500 million to NIC's would bring investment upto Rs 3,612.34 million.

5.7 Sustainability

The results of regression analysis carried out for Impact Assessment of NIC's suggest that the funding of Rs 500 million can contribute to enable the start-ups to generate revenues upto Rs 2,335.21 million and accumulative capital in the form of investment upto Rs 3,612.34 million. However, audit identified the dearth of rigorous monitoring of NIC's and conducting of their performance measurement against the qualitative and quantitative KPIs which can affect the sustainability of the project. Besides, the emphasis of Ignite Company and NIC's was on incubation of start-ups as evident from the terms of funding

agreement. There were no targets assigned to NIC's in terms of successful completion of graduation and post-graduation stage for sustainability of the start-ups. Moreover, lack of Industry linkage with start-ups was a major bottleneck in the establishment of sustainable Entrepreneurial Ecosystem.

5.8 Overall Assessment

In recent years, South Asia has emerged as a hub for technological innovation and entrepreneurship, with India leading the charge. According to CEOWORLD Magazine's "Most start-up friendly countries in the world" rankings, India stood at No. 5 among the top 62 countries of the world²³. In contrast, Pakistan's ICT entrepreneurial ecosystem failed to keep pace with its neighbour and stood at 76th in the global list of start-ups friendly countries²⁴.

A major obstacle being faced by Pakistan's ICT entrepreneurial ecosystem was the lack of infrastructure and support from the government. In India, the government was proactive in promoting entrepreneurship through various initiatives and programs, such as the "Start-up India Campaign" started in January, 2016 to build a strong ecosystem for nurturing innovation and start-ups. In contrast, Pakistan neither established the start-up community nor provided the support necessary for its growth.

However, to keep pace with the challenges of modern era in the field of ICT, the Federal Government outlined a vision of accelerated digitization and transformation of Pakistan into a knowledge-based economy. In pursuance of this objective, the Federal Government took the significant initiative to build a network of National Incubation Centres (NIC's) in Federal Capital and all the Provincial Capitals in Lahore, Karachi, Peshawar and Quetta.

The idea of establishing the National Incubation Centres had a perfect strategic fit. Before establishment of NIC's there was no platform

²³CEO Magazine – Most Startup Friendly countries of the World,2021

²⁴Startupblink- Country Ranking, 2023

for young entrepreneurs to nurture their skills and share their innovative ideas and research on ICT. There is no denying the fact that taking initiatives of NIC's across the country laid foundation for promotion of the entrepreneurship across the country; however, audit is of the view that the Ignite Company launched the NIC's project without carrying out proper project planning and exercising due diligence before launch of the pilot project. NIC project lacked planning in two dimensions. The first issue related to incubation of start-ups where the rate of successful completion of graduation was just 65%, which meant that 35% of the start-ups failed to complete their graduation. Secondly, the project did not foresee post incubation problems of start-ups which was the real challenge. According to a report of Tribune 90% of the start-ups fail in Pakistan mainly because of dearth of resources and facilities, limited venture capitalism and lack of innovation²⁵. Further, the feedback survey conducted by audit also indicated that the graduated start-ups opined about the non-availability of pool of serious investors ready to take investment initiative. It was also added that they needed finances to support their businesses. Audit also inferred that the focus, while assigning the targets, was myopic and based on output instead of outcome and impact on the economy.

The Ignite Company did not carry out adequate monitoring and performance evaluation of the NIC's, especially keeping trail of post incubation success of the start-ups, which was left to the discretion of the NIC's management. Besides, the business start-ups needed orientation and re-orientation on higher value activities that would have characterized into science parks and technology incubators instead of focusing on merely development of numerous Apps.

Relevance:

The launching of NIC project has great relevance as the world is moving fast in field of ICT, for nations cannot survive without keeping pace with the digital world. The Government of Pakistan has undertaken a

²⁵The Express Tribune 15th January, 2023

right initiative in the field of ICT by introducing NIC's in different major cities of Pakistan; however, its success depends upon the agency having the mandate to implement it.

Efficacy:

The Ignite Company disbursed sufficient funds to the NIC's for establishment of state of the art infrastructure including prototype labs, provision of furniture and fixture, holding of seminars, workshops, mentor sessions, pitch-in events and imparting of training so as to make enabling environment for the NIC's to operate and execute the assigned activities and achieve the intended objectives. However, the efficacy of the NIC's would have increased, had they been given SMART (Specific, Measureable, Achievable, Relevant and Time-bound) targets.

