Special Audit Report
on
the Accounts of
Telephone Industries of Pakistan
Financial Years 2006-07 to 2015-16

4th July,2018

AUDITOR-GENERAL OF PAKISTAN

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PREFACE

The Auditor-General conducts audit subject to Article 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. The Special Audit of Telephone Industry of Pakistan was carried out accordingly.

The Directorate General of Audit, Posts, Telegraphs and Telephones conducted the Special Audit of Telephone Industry of Pakistan during March-April 2017 for the financial years from 2006-07 to 2015-16 with a view to report significant findings to the relevant stakeholders. Audit examined the economy, efficiency and effectiveness aspects of the Telephone Industry of Pakistan. In addition, Audit also assessed, on test check basis whether the management complied with applicable laws, rules, and regulations in managing the Telephone Industry of Pakistan. The Audit Report indicates specific actions that, if taken, will help the management realize the objectives of the Telephone Industry of Pakistan. The observations included in this report have been finalized in the light of discussions in the DAC meeting.

The Special Audit Report is submitted to the President of Pakistan in pursuance of the Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, for causing it to be laid before the Assembly.

(Javaid Jehangir)

Dated: ,2018 **Auditor-General of Pakistan**

ABBREVIATIONS & ACRONYMS

AIS	Assistant Installation Supervisor
BOD	Board of Directors
CBA	Collective Bargaining Agent
CCOP	Cabinet Committee on Privatization
CCTV	Close-Circuit Television
CDMA	Code Division Multiple Access
CGA	Controller General of Accounts
CGR	Corporate Governance Rules
DAC	Departmental Accounts Committee
ECC	Economic Coordination Committee
ECNEC	Executive Committee of National Economic Council
ERP	Enterprise Resource Planning
FCF	Federal Consolidated Fund
FWT	Fixed Wireless Telephone
GSM	Global Systems of Mobile
HDP	High Density Polythene
KIBOR	Karachi Interbank Offered Rate
LC	Letter of Credit
LOI	Letter of Intent
MoIT	Ministry of Information Technology
NIDA	National Investment Daily Account
NRTC	National Radio Telecommunication Corporation
NTC	National Telecommunication Corporation
PAO	Principal Accounting Officer
PPRA	Public Procurement Regulatory Authority
PTCL	Pakistan Telecommunication Company Limited
R&D	Research and Development
S&H	Siemens &Halske
S&S	Sales & Services
SECP	Securities & Exchange Commission of Pakistan
TIP	Telephone Industries of Pakistan
TSC	Telecom Staff College
WLL	Wireless Local Loop

EXECUTIVE SUMMARY

The Director General of Audit, Posts, Telegraphs & Telephones, Lahore conducted Special Audit on the Accounts of Telephone Industries of Pakistan (TIP) for the period from 06.02.2017 to 04.04.2017 for the financial years 2006-07 to 2015-16 on the request of the Ministry of Information Technology & Telecommunication. The main objectives of Special Audit were 1) To examine in detail as to whether bank accounts of TIP (withdrawal of amounts vs vouchers) are duly reconciled with bank statements, 2) To ascertain as to whether internal controls are in place for optimum utilization of assets, cash handling process and receivables management, 3) To review procurement process and contract management as to whether these are need based and in compliance with Public Procurement Rules, and 4) To examine: a) issue of quarters and other fixtures constructed by TIP, b) issue of losses sustained by TIP on account of operations of Colony Board and its workshops. The Special Audit was conducted in accordance with the INTOSAI Auditing Standards.

Telephone Industries of Pakistan is a private limited company incorporated in 1953 in collaboration with M/s Siemens under the Companies Act, 1913 (now the Companies Act, 2017). TIP is working under the control of Ministry of Information Technology and Telecommunication. The objective of its establishment was to manufacture telephone equipments/exchanges and their installations.

The audit observed loss and fraud of Rs233.952 million. There were violations of procurement rules. Procurements were made without proper planning. There was weak asset, receivables and financial management. Record of certain important transactions was not maintained and produced to audit. Besides, the audit observed serious weaknesses of internal controls.

The audit mainly recommends that the management needs to devise a system to strengthen its internal controls to eliminate leakage of funds in the shape of loss and fraud or through other malpractices; Form a vigilance system to prevent violation of rules and regulations; Put internal controls in place; Safeguard its current and non-current assets; Accelerate the pace of recoveries pending since long against TIP clients; Streamline the organizational processes for proper maintenance of financial record and provision of record to audit be ensured.

1. INTRODUCTION

The Directorate General of Audit, Posts, Telegraphs & Telephones, Lahore conducted Special Audit of Telephone Industries of Pakistan (TIP) in the months of March-April 2017 for the financial years 2006-07 to 2015-16 on the request of Board of Directors of Telephone Industries of Pakistan-MoIT vide letter No MD/TIP/5896 dated 6th September 2016 (Appendix-I). The Report has been finalized in the light of the Terms of Reference (ToRs) (Appendix-II).

1.1 History and Background of TIP

An Agreement was signed on 26th May 1952 between Government of Pakistan and Siemens & Halske (S&H); a public corporation of Germany, for formation of a limited Company under the title of "Telephone Industries of Pakistan" (TIP). The Company was incorporated on 21st February, 1953 and the factory was established at Haripur. Afterwards, its sub-offices were also established at Islamabad, Peshawar, Lahore and Karachi.

1.2 Objective Statement

The objective of TIP was to manufacture telephone equipments like, automatic and manual exchanges, private branch exchanges, selective ringing telephone system, private telephone system and subscribers telephone sets etc. TIP has following manufacturing capabilities / facilities and is rendering its services in these areas:

a. Fabrication workshops for sheet metal cutting and punching, turning, milling, plastic molding, designing and manufacturing of complete progressive cutting tools, plastic and pressure costing moulds, fixture and precision gauges etc.

b. Precision single / double sided printed circuit boards and thick film open circuit hybrid manufacturing plant

c. Electroplating for copper, nickel, gold, silver, chromium, tin, zinc & spray painting

d. Surface mounting technology and through hole technology
e. Training facilities for staff such as tool designing, tool making, machinist, electro-mechanics, fitters and electronic technicians.

1.3 Share Capital Structure:

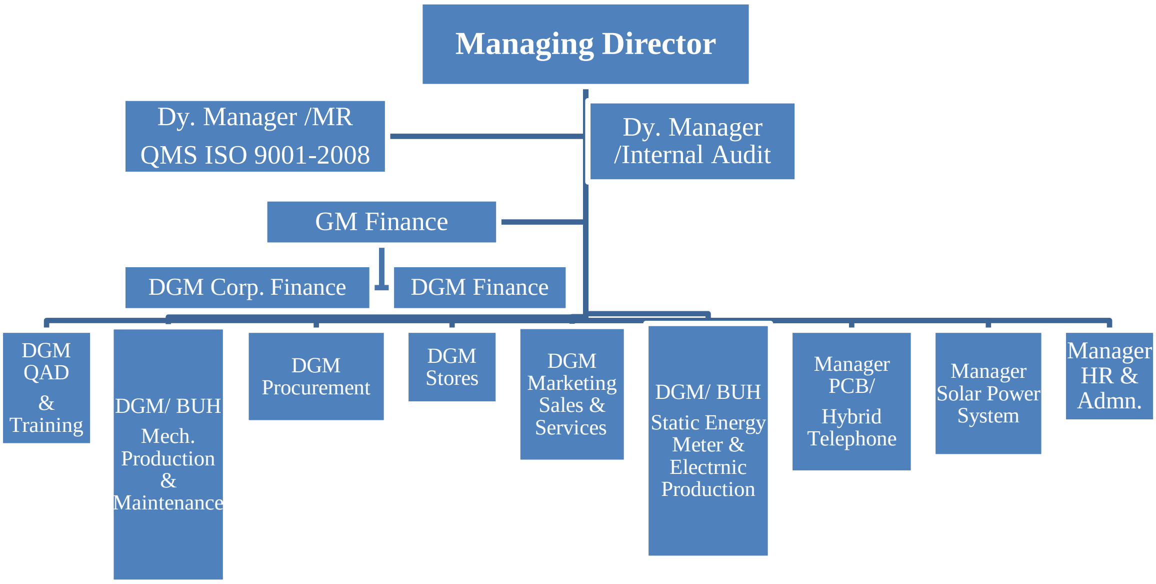
1.3.1 Authorized Share Capital

Authorized share capital of the company as per agreement between Government of Pakistan (GoP) and Siemens was Rs6.0 million, divided into six thousand ordinary shares of Rs1,000 each. The authorized capital of the company was however increased from time to time and current authorized capital is Rs1,000 million.

1.3.2 Paid up capital & changes in the Shareholding

It was decided in the agreement (as referred above), that GoP&Siemensshall have 75% & 25% shares respectively in the paid-up capital. Initially, GoP subscribed 4,500 shares and Siemens Halske 1,500 shares each of Rs1,000 face value. Between the period from 03.02.1953 to 30.12.1998, number of shares of Government of Pakistan increased from 4,500 to 544,376. Similarly, pro rata shares of Siemens also increased through induction of its equipments in TIP.

1.4 Organizational Structure



1.5 Composition of TIP Board

Composition of Board of Directors is as under:

i. Minister of Information and Technology as Chairman.
ii. Secretary of Ministry of Information and Technology as Member.
iii. Joint Secretary (Development) of MoIT as Member.
iv. Member (Telecom) of MoIT as Member.
v. Member (Legal) of MoIT as Member.
vi. Joint Secretary of Ministry of Finance as Member.
vii. Joint Secretary of Privatization Commission as Member.
viii. Managing Director of TIP as Member.

2. AUDIT OBJECTIVES

2.1 The major objectives of Special Audit were:

2.1.1 To examine in detail as to whether bank accounts of TIP (withdrawal of amounts vs vouchers) are duly reconciled with bank statements.

2.1.2 To ascertain as to whether internal controls are in place for optimum utilization of assets, cash handling process and receivables management.

2.1.3 To review procurement process and contract management as to whether these are need based and in compliance with Public Procurement Rules.

2.1.4 To review mode and process of appointment of management and staff, their job description, capacity building, pay and allowances and pension payments.

2.1.5 To examine:

a) issue of quarters and other fixtures constructed by TIP.

b) issue of losses sustained by TIP on account of operations of Colony Board and its workshops.

c) Non-implementation of revitalization plan, non-commercialization of deliverables projects, non-diversification and sponsorship of housing scheme.

3. AUDIT SCOPE AND AUDIT METHODOLOGY

3.1 The main special audit scope was:

3.1.1 Scrutiny of financial record of Telephone Industries of Pakistan (TIP) for the financial years 2006-07 to 2015-16.

3.1.2 The audit scrutinized the financial record of TIP in the offices of TIP Headquarters Haripur and its sub offices at Islamabad, Lahore and Karachi.

3.1.3 The financial record was scrutinized in the light of Terms of References conveyed to the DG Audit PT&T vide letter No SSAW/Spl/Per.Audit/ F-8/150 dated27.01.2017 (Appendix-III).

3.1.4 However, the financial record of Colony Board of TIP, supporting vouchers in sub office Karachi and bank statements of certain years were not provided for scrutiny, which limited the scope of audit.

3.2 The Audit methodology was:

3.2.1 The audit team finalized the Terms of Reference of the Special Audit with the consultation of MoIT (Appendix-IV).

3.2.2 The Audit team perused permanent and planning files, past annual audit reports with respect to audit paras of Telephone Industries of Pakistan.

3.2.3 The field audit was conducted on the basis of discussions with management and review of record.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Comments on Annual Audited Accounts

4.1.1 The company sustained a loss of Rs36.209 million during the year 2013-14 which accumulated up to Rs4,413.264 million till 30th June, 2014 with a negative equity of Rs3,517.071 million. The company did not provide cogent reasons for such heavy loss.

4.1.2 The cost of goods sold (Rs306.842 millions) was 1500% more than the net sales (Rs19.165 millions). This state of affairs indicated that the company had very high manufacturing cost or manufactured idle and excessive products which needed justification.

4.1.3 An enormous provision of Rs175.713 million was made to the accounts for obsolescence of stock in trade and stores / spares and loose tools during the year which showed weak stock / inventory management. The detail is as under:

Provision for obsolescence of	**Rs in million**
i. Inventories (note-14)	43.619
ii. Spare parts (note-15)	7.030
iii. Loose tools (note-15)	1.746
iv. Raw material (note-16)	10.565
v. Components (note-16)	24.075
vi. Work in Progress (note-16)	63.989
vii. Finished Goods (note-16)	24.689
Total	175.713

4.1.4 Heavy provisioning for doubtful debts was also made of

Rs962.073 million which showed weak receivable management of the company.

Provision for	Rs in million
i. Doubtful debts (note-14)	213.354
ii. Doubtful advance to suppliers (note 14)	5.246
iii. Receivables (note 14)	51.069
iv. debts from PTCL (note 17)	450.407
v. debts from NTC (note 17)	46.392
vi. Doubtful advance to suppliers (note 18)	15.896
vii. Other receivables from NTC (note-20)	112.109
viii. Other receivables from TSC (note-20)	42.646
ix. Sales tax refundable from Government (note-22)	24.954
Total	**962.073**

4.1.5 Short term loan of Rs998 million comprising running-finance facility, which was obtained from the National Bank of Pakistan, had been restructured into long term loan together with accrued interest of Rs179 million up to March, 2009. The company had finance cost of Rs100.066 million for the year 2013-14. On one side the company was making heavy provisioning for the doubtful debts and on the other side it was using borrowed funds at heavy markup rate to meet its working capital requirements.

4.1.6 The Company paid late delivery charges of Rs45.466 million as pointed out by audit whereas, the company was operating well below its capacity.

4.1.7 Following points of letter of commercial auditors addressed to BoD of TIP on the accounts for the year 2013-14 were not complied with till April, 2017:

i. TIP remained non-compliant to the CGR, 2013 by not submitting its compliance report and its annual audited accounts to SECP during the year 2013-14. (Note 3.1)

ii. The register of mortgage and charges was not maintained as required under section 135 of Companies Ordinance, 1984. (Note 3.2).

iii. There was un-reconciled difference of Rs2.812 millions in security deposit account. (Note 4.1)

iv. The Auditors were unable to verify salaries and wages payable of Rs11.948 million due to non-availability of relevant supporting documents. (Note 5.1)

v. There was difference of Rs1.930 million between ledger of “salaries and wages TIP” and salary sheet. (Note 5.2)

vi. The Auditors were unable to verify or to reconcile difference of Rs5.215 million in consumption of raw material and stock register. (Note 7.1)

vii. There was un-reconciled difference of Rs2.491 million and Rs2.721 million in opening and closing balance of ledger and bank statement of “Security deposits from suppliers”. (Note 8.1)

viii. The Auditors were unable to verify the accuracy and completeness of “fee income” from schools of Rs12.243 million. Further, the Auditors were unable to verify accuracy and completeness of the recoveries / income of Rs19.154 million due to non-provision of record. (Note 12.1)

ix. The Auditors could not verify accuracy and completeness of rental income from officers and staff hostels of Rs6.568 million due to non-availability of record. (Note 13.1)

4.2 Organization & Management

4.2.1 **Non-Production of Record**

According to section 14 (2) of Auditor-General’s (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, the officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition, in compliance to the powers given to Auditor-General of Pakistan vide section 14 (b) & (c) of ibid.

The TIP management did not provide the auditable record to audit of the Colony Board for the financial years 2006-07 to 2015-16. Audit team requested the TIP management vide record requisition dated 6th, 13th, 28th February and 13thMarch, 2017 to provide record relating to Colony Board. It was intimated by TIP management vide its letter No. TIP/IA/OM-2006-07/2015-16C dated 03.04.2017 that the referred record could not be provided to audit as the matter of Colony Board was subjudice. The record will be provided to audit as and when the matter will be decided by the Honourable Court. Therefore, the receipts and payments to that extent could not be examined by audit except income statement of the Colony Board.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that efforts were being made to request the authority concerned to provide the relevant record.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to take action against the person(s) responsible for non-provision of record to audit. However, no record had been provided to audit till date.

Audit recommends early implementation of DAC directives.

(OM No.60)

4.2.2 Non-provision of bank statements

According to section 14 (2) of Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, the officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition, in compliance to the powers given to Auditor-General of Pakistan vide section 14 (b) & (c) of ibid.

The TIP management did not provide the Bank Statements to audit. The concerned staff of TIP was asked to provide bank statements of all the operative accounts, but the same in respect of following accounts were not provided:

Sr.	Account No.	Financial	Remarks
1.	30033896474 (NIDA-5)	2006-07	Complete Financial year
		2007-08	January to June, 2008 missing
		2008-09	Complete Financial year
		2009-10	Complete Financial year
		2012-13	January to June, 2013 missing
2.	3003896483 (NIDA-6)	2006-07	Complete Financial year
		2007-08	January to June, 2008
		2008-09	Complete Financial year
		2009-10	Complete Financial year
3.	12603-1/3003868334	2006-07	January to June, 2007
		2007-08	July to December, 2007
		2011-12	July to December, 2011
		2012-13	January to June, 2013
		2013-14	Complete Financial year
4.	726-7	2014-15	Complete Financial year
5.	Bank account of sub-office Lahore.	2006-07 to 2015-16	Complete Financial years

In the absence of above bank statements, the withdrawals of amount from said bank accounts could not be scrutinized by the audit.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that efforts were being made to retrieve old record, along with computerized record available in the banks and would be provided to audit once made available.

DAC in its meeting held on 22nd January, 2018 directed the management to investigate the matter of non-provision of record to audit and fix responsibility. However, no record had been provided to audit till date.

Audit recommends early implementation of DAC directives.

(OM No.64)

4.2.3 Non-provision of supporting documents of cash / bank vouchers-Rs2.127 million

According to Rule-15 of GFR,Volume-I, every officer whose duty is to prepare and render any accounts or returns in respect of public money or stores is personally responsible for their completeness and strict accuracy.

The TIP sub-office Karachi management did not provide twenty(20)sampled bank transactions of Rs2,126,747. The vouchers were selected as per standard auditing procedures. The concerned staff was asked to provide the supporting documents of those transactions but it was replied that supporting record was not available with them. In the absence of supporting record, the payments made by TIP Karachi were held unauthorized and doubtful.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that the amounts withdrawn from time to time for various payments through cash account as per requirement of prepared cash vouchers and duplicate (Carbon copies) of Cash Vouchers, Bank Vouchers, Cash book, Bank Book, were available. The reply was not acceptable as the record was not provided during audit.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to take action against the person(s) responsible for non-provision of record to audit. However, no record had been provided to audit till date.

Audit recommends early implementation of DAC directives and record may also be provided for detailed scrutiny.

(OM No.52)

4.2.4 Improper maintenance of record and weakness of Internal Controls

According to Section-10(1) of Public Sector Companies (Corporate Governance) Rules, 2013, every Public-Sector Company shall, within one month of end of first, second and third quarter of its year of account, prepare a Profit and Loss Account for and Balance Sheet at the end of that quarter whether audited or otherwise, for Board’s approval.