Efficiency:

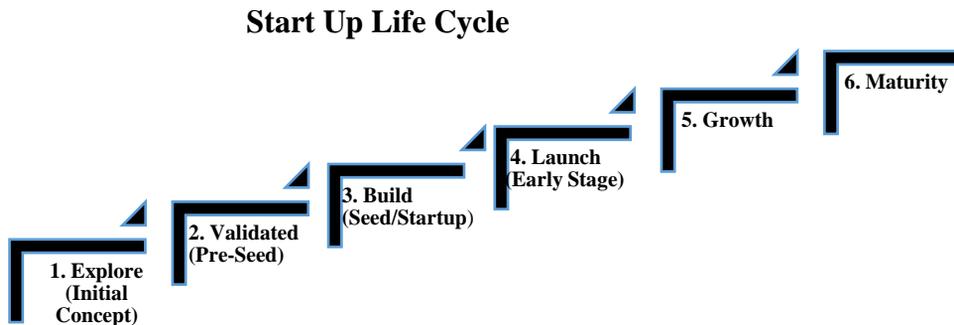
The project was designed to be completed at fixed Opex and Capex within a time line of five years. However, the project could not be concluded within the stipulated period and was granted extension. The Ignite Company provided all out support but the NIC's, marred by hiring of personnel in contravention of the hiring policies and weak procurement and contract management, did not achieve the intended objectives efficiently and as per the timelines of the project.

Economy:

Though the overall cost of the project remained the same despite extension in the timelines, yet the project management did not follow the principles of economy during submission of the financial proposals. The NIC's frequently kept on requesting the Ignite Company for re-appropriation of budget from one head of account to another and from Capex to Opex, in order to utilize the savings accrued on account of different project activities. The Ignite Company did not conduct due diligence in the acceptance of financial proposal based on imprudent budget estimates.

Effectiveness:

The effectiveness of a project can be judged by the evaluation of intended outcomes and impact of the project. The effectiveness of NIC's was analysed in the light of start-up life cycle derived from the discussions with the management as below:



According to the above lifecycle, the NIC's covered the incubation process upto the level 3, meaning thereby that the start-ups were guided up to the build stage where the start-up becomes an entity. At reaching this stage, the NIC's should have provided opportunities to the start-ups to get investment induction; instead, the start-ups struggled for their existence. Therefore, the effectiveness of the NIC's efforts cannot be evaluated without completion of the start-up life cycle. To sum up, the Ignite Company did not provide sufficient and reliable evidence against the claimed impact of investment commitment and revenue generation on the pretext of confidentiality.

Compliance with Rules:

The instances of non-compliance with rules in hiring of staff, composition of the Ignite Company's board, and deduction of taxes from NIC's' employees and guest speakers and procurement rules were observed.

Performance Rating of Project: Moderately Satisfactory

Risk Rating of Project: Medium

6 Conclusion

The resounding message from this report is that the NIC project was initiated without feasibility report and adequate planning; therefore, the project could not be completed within the stipulated period and failed to achieve the core objective of establishing ICT entrepreneurial ecosystem. Although, the target of incubation of 40 start-up per year was achieved but the Ignite Company had not assigned SMART targets to the NIC's such as numbers of successful graduates, amount of investment induction, revenue and employment generation which would have brought more value to the money spent on NIC's and would have created a visible footprint of start-ups success in the economy of Pakistan. In addition, the major pitfalls identified during the NIC's performance audit included irregularities in HR and procurement and lack of monitoring and evaluation which marred the efficiency, economy and effectiveness of the project. In order to make the NIC's project successful, the Ignite Company needs to address the issues identified by audit in the ongoing NIC's and future endeavours.

7. Acknowledgement

We wish to express our appreciation to the Ignite management and staff of the NIC Islamabad and Lahore for the assistance and cooperation extended to us during this assignment.

8. ANNEXURES

Annexure-I

S. No	Name	Designation	Qualification		Experience		Remarks
			As per Job Description Template	Actual Qualification	As per Job Description Template	Actual	
1	Numair Shahzada	Marketing Manager	Bachelors/Masters in Marketing/Management/Advertisement	BA	6+ years' experience in advertisement, outreach and communications	Digital Marketing Manager at Chaykhana	Appointment against required qualifications and relevant experience.
2	Shalar Ali	A.M Communication & Research at Teamup	BBA/MBA or equivalent/Master's with Research Experience	BS Mass Communication	4-6 years of Research experience ideally in lead role	1. Female Social Organizer (FSO Intern) 2. Media Analyst	Did not have requisite qualifications and experience
3	Esha Zeb	Community Manager	BBA/MBA in Entrepreneurship/Marketing/Project management	BSC (Hon) Economics	Prior Experience in Incubation/Entrepreneurship	Program Manager at ITU & Assistant Project manager Incubation	Did not have requisite qualifications