It was observed that the management of TIP did not prepare the mandatory financial statements for the financial years 2014-15 & 2015-16. Even the posting of financial transactions was not finalized till the execution of this Special Audit

(April-2017). Further, in the presence of a regular senior accountant, other TIP staff was signing the cash/bank book (of sub-office Karachi) using the stamp of senior accountant. Moreover, monthly expenditure statements were also not prepared. When the situation was discussed with concerned head, it was replied that the financial statements were not prepared owing to then on-appointment of external auditors. Audit is of the view that any such situations did not relieve the company's management of its statutory responsibility of preparation of financial statements. It is the responsibility of the management to prepare the annual accounts and the auditor has to form the opinion on the basis of audit evidence obtained during audit. Therefore, due to non-completion of accounting process, the Audit could not get access to the auditable record and was also could not establish a reasonable assurance/opinion on the accounts and business affairs of TIP.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that audit for the year 2014-15 had been completed. Similarly audit for the year 2015-16 had also been finalized and endorsed by the audit committee in its meeting held on 18.1.2018 for placing before TIP Board for approval. Further, after retirement of Mr. Altaf Ahmed, Sr. Accountant/cashier of sub-office Karachi, Mr. Imran Ali Khan, Sr. Accountant was offered to take over the charge of cashier but he refused due to his business in payroll. Then Mr. Niaz Ahmed, Assistant, who was assisting the cashier and had some experience of Cash/Bank account was deputed as cashier by the Manager. Therefore, the same official was signing the cash/bank books on behalf of Sr. Accountant cash. The reply was not acceptable as it was irrelevant and not convincing.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to take action against person(s) responsible for non-maintenance of record and to conduct a detailed inquiry relating to signing of cash book by a non-designated person under intimation to audit. However, no record had been provided to audit till date.

Audit recommends that a comprehensive fact-finding report may be prepared to ascertain the reasons of non-maintenance of record in appropriate manner which resulted in non-completion of audit of 2014-15 and 2015-16 by commercial auditors (CAs) and Government auditors could not establish their reasonable assurance/opinion on the accounts of TIP.

(OM No.34&47)

4.2.5 Non-maintenance of loss and fraud register

According to Article 24 of Initial Account Code Vol-I, loss and fraud cases are required to be reported to Audit Office immediately on occurrence. Further,Appendix-2 to Rule-23 of GFR, Vol-I, in all such cases departmental proceedings should be instituted at the earliest against all the delinquents even against a government servant being prosecuted in a criminal court.

It was observed that the register of loss and fraud was not maintained by TIP. Certain vehicles and store items were stolen / misappropriated during last ten years. But no such record was maintained to monitor such incidents due to which the actual loss and factual position could not be ascertained which may lead to loss and misuse of assets of TIP.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that TIP did not maintain formal loss and defalcation register. However, after the fixed assets policy was approved, inventory of all cases relating to fraud, loss and defalcation would be prepared. If required the matter may be referred to investigating agency for forensic audit. In reply the irregularity was admitted.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to investigate the matter and share the outcomes with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that all cases of loss, fraud and defalcation may be shared with audit alongwith complete formal register for the purpose.

(OM No.68)

4.3 Financial Management

4.3.1 **Non-recovery and loss of utility charges on account of Colony Board-Rs1,119.098 million**

According to Rule-8 of GFR,Volume-I, it is the duty of the Administrative Department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the treasury.

It was observed that TIP had receivables of Rs323,662,768 from the contributory units (NRTC and PTCL) of colony board for the period ended June 2016. Furthermore, TIP had to bear a loss of Rs795,434,504 on account of operations of colony board in addition to referred receivables from contributory units. The figures for the years 2014-15 and 2015-16 were not final as certain postings of transactions relating to these years were pending. Further, the accounts for the referred years were still to be audited by Chartered Accountant Firm. No efforts were made by TIP to recover this huge amount. This resulted into non-recovery and loss of utility charges on account of Colony Board. The detail is as under:

Sr. No.	Unit	Amount Outstanding
1.	NRTC (Cumulative outstanding amount till June, 2016)	157,643,221
2.	PTCL-TSC (Cumulative outstanding amount till June, 2016)	166,019,547
Total		**323,662,768**
3.	TIP (100% loss on account of utility charges for the period from 2006-07 to 2015-16)	**795,434,504**

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that a committee had been constituted for reconciliation and settlement of the issues with PTCL and NRTC. The reply was not acceptable as the amount was not recovered and no reply was given in respect of loss sustained by TIP on account of operations of Colony Board as pointed out by audit.

DAC in its meeting held on 22nd January, 2018 directed the management to recover the amount at the earliest after reconciliation. Further, the matter of loss sustained by TIP in operations of Colony Board be investigated under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that outstanding amount may be recovered at the earliest. Furthermore, a fact finding report may also be prepared to find the reasons of loss to TIP on operations of colony board.

(OM No.29)

4.3.2 **Outstanding amount with different departments on account of sales and services of TIP-Rs598.181 million**

According to Rule-8 of GFR,Volume-I, it is the duty of the Administrative Department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the treasury.

It was observed that TIP had a huge outstanding recovery of Rs598,091,593 to be made from its different clients on account of sales and services till 30th June, 2016 but no steps were taken for the recovery of the same. Audit was of the opinion that non-recovery of outstanding dues was due to in-efficient and weak receivable management of TIP. The detail is as under:

Sr. No.	Name of Office	Amount outstanding
01.	PTCL	445,349,432
02.	NTC	33,580,618
03.	AWC	2,153,419
04.	POD	14,033,977
05.	Siemens	52,226,868
06.	SUPARCO	50,747,279
07.	Punjab Assembly Lahore	90,300
Total		**598,181,593**

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that TIP had taken the case at highest management level and had written a letter to president of PTCL on 22.01.2013 and M/s Ferguson (auditor of PTCL) on 20.01.2013 as well to draw its attention toward this long outstanding issue of TIP receivables. Further, efforts were being made to reconcile and recover the dues from other clients. The reply was not satisfactory as the outstanding dues were not reconciled and recovered till finalization of this report.

DAC in its meeting held on 22nd January, 2018 directed the management to constitute a special committee to reconcile and recover the dues of TIP at the earliest under intimation to audit. However, no progress was made on the matter till finalization of this report

Audit recommends that the outstanding amount may be recovered at the earliest after making reconciliation of receivables with PTCL and other customers under intimation to audit.

(OM No.39)

4.3.3 Irregular expenditure without foreign exchange budget-Rs125.998 million

According to Para 13 (ix) of Finance Division O.M No.F.3(2)Exp.iii/2006 dated 13.09.2006, foreign exchange budget shall be prepared in accordance with the instructions issued by Finance Division from time to time.

It was observed that TIP was neither allotted foreign exchange budget by the Finance Division nor the company had prepared one. But an expenditure of Rs125,997,225 had been incurred on account of foreign purchases during 2006 to 2016 by TIP.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that management had never received any such type of information (notification) from Ministry of Finance about foreign exchange budget. The reply was not satisfactory as the Ministry of Finance was not supposed to intimate to TIP about its rules and regulations. It was the duty of TIP management to equip itself with applicable rules and its revision from time to time.

DAC in its meeting held on 22nd January, 2018 directed the management to conduct a fact finding enquiry as it was the duty of TIP management to be aware with the instruction of the Ministry of Finance. Further, the outcomes be shared with audit. However, no progress was made on the matter till finalization of this report

Audit recommends that responsibility may be fixed for the violation of rule.

(OM No.65)

4.3.4 Loss on account of Liquidated Damage charges-Rs28.929 million

According to Rule 20 (1) of GFR,Volume-I, any loss of public money, departmental revenue or receipts etc. should be immediately reported by the officer concerned to the Authority as well as audit. These reports must be submitted as soon as suspicious arises that there has been a loss; they must not be delayed while detailed enquiries are made. Further, Rule-23 of GFR, every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part.

It was observed from the record of production for NTC and PTCL by TIP that TIP had to sustain a huge loss of Rs28,928,563on account of Liquidity Damage (L.D) charges owing to non / late supply of stores within stipulated time of work orders. The detail is as under:

Sr. No.	Office	Period	Amount
1.	NTC	On purchase orders till 18.10.2006	20,929,797
2.	NTC	From 30.03.2009 to 06.01.2017	1,238,985
3.	PTCL	On purchase orders from 2003 to 2006	6,759,781
Total			**28,928,563**

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that as per relevant clauses of the contract TIP had to complete tasks within the specified period after signing of the contracts. But due to lengthy procedure of procurement and approval, delay took place and tasks were completed after the targeted time. Ultimately LD charges were deducted as per relevant clauses of the contract. In reply the loss was admitted.

DAC in its meeting held on 22nd January, 2018 directed the management to probe the reasons behind non-provision of stores to NTC and PTCL. The outcomes be shared with audit. However, no record had been provided to audit till date.

Audit recommends that responsibility be fixed for non-supply of stores in scheduled time besides recovery of L.D charges deducted by PTCL and NTC.

(OM No.15)

4.3.5 Non-recovery on account of electricity dues from housing scheme - Rs23.014 million

As per Rule-26 of GFR,Volume-I, it is the duty of controlling officers to see that all the sums due to Government are regularly & promptly assessed, realized & duly credited in Public Account. Further, Rule 28 of GFR Volume-I stipulates that "No amount due to Government should be left outstanding without sufficient reason".

It was observed that TIP management paid electricity dues of TIP housing scheme, but did not recover the outstanding electricity dues of Rs23,013,616 from the housing scheme. Audit was of the opinion that non-recovery of outstanding dues was due to in-efficient and weak receivable management of TIP.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that amount had been collected from the residents of TIP housing scheme. The reply was not satisfactory as the recovery documents were not provided to audit for verification.

DAC in its meeting held on 22nd January, 2018 directed the management to get the record verified from audit. However, no record had been provided to audit till date.

Audit recommends that the amount may be recovered at the earliest and get it verified from audit. Further the provision of electricity to a housing society may also be stopped.

(OM No.66)

4.3.6 Irregular payment of imprest-Rs20.555 million

According to 2.3.2.8 of Accounting Policies and Procedure Manual (APPM), payments should be made through direct bank transfer and cheques to minimize the risk of fraud and corruption.

It was observed that TIP management sanctioned an amount of Rs64,803,751 as imprest during the period from 2006-07 to 2015-16. During test check, it was also observed that the imprest was used for bulk purchases on cash basis even to the extent of Rs1.5 million and for purchase of copper enameled wire for Rs371,197 and durable goods (second hand photostat machine, CPU etc.) for Rs120,290. Audit was of the opinion that granting of such heavy imprest and procurement of durable goods from imprest was against the spirit of imprest and prevalent rules. The detail is as under:

Sr. No.	Year	Total
1.	2006-07	3,049,463
2.	2007-08	6,852,101
3.	2008-09	3,193,511
4.	2009-10	2,994,032
5.	2010-11	374,016
6.	2011-12	2,460,063
7.	2012-13	1,632,124
8.	2013-14*	0
9.	2014-15*	0
10.	2015-16*	0
Total		**20,555,310**

*ERP Software did not have provision to segregate data of advance to employees between Imprest Advance and Q-loan and other advance.

The matter was reported to the management and PAO in March / April,

2017. It was replied in DAC meeting that there were two types of imprest. One was temporary imprest and other was standing imprest. Due to shortage of time both imprest were issued through proper channel and after approval of signatory authority (competent authority). In this way, there were many chances of embezzlement. The reply was misleading and irrelevant.

DAC in its meeting held on 22nd January, 2018 directed the management to investigate the matter of imprest in detail and share the outcomes with audit. However, no record had been provided to audit till date.

Audit recommends early implementation of DAC directives.

(OM No.61)

4.3.7 Imposition of Liquidated Damages charges-Rs16.537 million

According to Rule 8 of GFR,Volume-I, it is the duty of the Administrative Department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the treasury.

It was observed that TIP had to sustain a loss of Rs16,536,846 as L.D charges by PEPCO and WAPDA Electricity A.J.K. due to late delivery of energy meters. The detail is as under:-

Sr. No.	Office	Period/Purchase Order No.	Amount
1.	WAPDA Electricity A.K.	2007-08	1,648,959
2.	WAPDA Electricity A.K.	2008-09	4,068,462
3.	IESCO Rwp/Ibd	P.O.No.5409	4,135,950
4.	PESCO Peshawar	P.O.No.5409	3,805,920
5.	GEPCO G.Wala	P.O.No.5409	1,268,496
6.	MEPCO Multan	P.O.No.5409	967,369
7.	FESCO F.Abad	P.O.No.5409	476,100
8.	LESCO Lahore	P.O.No.5409	165,600
Total			**16,536,846**

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that efforts were under way to get recovered the deducted liquidated damages from clients. The reply was not acceptable as reasons for imposition of L.D were not given.

DAC in its meeting held on 22nd January, 2018 directed the management to investigate the matter to know the reasons for imposition of such heavy L.D under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that this specific order/project to supply energy meters to WAPDA etc may be probed in detail to find the reasons of failure of this project and imposition of liquidated damages.

(OM No.23)

4.3.8 Loss due to non-supply of telephone sets-Rs12.941 million

An agreement was signed between TIP and NTC on 28.02.2014 for supply of 2,850 complete steno telephone sets with a total cost of Rs12,941,194 on running-rate contract basis for a period of one year. TIP also deposited a performance bank guarantee of Rs500,000- in favor of NTC.

It was observed that TIP failed to supply the telephone sets to NTC as per agreed delivery time for which NTC issued several reminders. On 06.02.2015, NTC issued a final notice to TIP through MoIT for supply of steno telephone sets by 13.02.2015. TIP once again failed to perform its contractual obligations even after lapse of one year causing termination of contract by NTC on 16.02.2015. In this regard, audit has the following observations:

(i) TIP has to sustain a loss of Rs12,941,194 due to non- execution of contract by it.

(ii) The performance security of Rs500,000 was also confiscated by NTC due to non-fulfillment of contractual obligations.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that TIP had sold sets of Rs14.9 million against the project and for the financial year 2015-16 and remaining sets could not be supplied due to procurement issue of parts and components. Bank Guarantee of Rs0.5 million had been received from NTC with intervention of MoIT authorities.

In reply, the late / non-delivery of telephone sets to NTC was admitted.

DAC in its meeting held on 22nd January, 2018 directed the management to probe the reasons behind non-completion of project of provision of telephone sets to NTC and share the outcomes with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that responsibility should be fixed for non-supply of steno telephone sets as per agreement besides recovery of forfeited bank guarantee from NTC and get it verified from audit.

(OM No.14)

4.3.9 Non-recovery of embezzled amount and fine-Rs11.781 million

According to Rule-23 of GFR, Volume-I, every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part. Further, Rule-8 of GFR, it is the duty of the Administrative Department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the treasury.

It was observed that embezzlement of Rs7,444,886 was committed by Mr. Muhammad Maroof, ex-Senior Accountant TIP Haripur during the financial year 1992-93. The official was dismissed from service on 30.10.1995 and the matter of embezzlement was reported to Anti-Corruption Department after lapse of ten years on 19.09.2003. The accused was convicted by the Court and sentenced imprisonment of seven years alongwith imposition of fine ofRs4,366,000. The court also attached the property of 50 Kanals and 17 Marlas of the accused. However, the embezzled amount of TIP of Rs7.445 million and fine of Rs4,366,000 is still outstanding. This resulted into non-recovery of embezzled amount and fine of Rs11.781 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that TIP filed an execution petition for recovery against Mr. Muhammad Maroof in the Civil Court Haripur. However, Execution Petition was adjourned due to pendency of appeal in the Honourable

Peshawar High Court Abbottabad Bench and the same was pending in the High Court. The reply was not convincing as the embezzled amount was not recovered.

DAC in its meeting held on 22nd January, 2018directed the management to investigate and dig out facts behind non-recovery of embezzled amount along with fine under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends early implementation of the DAC directives.

(OM No.16)

4.3.10 Unjustified subsidy for operations of canteen-Rs4.076 million

According to Rule-10 of GFR, Vol-I, every government servant exercises the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

It was observed that TIP operated a canteen till the financial year 2013-14 and incurred an expenditure of Rs4,076,487 on account of subsidy during 2006-07 to 2013-14. The factory was running in operational loss. This resulted into unjustified subsidy for operations of canteen for Rs4.076 million. The detail is as under:

Sr. No.	Year	Amount
1.	2006-07	464,411
2.	2007-08	452,454
3.	2008-09	463,126
4.	2009-10	664,202
5.	2010-11	806,148
6.	2011-12	963,621
7.	2012-13	50,000
8.	2013-14	212,525
Total		**4,076,487**

The matter was reported to the management and PAO in March / April,

2017. It was replied in DAC meeting that the rate of the supplied food to TIP workers was fixed / revised from time to time. The difference of expenditure was met through the subsidy provided by the management as per approval of the competent authority. However, the canteen was closed in July, 2014. The reply was not acceptable as canteen remained operative till July, 2014.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to fix responsibility for this un-justified expenditure under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that cogent reasons may be provided to audit for the operation of subsidized canteen while TIP was operating in gross loss (operational loss).

(OM No.10)

4.3.11 Non-recovery of rent-Rs-3.479 million

According to Rule-26 of Accommodation Allocation Rules 2002, it shall be the responsibility of the Ministry or Division as the case may be, or department concerned to recover the rent according to the demand statement from occupants of the accommodation.

It was observed that TIP management failed to recover an amount of Rs3,478,546on account of standard rent and house rent from the allottees and those who illegally occupied quarters allotted to TIP employees in the residential colony, even after expiry of their contracts or having been removed from service. Audit was of the opinion that non-recovery of outstanding dues was due to in-efficient and weak receivable management of TIP.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that the matter was pending in Supreme Court of Pakistan for finalization. The reply was not satisfactory as the outstanding dues were not recovered and no reason was given for non-recovery of rent from the occupants of quarters other than ex-employees of TIP.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to pursue the case vigorously in the court of law to recover the outstanding rent under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the rent may be recovered from allottees / occupants.

(OM No.62)

4.3.12 Non-Recovery of dues since 1999-Rs2.108 million

According to Rule-8 of GFR,Volume-I, it is the duty of the Administrative Department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the treasury.

It was observed that TIP entered into agreements on 10.10.1979 and 10.10.1984 with Allied Equipment Limited Karachi for sale and distribution of its manufactured typewriters and that an amount of Rs4,462,300 was pending against the said firm out of which an amount of Rs226,400 was received by TIP and an amount of Rs93,260 was not accepted in the arbitration process. Out of total amount, only Rs2,108,370 was awarded as receivables of TIP by arbitrator in its award dated on 12.05.1999. Yet the amount was not recovered from M/s Allied Equipment Limited Karachi despite the lapse of eighteen (18) years.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that appeal filed by the TIP against M/s Allied equipment in the Supreme Court of Pakistan had been disposed of vide order dated 03.04.2017. However, arbitration proceedings were in progress. The reply was not satisfactory as the outstanding dues were not recovered till finalization of this report.

DAC in its meeting held on 22nd January, 2018 directed the management to conduct a fact finding enquiry to know the reasons for non-recovery of dues under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the recovery be effected at the earliest under intimation to audit.

(OM No.32)

4.3.13 Unjustified operation of Utility Store-Rs2.000 million

As per Rule-10 of GFR, Vol-I, every government servant exercises the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

It was observed that TIP management sanctioned and paid an amount of Rs2,000,000 for the operation of utility store at T&T colony market, which was unjustified as:

(i) The factory was running in operational loss and allocation of such amount for utility store was unjustified.

(ii) The utility bills, POL and salary of employees for running the utility store were paid by TIP.

(iii) The record, showing deposit of daily sale of the utility store in bank account, was not available.

(iv) Approval of TIP Board, for the establishment of utility store, was not obtained.

(v) No record, regarding income and expenditure account of the utility store, was available. Furthermore, the accounting record with audited accounts was also not available.