S. No	Name of Employee	Designation	Qualification		Experience		Remarks
			As per Job Description Template	Actual	As per Job Description Template	Actual	
1	Zara Naveed	Manager Content & Knowledge	BSc. Honors or Master of Sociology	Bachelors of Science in Economic & Finance	5-years relevant experience	Punjab Skills Development Fund, Primary and Secondary healthcare Department, Govt of Punjab	Did not have requisite Qualification
2	Amina Shiekh	Associate Community Management	BSc Honors and or Master in Management or related discipline from reputable local/foreign university	BS mathematics & Economics	1-2 years of Experience in Similar Capacity	No Relevant experience	Did not have requisite qualification and experience
3	Aqsa Munir	UIUX designer	No qualification was set for the Job	Bachelor of Fine Arts	-	-	No requisite qualification was mentioned in Job Description
4	Muhammad Umer Bashir	Graphic Designer	Bachelor/Master in Communication design from Reputable design school	BSC Honors (Computer Science)	3-5 years exp in design studio, digital marketing in international /local brand	Shadibox.com & Kohinoor Textile Mills experience	Did not have requisite Qualification
5	Maria Hayat	Senior Associate Social-media	Bachelor/Master in Marketing	MA in Media Studies. BSC (Hons) in Anthropology/Sociology)	3-5 years' experience in Social & Digital Marketing with reputable digital agencies	Punjab Skills Development Fund, Special in PR & Communication etc	Did not have requisite Qualification

Annexure-II

1. Do you know that NIC is the initiative of Federal Government?

20 responses

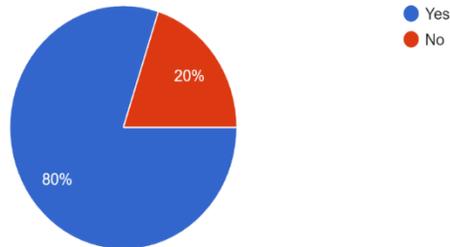


Figure 1(Yes 80%, No 20%)

2. Whether the selection criteria for incubatees/startups was merit based and transparent?

20 responses

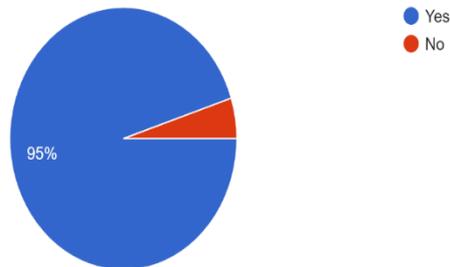


Figure 2(Yes 95%, No 5%)

3. Whether the NIC management was professional while evaluating the startup ideas?
20 responses

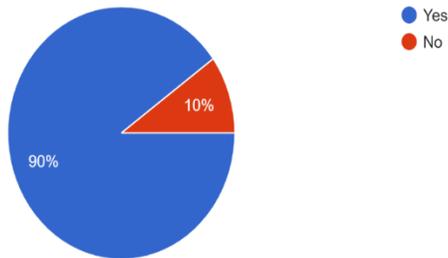


Figure 3(Yes 90%, No 10%)

4. Whether Mentor have the required professional skill set and gave sufficient time to NIC?
20 responses

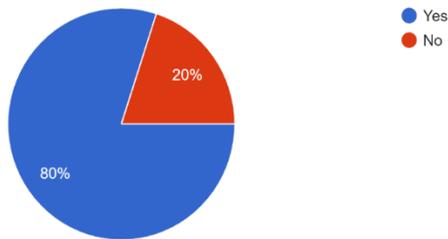


Figure 4(Yes 80%, No 20%)

5. Whether the curriculum of training is relevant to the needs of incubatees/Startups?
20 responses

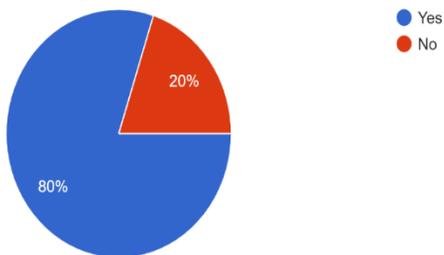


Figure 5(Yes 80%, No 20%)

6. Whether the NIC management and mentors were professionally helpful in devising business, financials, marketing and operational strategies and linking them with business plan?