(vi) The fuel charges of TIP vehicles, used for transportation of articles from Rawalpindi and Kamoki, were not justified.

(vii) The profit and loss statement for the entire operational period, was not available in the record.

(viii) A statement, available in the file, showed that utility store had sale proceed of Rs7,144,371 for a period of 8 months (Avg. Rs893,046 monthly) from July, 2013 to February, 2014. So, a store, which had virtually no operational costs and sales of such volume, must be in reasonable profit.

(ix) Sale price of household products, especially packed and tinned items, includes profit margin of shopkeepers. Since all operational expenses were being met from the TIP budget, the store must generate reasonable profit. However, the store earned profit of Rs2,673 per month over its operations of last 58 months as per letter No. Stock/A.P.S TIP dated 23.01.2017.

(x) No proper sale proceeds and inventory system existed due to non-existence of any inventory/ sales management systems.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that the provision store was established under the KPK “Fair Price Shop” Ordinance 1983 and earned reasonable profit. However, TIP management had closed the store and amount had been recovered.

DAC in its meeting held on 22nd January, 2018 directed the management to share the income and expenditure of stores with audit. However, no record had been provided to audit till date.

Audit recommends that matter may be investigated to fix the responsibility for running the operations of utility store in loss besides regularizing amount of loss from competent forum. Further, the recovered amount be got verified from audit.

(OM No.20)

4.3.14 Doubtful payment of Custom Duty and late processing surcharge-Rs1.225 million

According to Rule-10 of GFR,Volume-I, every government servant should exercise the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

It was observed that tax payment of Rs1,215,629 on purchase of different items was doubtful as:

(i) The signatures of the bank officer on different receipts (late surcharge payment, Custom dues, tax payment and Infrastructure Cess) did not match and were doubtful.

(ii) The claims of custom duty and taxes were not assessed, checked and passed by the concerned authorities for payment of Rs1,215,629.

(iii) Late processing surcharge of Rs10,000 was also paid by TIP due to poor management.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that the above payments were made through NBP Karachi. An amount of Rs10,000 was pointed out as surcharge but actually this was a fine under section 82 of Custom Act 1969 paid to custom on late submission of documents. The reply was not satisfactory.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to conduct a fact-finding enquiry under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the matter may be investigated, taking the bank and custom / tax department on board for confirmation of imposition of taxes and deposit of amount in banks during the last ten years.

(OM No.50)

4.3.15 Blockage of public money due to non-recovery of dues since 1992-Rs0.714 million

According to Rule-8 of GFR,Volume-I, it is the duty of the Administrative Department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the treasury.

It was observed that TIP and M/s Business Product International Karachi entered into an agreement on 30.08.1988 whereby M/s Business Product International was appointed as a sole-distributor in respect of electronic typewriter “Olivettle” being manufactured by TIP.TIP had receivables of Rs714,317 on account of supply and repair of electronic typewriter in the year 1992. The referred receivables remained in dispute till Arbitration Award dated 03.03.2015 which was granted in favour of TIP for Rs714,317. The amount was not recovered from the distributor despite lapse of 24 years. This resulted into blockage of Public money due to non-recovery of dues since 1992**.** Audit was of the opinion that the amount was not recovered due to weak and in-efficient receivable management.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that TIP had filed execution petition against M/s Business Products, in the Civil Court Islamabad for the recovery. The reply was not acceptable as the amount was not recovered.

DAC in its meeting held on 22nd January, 2018 directed the management to conduct a fact-finding enquiry to know the reasons for not realizing of receivables of early 1990s under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends early implementation of DAC directives.

(OM No.17)

4.3.16 **Doubtful withdrawal from bank-Rs0.557 million**

According to Rule-23 of GFR,Volume-I, every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part.

It was observed that Account No.001442-5 titled as “MD Office” maintained by TIP with National Bank of Pakistan, Super Market Branch, Islamabad, had the balance of Rs556,875 as on 30.07.1998. The transactions of referred account were non-transparent as:

(i) As per cash book, an amount of Rs500,000 was transferred to sales account No.414-0 but no evidence of withdrawal and advice was available. Further, the bank statement of sales account did not support it.

(ii) After the withdrawal / transfer (credit) entry of Rs500,000 at page 13042 of cash book, there were no subsequent entries at page No.13042, 13043 and onwards.

(iii) The General Ledger of the referred bank account (MD office) for the year 2013-14 had closing balance of Rs56,875, but the same ledger for the year 2014-15 had "NIL" balance as opening.

Audit was of the opinion that the amount was withdrawn unlawfully due to weak internal controls in respect of banks and cash handling.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that the matter had been taken up with National Bank of Pakistan but the response was awaited. The reply was not convincing as the embezzled amount was not recovered nor was responsibility fixed.

DAC in its meeting held on 22nd January, 2018directed the management to investigate the matter at PAO level to fix responsibility for irregular withdrawal of funds from bank and keeping cash book incomplete / unwritten for many years. However, no progress was made on the matter till finalization of this report.

Audit recommends that the matter may be investigated at PAO level to fix the responsibility for withdrawal of funds from bank and keeping cash book incomplete/unwritten for many years.

(OM No.31)

4.3.17 **Doubtful payment on account of commutation and leave encashment-Rs0.521 million**

According to Rule-10 of GFR,Volume-I, every government servant should exercise the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

It was observed that TIP management paid an amount on account of commutation and leave encashment of Rs521,288 to Mr. Muhammad Ashraf Ali (deceased), ex-Assistant Installation Supervisor TIP, which was doubtful as:

(i) The amount was paid vide cheque No. 4482701, dated 23.12.2010 and bank voucher No. 157, but on the same date the previous cheque issued had different serial No. as 4271829 and the next cheque issued on 04.01.2011 after cheque No. 4482701 dated 23.12.2010 had the serial No. 4271830.

(ii) The amount was received from TIP Haripur on 24.12.2010 vide cheque receipt No.39954 dated 24.12.2010 and entered in cash book vide page No. 20401, but the cheque was issued in advance on 23.12.2010 and entered in bank book on 24.12.2010.

(iii) The beneficiary official was hospitalized in ICU from 19.12.2010 and died on 23.12.2010 as per discharge slip. On the other hand, the cheque was received by him on 23.12.2010.

(iv) The signature on receiving on this cheque and the last cheque received (3990232 dated 07.08.2010) did not match.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that TIP Karachi office normally had two cheque books-one was used for daily routine work and the other one remained in the safe custody of the Manager for any emergency.

DAC in its meeting held on 22nd January, 2018 directed the management to investigate the matter. The outcomes may also be shared with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the matter may be investigated under intimation to audit as use of two cheque books at a time was a serious irregularity in addition to observations of audit on payment.

(OM No.44)

4.4 Procurement and Contract Management

4.4.1 Mis-procurement and loss-Rs27.152 million

According to Rule 50 of the PPRA Rules 2004, any unauthorized breach of these rules shall amount to mis-procurement. Further, Rule 12 (1), all Procurements over one hundred thousand rupees and up to the limit of two million rupees … may also be advertised in print media, if deemed necessary by the procuring agency. Rule 10 of the PPRA, "Specifications shall allow the widest possible competition and shall not favour any single contractor or supplier nor put others at a disadvantage. Specifications shall be generic and shall not include references to brand names, model numbers, catalogue numbers or similar classifications…". Rule 4 of PPRA, Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

It was observed that TIP management incurred an amount of Rs25,729,993 on procurement of 112,000 double-face corrugated sheets size 584 x 1060 x 5 mm thickness and 112,000 double-face corrugated sheets size 1220 x 1700 x 5 mm thickness. The expenditure was irregular and unjustified as:

(i) TIP management floated tender No.28/2011 on 03.12.2011 for procurement of double face corrugated sheets for making carton boxes against order of Election Commission of Pakistan. The opening date of tender was 20.12.2011, but no party participated in tendering process. As the amount of procurement was beyond financial limit of two million rupees, so it was required to be advertised in nationwide newspapers and on PPRA's website as well but TIP management issued letters to firms of their own choice.

(ii) TIP management issued requests to six (06) firms for submission of bids. All the firms, which did not participate in the tender process, submitted their bids. The samples provided by participants were examined against TIP's given specification. The samples of two (02) firms M/s Packages

(Pvt) Ltd Lahore and M/s M.A Mobeen Lahore were found according to TIP's given specification but contract was awarded to M/s Sahara Traders Rawalpindi whose provided sample was not as per TIP's given specification as evident from Material Testing Lab Report (MTL).

Tender was floated on 3.12.2011 and contract was awarded on 13.03.2012. The period of 3 and half months was wasted due to ill planning of TIP management. Initially Purchase order dated 13.03.2012 was issued of Rs24,080,009- for procurement of double face corrugated sheets. TIP management awarded additional work of processing of sheets to contractor. The purchase order was revised vide purchase order No.744/L-7021/TM, dated 17.05.2012 for Rs25,729,993- after incorporating additional work of processing of sheets. This revision caused substantial loss of Rs1,422,400- (101600 sheets x processing charges of Rs9 per sheet and 101600 sheets x processing charges of Rs5 per sheet) besides non-utilization of idle machines and labor of TIP. This resulted into mis-procurement and loss of Rs27.152 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that tender no 28/2011 was floated for procurement of double faced Corrugated Sheets (DFC) but on due date only one offer received. In the light of delivery time of ECP and incompliance with PPRA Rule 42(d) iii, enquiry letters were sent to 13 firms and consequently 5 firms including one foreign supplier submitted their quotations along with samples. M/S Sahara Traders Rawalpindi was the lowest bidder and their sample was in accordance with Election Commission of Pakistan. The reply was not satisfactory as no documents were provided in support of reply.

DAC in its meeting held on 22nd January, 2018 directed the management to conduct a fact finding enquiry and share the outcomes with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that responsibility may be fixed for avoiding tender and causing loss to TIP.

(OM No.9)

4.4.2 **Loss due to sale of fixed wireless telephone sets on low rates-Rs15.625 million**

According to Rule-10of GFR,Volume-I, every government servant should exercise the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

It was observed that TIP management procured 35,000 CDMA Fixed Wireless Telephone (FWT) atRs4,894 in anticipation of PTCL purchase order. Afterwards, the FWTs could not be sold to PTCL and were sold in open market on less than offered price of Rs1,850 by M/s SA telecommunications and Sameel communications causing colossal loss to the Company. The audit was of the opinion that the loss occurred due to weak sales and marketing department of TIP. It also showed weak planning and management of resources. The detail is as under:

No. of FWTs	Cost @ Rs4,894	Offered price@ Rs1,850	Sold @ Rs1400 in open market	Loss (3-4)
1	**2**	**3**	**4**	**5**
34,723	169,934,362	64,237,550	48,612,200	15,625,350

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that the referred issue had already been settled by DAC in the year 2011. The reply was not acceptable as DAC in its meeting held on 4thJanuary, 2011 directed the management to sale out the remaining 2,000 sets. Further, in referred audit observation, the audit raised issue of excessive procurement rather than loss sustained by TIP due to sale of telephone set at lower rate.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to investigate the matter in detail and share the outcomes with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the matter be investigated at PAO level to fix reasonability for such loss.

(OM No.22)

4.4.3 Mis-procurement on account of copper-clad wires-Rs8.232 million / (USD98,000)

According to Rule 50 of the PPRA Rules 2004, any unauthorized breach of these rules shall amount to mis-procurement.Rule-21 of Public Procurement Rules 2004, the procuring agencies shall engage in open competitive bidding if the cost of the object to be procured is more than one hundred thousand rupees. Further Rule 04 of PPRA, Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Rule 36 (b) (viii) of PPRA on Procedures of open competitive bidding (Single stage – two envelope procedure) requires that after the evaluation and approval of the technical proposal the procuring agency, shall at a time within the bid validity period, publicly open the financial proposals of the technically accepted bids only. The financial proposal of bids found technically non-responsive shall be returned un-opened to the respective bidders.

It was observed that TIP management adopted the procedure of open competitive bidding single stage one envelope instead of single stage two envelope procedure for the expenditure of Rs8,232,000 on procurement of 20 metric ton Copper Claded stainless steel wire against a LoI of 564 km drop wire of NTC received in TIP on 10.01.2011. The contract agreement with NTC was signed on 18.01.2011 with delivery schedule of 12 weeks (18.04.2011). TIP management floated tender No.02/2011 in local market (National level) on 16.01.2011 for procurement of Copper Cladded stainless steel wire with opening date of tender as 31.01.2011. The expenditure was held irregular and unjustified on the following grounds.

(i) In response to tender three bids were received and M/s SEOUL Export-Import Center Corporation Korea was the lowest. The participating firms did not provide the sample at the time of evaluation or opening of tender. On demand by TIP the firm couriered the sample. The sample of M/s SEOUL Export-Import Center Corporation Korea got dis-located by Courier Company. The sample reached in TIP on 23.02.2011 and during testing sample was rejected being not according to specification of TIP.

(ii) TIP management vide letter No. FPO/779/MR dated 10.03.2011sent the sample of M/s Summery Intentional Co Ltd for Material Testing Lab Report (MTL) although said firm did not participate in tender.

(iii) The delivery schedule of drop wire got expired on 18.04.2011 but TIP management failed to arrange raw material till that time. TIP management approached NTC vide letter No. F-15 dated 20.04.2011 with proposal that ordered quantity of drop wire may be enhanced from 564 km to 1,500 km with extension in delivery schedule up to 30.06.2011. NTC management during meeting dated 26.04.2011 agreed with proposal.

(iv) Procurement department vide letter No.FPO/779/2011/MR dated 29.04.2011 approved the proposal of direct contracting and Purchase order No. 0512/2011 dated 29.04.2011 for US $ 98000 i.e Rs8,232,000 (1 US $ equal to 84 Pak Rupees) to M/s Baoding Mancheng County Baosan Group Co. Ltd China. The said firm did not participate in tender.

(v) TIP management did not obtain sample from M/s Baoding Mancheng County Baosan Group Co. Ltd China and thus could not test the material / sample before placing purchase order. The Purchase order included the condition of Pre-shipment inspection of material by inspector of TIP. TIP management nominated Mr. Muhammad Saeed, Incharge MTL for inspection. The Pre-shipment inspection could neither be done by incharge MTL nor by third party.

The material reached TIP on 28.07.2011. In the meantime on the request of TIP, delivery schedule was again extended by NTC up to 10.08.2011. The complete record of delivery was not placed in file. However from the available record it was evident that only 1,457 kilometer drop wire could be supplied thus TIP failed to supply balance 43 kilometer drop wire.

This resulted into mis-procurement on account of copper-clad wires-Rs8.232 million / (USD98,000).

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meetingthat tender No. 02 / 2011 was floated in national newspapers with opening date of 31.01.2011.Three firms participated in tender and provided quotations. Sample of 1st and 2nd lowest bidders were rejected, whereas 3rd lowest bidder had not provided sample. Due to short delivery target and enhancement of quantity from 564 km to 1,500 km of drop-wire of NTC, TIP decided for direct contracting under Public Procurement Rule 42(c) and placed order on M/s Baoding Mancheng Country Boashan Group Co Ltd., China. The reply was not satisfactory as the procurement was made without competitive bidding.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to probe the matter and share the outcomes with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the responsibility be fixed for procurement by violating the Public Procurement Rules and non-fulfillment of contractual obligations.

(OM No.24)

4.4.4 Irregular expenditure on installation & implementation of Enterprise Resource Planningsoftware-Rs7.992 million

According to Rule-10 of GFR,Volume-I, every government servant should exercise the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

It was observed that expenditure of Rs7,992,447 on installation /

implementation of the software from 2012-13 onwards was irregular as:

(i) TIP was in financial crunch without any production and was running into losses with negative equity. In this scenario, heavy expenditure on purchase of ERP software was extravagant and not justified. Furthermore, audit had already shown its concerns on procurement of ERP software & hardware during audit for the year 2012-13.

(ii) The software purchased by TIP had facility of only one user with four supplement users at a time. Payment of millions of rupees to vendor for one user was irregular and extravagant.

(iii) TIP was facing great difficulties due to limited users at ERP and planning to increase the users for which huge expenditure would be required.

(iv) TIP did not have IT skilled staff to handle such advanced and sophisticated software.

(v) TIP is a manufacturing industry but the ERP software was purchased without manufacturing module.

(vi) TIP had variety of voluminous assets but the procured ERP software had no inventory control module

(vii) The sub offices of TIP at Karachi and Lahore did not have access to the software due to which data / information submitted to TIP sub office Islamabad was manually punched in the software.

(viii) TIP failed to update the ERP data for the year 2013-14 and 2014-15 due to which the annual accounts of the company could not be prepared and audited from Chartered Accountant Firm. Resultantly, fine was imposed by SECP against TIP.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that TIP had successfully achieved the digital transformation after the implementation of 05 modules of ERP which was the basic requirement of every organization. The reply was evasive and irrelevant so not tenable.

DAC in its meeting held on 22nd January, 2018 directed the management to initiate a fact-finding enquiry and share the outcomes with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that a fact finding report may be prepared to know the reasons for spending such huge amount to procure an incomplete ERP without manufacturing and inventory module.

(OM No.33)

4.4.5 Irregular procurement-Rs7.169 million

According to Rule-21 of Public Procurement Rules-2004, the procuring agencies shall engage in open competitive bidding if the cost of the object to be procured is more than one hundred thousand rupees.

It was observed that expenditure of Rs7,168,701 on procurement of 105 components of telephone set was irregular and unjustified as:

(i) Production department forwarded indent No.141 on 21.02.2012 for procurement of 105 components of telephone set for manufacturing of 15,000 telephone set. TIP launched tender No. 12/2012 in daily newspapers on 24.04.2012. Clause 3 of tender stated that the offer with complete kit will be preferred. After opening the tender 105 telephone components were purchased in piecemeal from 12 different contractors in violation of clause 3 of tender.

(ii) Tender was opened on 08.05.2012 but management failed to select appropriate suppliers. Manufacturing of telephone sets had remained core business of TIP since its establishment in 1953 but still awareness of market and selection of appropriate supplier proved to be a difficult task for procurement department.

(iii) M/s Malik traders was awarded contract for supply of 28 items vide purchase order No.0769/L-7114/MR dated 13.08.2012 of Rs3,067,480. The contractor was required to complete the supply within 10 weeks upto

01.11.2012 but the contractor failed to do so even after eight months due to which production of telephone sets could not be started.

(iv) The scrutiny of production department's letterNo.PO/L-7114/MR dated 06.09.2012 revealed that M/s Malik Traders forced TIP management to release amount of two million pending against TIP on account of three previous orders already supplied. The contractor stated that without clearing previous payments new supply was not possible. In this way the supplier took undue advantage.

(v) It was observed that the supplier repeatedly supplied sub-standard parts which were rejected during testing. TIP management extended delivery schedule again and again instead of cancelling the order.

(vi) M/s Malik Trader failed to supply 05 items against order of 28 items till 03.05.2013. The contractor informed that requisite capacitors were not available in the market hence items in question may be excluded from purchase order. Management instead of blacklisting the contractor and forfeiting security deposit accepted his proposal.

Although management faced hardship due to late/incomplete delivery by M/s Malik Trader but same contractor was awarded two other purchase orders against this lot of 15,000 telephone sets. Audit was of the opinion that management extended favour to the supplier. This resulted into irregular procurement of Rs7.169 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that Tender No 12/2012 was floated on website of PPRA and print media against indent No 141 for procurement of 105 components and parts for telephone, Information letters were also sent to foreign firms and manufacturers of telephone components and parts. TIP searched open market for telephone parts and component but failed to procure complete kit from any source. The reply was not convincing.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to investigate the matter for this mis-managed procurement and share the outcomes with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that responsibility be fixed for non-observing of procurement rules under intimation to audit.