19 responses

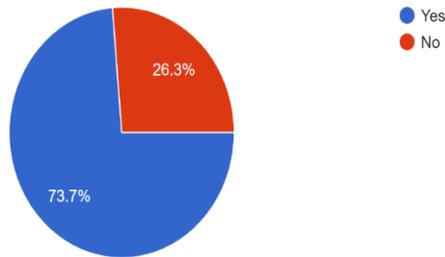


Figure 6(Yes 73.7%, 26.3%)

7. Whether NIC management professionally collate the startup idea and business plan for validation through market survey and research?

20 responses

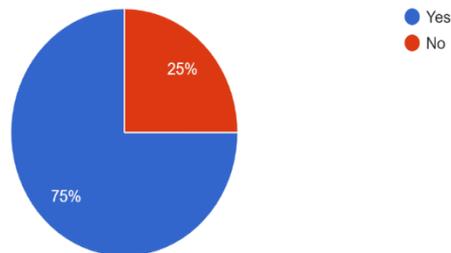


Figure 7(Yes 75%, No 25%)

8. How many exhibitions, conferences and events were arranged by NIC management?

18 responses

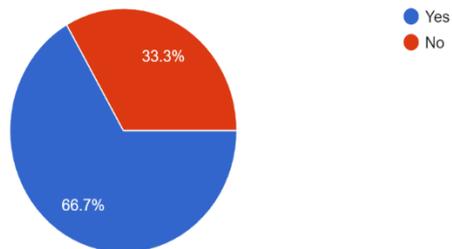


Figure 8(Yes 66.7%, No 33.3%)

9. Whether the public awareness campaign/outreach programmes of incubator were satisfactory?

20 responses

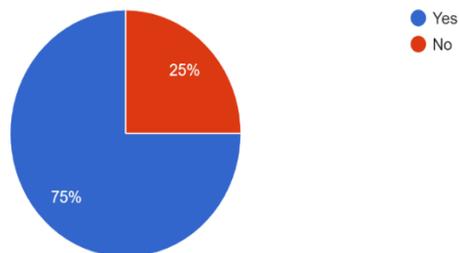


Figure 9(Yes 75%, No 25%)

10. Whether NIC has a pool of serious investor who are ready to take investment initiative?

20 responses

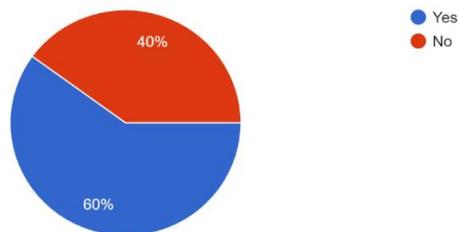


Figure 10(Yes 60%, No 40%)

11. Whether your business set up has become self-sustainable or it still needs financial assistance?
20 responses

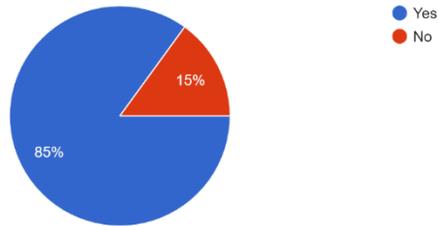


Figure 11(Yes 85%, No 15%)

14. Are you still need finance or have become self-sufficient?
18 responses

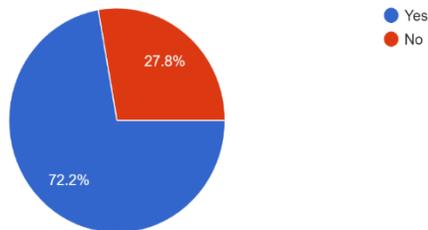


Figure 12(Yes 72.2%, No 27.8%)

15. Whether are you willing to share marginal (minimal) share of your profits or revenues or equity in the form of endowments to the Ignite, if the federal govt, finance your business through Ignite?
18 responses

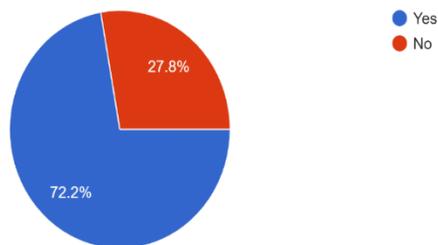


Figure 13(Yes 72.2%, No 27.8%)

Annexure-III

Figure 14 (Equation of Regression Line)

$$Y = a + bX$$
$$b = \frac{N\sum XY - (\sum X)(\sum Y)}{N\sum X^2 - (\sum X)^2} \quad a = \frac{\sum Y - b\sum X}{N}$$

Where,
N = number of observations, or years
X = a year index (decade)
Y = population size for given census years

Figure 15 (Correlation Coefficient)

$$r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{[n\sum x^2 - (\sum x)^2] [n\sum y^2 - (\sum y)^2]}}$$