(OM No.59)

4.4.6 Irregular expenditure and loss due to purchase of material in piecemeal - Rs4.623 million ($46,231)

According to Rule-4 of Public Procurement Rules-2004,the procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement processes are efficient and economical. Rule 12(2) of the PPRA, all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

It was observed that expenditure of Rs4,623,100 ($46,231) for the financial year 2009-10 to 2011-12 on Copper Clad Sheet from different foreign firms was irregular as:

(i) The expenditure was incurred without obtaining competitive rates.

(ii) TIP purchased the above mentioned material in piecemeal rather than bulk purchase causing loss to national exchequer due to increased rates.

(iii) The contractor failed to supply the agreed material and came up with the proposal to submit the material with different specification at higher rates which was irregularly accepted by TIP causing loss to national exchequer.

This resulted into irregular expenditure and loss due to purchase of material in piecemeal of Rs4.623 million ($46,231).

The matter was reported to the management and PAO in March / April,

2017. It was replied in DAC meeting that as the required quantity was less so quotations were called and orders were placed on lowest bidders. As regard increase in price for order No. 59154, the total difference was only US$ 184 which had also been approved by the competent authority. The reply was not satisfactory as it was admitted that orders were placed on quotation basis and price was also increased by supplier after placement of purchase order.

DAC in its meeting held on 22nd January, 2018 directed the management to investigate the matter and share the outcomes with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that responsibility may be fixed for non-observing the Public Procurement Rules.

(OM No.63)

4.4.7 Loss due to outsourcing for manufacturing of aluminum base-Rs3.565 million

According to Rule-10 of GFR,Volume-I, every government servant should exercise the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

It was observed that TIP management placed a Purchase Order No.0124/L-5314/MA dated 19.02.2007 with M/s Creative Electronics (Pvt) Ltd. Lahore of Rs3,565,000 for manufacturing of aluminum base for energy meters from local market. The expenditure was held irregular and unjustified as:

(i) Production department forwarded indent No.24763 on 28.03.2006 for supply of 50,000 pieces of aluminum base of energy meters. It was discussed in meeting at local level that if raw material (Al Die Casting Alloy) was imported and base frame manufactured in TIP then its unit price would go very high due to high rates of raw material and high manufacturing cost in TIP (machines being very old). It was suggested to explore the local market. TIP management despite having required machinery and large number of idle workers, processed the tender No.26/2006 with bid opening date of 23.12.2006.

(ii) M/s Creative Electronics (Pvt) Ltd being the lowest was awarded contract vide PO No.0124/L-5314/MA dated 19.02.2007 with delivery schedule of eight months. The production was required to be completed on 18.04.2007 but contractor failed to complete this job within stipulated time.

(iii) The major client of energy meters i.e WAPDA served TIP a notice to supply energy meters without any further delay. WAPDA authorities warned that if supply is not started immediately the performance bond submitted by TIP would be forfeited.

(iv) When TIP management pursued the contractor for provision of material. The contractor blamed TIP that production was stopped due to old and problematic mould provided to him by TIP. TIP being at fault was forced to extend the validity period again and again and contractor completed the work on 29.01.2008 with a delay of three months even after extending undue favour to contractor for provision of material rather imposing of L.D on contractor.

This resulted into loss due to outsourcing for manufacturing of aluminum base of Rs3.565 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that being the lowest bidder contract was awarded to M/s Creative Electronics (Pvt) limited. As reported by M/s Creative Electronics (Pvt) Ltd. the provided mould was out of order and completion of order was not possible with that mould. The reply was not satisfactory as it was admitted that energy meters were not timely provided by contractor to TIP and subsequently to WAPDA.

DAC in its meeting held on 22nd January, 2018 directed the management to initiate a fact finding enquiry under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the matter of outsourcing and provision of energy meters to WAPDA may be investigated at PAO level as to why TIP could not retain its big customer.

(OM No.6)

4.4.8 Irregular procurement and loss-Rs3.246million

According to Rule-21 of Public Procurement Rules2004, the procuring agencies shall engage in open competitive bidding if the cost of the object to be procured is more than one hundred thousand rupees. Further, Rule 40 of PPRA on limitation on negotiations, save as otherwise provided that there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder: Provided that the extent of negotiation permissible shall be subject to the regulations issued by the Authority.

It was observed that the expenditure of Rs3,066,187 on procurement of 4,300 kg copper enameled wire size 3 mm was irregular and unjustified as:

i) Production department forwarded indent No.24817 on 23.08.2006 for procurement of 2,600 kg copper enameled wire size 3 mm. Consequently, TIP management processed the tender No.26/2006 on 18.09.2006.The tender was opened on 05.10.2006 and only two firms participated in tender. M/s Zia Corporation Rawalpindi quoted two different rates for same wire i.eRs685 per Kg for Ghazilex brand and Rs625 per Kg against wire whose purity was 97-98%. The other bidder M/s Stark quoted rates Rs788 per Kg for Ghazilex brand. TIP management approached the lowest bidder M/s Zia Corporation Rawalpindi to reduce the rates. M/s Zia Corporation Rawalpindi was given the incentive that if rates were reduced to a reasonable extent then a combine order of supply of 4,300 kg wire would be placed on M/s Zia Corporation Rawalpindi. The contractor refused to lower its rates. TIP management instead of retendering, approached Quality Assurance Department vide letter dated 02.12.2006 to check if wire having 97-98% purity whether it could be used in place of wire of 99.9%. Thus, TIP management remained in negotiation with suppliers after tender process.

ii) A notice from WAPDA was received on 30.11.2006 regarding late supply of energy meters. TIP management again floated tender No.26/2006 on 12.12.2006 for procurement of 1,600 kg copper enameled wire. M/s New Malik printing press stood lowest with rate of Rs667 per kg plus GST. TIP management approached bidder for further negotiation on rates. After negotiation M/s New Malik Printing Press agreed to reduce rates as Rs665 per Kg.

iii) M/s New Malik Printing Press represented itself as authorized agent of M/s National Super Crown Winding wire Industry Lahore. TIP management directly approached M/s National Super Crown Industry to quote its rate for the subject wire and verification of authority letter produced by Malik printing press as its authorized agent. It was also offered by TIP to National Super Crown Winding wire industry Lahore that the contractor will be given a bulk order of 4,300 KG of wire if it reduced its prices to a reasonable extent. The quantity of wire was further enhanced and 4,965 kg wire was procured from contractor against quantity of 1,600 Kg as mentioned in tender.

iv) In response to above mentioned letter the firm vide letter dated 12.02.2007 agreed to supply wire @ Rs630 per kg + GST but refused to submit the performance bond equal to 10% of total cost. The matter was discussed with TIP management vide procurement department (GP) letter No.POL-5482/MA dated 16.02.2007 and it was decided to place order of 4,300 Kg copper enameled wire size 3 mm (against tender quantity of 1,600 Kg) upon New Malik Printing Press at price of Rs625 per Kg and a purchase order No.0125/L-5482/MA dated 06.03.2007 was issued in this respect.

v) Procurement department (GP) letter No.POL-5314/MA dated 31.03.2007 revealed that the contractor supplied 2,250 Kg wire contrary to TIP specification. The received wire was less in weight as per letter No.GP/Pord/Copp-07 dated 26.04.2007.

vi) The payment was required to be withheld till clearance from Quality Assurance Department (QAD) but record revealed that payment of

Rs3,066,187 was released upto 21.08.2007 against five (05) running bills as detailed below:

Sr.No.	Running Bill No.	Dated	Amount
1.	616/2007	18.04.2007	186,875
2.	671/2007	05.05.2007	1,437,500
3.	744/2007	28.06.2007	1,158,625
4.	792/2007	19.07.2007	235,031
5.	15/2007	21.08.2007	48,156
Total			**3,066,187**

Audit is of the view that negotiation with suppliers was against the provisions of procurement. This resulted into irregular procurement and loss of Rs3.246 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that order was placed on the lowest bidder as per approval of the competent authority. As regards to rejection of material, an official of production department had intimated that some material was found defective. But, when Procurement department initiated the case for sending back the defective material to supplier, the Deputy General Manager production vide letter intimated that whole material had successfully been utilized in production. As far as payment was concerned, generally payments to any supplier were made by TIP Finance department after acceptance of goods in TIP and clearance of IGR. The reply was evasive so not tenable.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to look into the matter in detail under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the matter may be investigated at PAO level to fix responsibility.

(OM No.8)

4.4.9 Irregular award of work for supply of copper strips and loss-Rs2.924 million

According to Rule-21 of Public Procurement Rules 2004, the procuring agencies shall engage in open competitive bidding if the cost of the object to be procured is more than one hundred thousand rupees.

During examination of File No.L-5751/MA, it was observed that TIP called quotations / enquiries for supply of 7,120 KGs copper strips from different firms on 18.01.2008. In response quotations from four suppliers were received and evaluated / compared on 06.02.2008 as detailed below:

Sr. No.	Name of Supplier	Description	Rate per KG (Rs)
1.	Ghulfam Plastic Industries	7120 KG copper strips	467
2.	Zia Corporation	-do-	475
3.	Malik Traders	-do-	479
4.	SB Enterprises	-do-	534

A quotation on 12.02.2008 received by TIP from M/s USG Total Engineering Solutions Providers for provision of referred strips @425 per KG to whom quotation enquiry was not issued for the purpose. On the same date, TIP issued a letter of intent for supply of 1,000 KGs copper strip at a total cost of Rs425,000. The firm submitted revised quotation on 20.02.2008 at increased rates of Rs468 per KG.TIP management on 22.02.2008 again contacted other firms including M/s USG for reduction of their rates to Rs464.35 per KG although the firm failed to comply with previous order. The case was put up by management and on 28.02.2008, Deputy Manager Internal Audit raised an objection for partial work order to M/s USG Lahore who had neither been issued letter for quotation / enquiry and have not offered the lowest rate at the time of evaluation of quotations. M/s S.B enterprises requested TIP on 29.05.2008 to revise the rate as 675 per KG and M/s Zia corporation also offered to supply material at 674 per KG on 30.05.2008. TIP management again accepted the new rates and approved 1,000 KG each to both of the firms although Deputy Manager raised objection regarding pending quantity yet to be supplied by firm on previous orders. Internal Audit also suggested that TIP should have obtained performance bonds / bank guarantees from the supplier. TIP approved the new offered rates of firms and cancelled the previous orders on 20.06.2008 instead of black listing firms. New work order @ 671 per KG plus 15% GST were issued on 20.06.2008 to M/s SB enterprises and on 25.06.2008 to M/s Zia Corporation. In this regard, the following irregularities were observed:

(i) The expenditure was incurred without calling open tenders in violation of the Public Procurement Rules.

(ii) TIP management asked for quotations / enquiries directly from suppliers in violation of the rules

(iii) M/s USG was awarded out of turn work order, who later on failed to supply the material and asked to increase the rates. TIP management did not blacklist the firms who failed to supply the material and again negotiated with them to award new work orders on enhanced rates

(iv) TIP management did not safeguard government interests by not obtaining security / performance bonds from suppliers.

(v) TIP management delayed the purchase of material causing loss to the national exchequer to the extent of Rs0.682 million due to increase in prices for purchase of 3,342 KG copper strips as detailed below:

Initial lowest Rate offered on 06.02.2008	Cost at initial offered price	Cost of material purchased at enhanced rates	Loss
Ghulfam Plastic Industries Rs467 per KG	1,560,714 (3,342 kgs x Rs467)	2,242,482 (3,342 kgs x Rs671)	681,768

This resulted into irregular award of work for supply of copper strips and loss of Rs2.924 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that all purchases were made on the instruction of the then management. The reply was irrelevant so not tenable.

DAC in its meeting held on 22nd January, 2018 directed the management to probe the matter under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends early implementation of the DAC directives.

(OM No.13)

4.4.10 Wasteful expenditure on purchase of domestic gas meters-Rs1.456 million

According to Rule-4 of Public Procurement Rules2004,the procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement processes are efficient and economical.

It was observed that TIP management incurred an expenditure of Rs1,083,642 on procurement of 200 domestic gas meters for replacement of faulty/out-of-order gas meters installed in the colony. The scrutiny of file revealed that TIP management floated a tender in May, 2012 for supply of spare parts of gas meters and 50 complete gas meters. M/s Malik traders was awarded contract being lowest one. The contractor failed to supply six (06) types of different parts (as mentioned against Sl No.1 to Sl. No.6 of purchase order) and requested that his supply of 50 gas meters may be accepted. The matter was discussed with chairman estate office who accepted the proposal rather cancelling the purchase order of partial supply. The demand of gas meters parts was still there. It was decided to go for re-tendering. After wasting two years, a tender bearing No. 07/2014 was floated on PPRA website on 04.03.2014. Two bidders including M/s Malik traders participated in tender. The rates quoted by both bidders were examined and found above the market. TIP management then decided to go for direct contracting and placed an order on SNGPL for supply of 150 domestic gas meters. SNGPL supplied the meters on 18.08.2015 against payment of Rs532,642. Following irregularities were observed:

a. TIP management purchased 50 meters at almost three time high rates as compared to rates offered by SSGPL. In this way an amount of Rs373,453 was paid in excess.

b. TIP management purchased new meters instead of repairing the faulty meters which resulted into remarkable loss to public money.
c. TIP management was required to take up the case with SNGPL to get replaced /repaired the faulty meters free of cost. Due to negligence of management, the meters could not be repaired / changed for more than three years and resultantly, TIP had to bear line losses.
d. On delivery of meters, it was noticed that the 'fittings' of meters (complain) were not supplied by SSGPL without which meters could not be fixed / installed. The SSGPL authorities were inquired about missing part. It was replied by SSGPL that required fitting (complain) was not part of gas meter. Thus, TIP had to bear additional costto purchase of fitting parts of gas meters.

This resulted into wasteful expenditure on purchase of domestic gas meters of Rs1.456 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that the quoted rates by the lowest bidders were almost three times higher than actual market price; therefore the quotations were not accepted. TIP had no facility to manufacture gas meters. The reply was evasive and irrelevant so not tenable.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to investigate the matter and share the outcomes with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the matter should be probed at PAO level to fix responsibility for this mismanaged procurement causing a loss to TIP.

(OM No.1)

4.4.11 Irregular award of contract-Rs1.625 million

According to Rule-21 of Public Procurement Rules 2004, the procuring agencies shall engage in open competitive bidding if the cost of the object to be procured is more than one hundred thousand rupees.

It was observed that TIP management incurred an amount of Rs1,625,460 for the procurement of Expandable Polystyrene. The expenditure was held irregular and unjustified as:

Production department forwarded order slip No.24802 on 05.04.2006 for procurement of 7,000 Kg Expandable Polystyrene. Consequently, TIP management processed the tender No.15/2007 with bid opening date as 23.10.2007. The file was silent about delay period of one and half year from indent to tender launching. In response to the tender one bidder i.e M/s New Malik Printing Press quoted its rate as Rs145 per kg. AGM procurement vide letter dated 03.11.2007 informed that only one offer of M/s New Malik Printing Press, Haripur received and quoted rates as Rs145 per kg + GST + Excise duty. He informed that previously same material had been supplied by M/s Pak Petrochemical Industries Karachi @ Rs95 per kg + GST which was more competitive as compared to price received against subject tender. He also mentioned that M/s Pak Petrochemical was the only manufacturer in Pakistan. It was suggested that according to Public Procurement Rules, 2004 clause 42-C (ii) direct contracting can be done if only one manufacturer existed for required procurement. The suggestion was approved and three (03) orders of Rs1,625,460- were placed upon M/s Pak Petrochemical and advance payment was made. The detail is as under:

Sr. No.	P.O.No& Date	Cheque No. & date	Quantity	@(Rs/ kg)	Amount incl.GST (Rs)
1	0236/L-5327/MA dated;13/2/08	0438928, dated 03.03.2008	6000 kg	115	834,900
2	0472/L-5327/MA dated 15/10/08	0671177&82, dated 27&28.10.2008	3000 kg	145	530,700
3	0518/L-5327/MA dated 15/10/08	0671300, dated 24.12.2008	3000 kg	71	259,860
Total					**1,625,460**

It was also observed that M/s Pak Petrochemical was not the sole manufacturer in Pakistan. Two other firms i.e M/s Royal Polymer (Pvt) Ltd and M/s Masoom Corporation were also producing the procured items since early 1990s. Hence, direct contracting under clause 42-C was not plausible.

This resulted into irregular award of contract of Rs1.625 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that all purchases were made on the instruction of the then management. The reply was irrelevant so not tenable.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to probe the matter under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends early implementation of the DAC directives.

(OM No.4)

4.4.12 Irregular award of contract &excess payment-Rs1.569 million (15,449 Euro)

According to Rule-10 of GFR Volume-I, every government servant should exercise the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

It was observed that TIP management paid an amount of €14,378 on procurement of 6 different types of solder pastes, which was irregular and unjustified as:

(i) Production department forwarded order slip No.023755 on 07.10.2006 for procurement of six (6) different types of solder pastes. Consequently, TIP management processed the tender No.25/2006 with bid opening date as 14.12.2006. In response to the tender one bidder i.e M/s M.J Enterprises participated in tender.

(ii) In violation of PPR Rules, 2004, inquiries from different vendors through e-mails were also obtained. Two other firms i.e. M/s ESL UK and M/s W.C HeraeusGmbh e-mailed their rates.

(iii) The rates quoted by all three firms were compared. M/s W.C HeraeusGmbh stood lowest. Procurement department vide letter dated 19.02.2007 took up the case for process of procurement but C.E Production with hand written statement directed to pend the procurement process till April, 2007. The procurement process could not be initiated after April 2007 as directed by the C.E Production. The requisition of said material was cancelled vide Deputy Manager Order / Schedule's letter dated 06.10.2007. Manager PCB / Hybird vide letters dated 26.11.2007 and 27.11.2007 informed that the said material was urgently required against AWC contract. It was decided to award the contract to M/s W.C Heraeus.

(iv) The quotations were again called for. M/s W.C Heraeus submitted quotation on 08.01.2008 with the request to finalize the order immediately as these items contained precious materials (PM) and cost of which had been increasing day by day.

(v) TIP management took another one and half month and on 19.02.2008 Purchase order was issued. This delay resulted in excess payment of €1,071 as detailed below:

Name of Item	**Unit price/ gm as per Quotation (Euro)**	**Unit price/ gm as per Purchase order (Euro)**	**Diff: (Euro)**	**Quantity (gm)**	**Excess Amount (Euro)**
R8911	4.93	5.00	0.07	100	7.00
R8921	3.57	3.56	(0.01)	500	(5.00)
R8931	3.37	3.61	0.24	200	48.00
R8941N	3.31	3.60	0.29	300	87.00
R8951N	3.05	3.09	0.04	600	24.00
IP9025ST	0.51	0.81	0.30	700	210.00
C2028	2.81	3.09	0.28	2500	700.00
Total	Equivalent to PKR 107,774 at exchange Rate of One Euro=PKR 100.63				**1,071.00**

Audit was of the opinion that excess amount was charged / incurred due to poor planning of procurement. This resulted into irregular award of contract

&excess payment of Rs1.569 million (15,449 Euro).

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that case was processed against tender No.25 /2006 with opening date of 14.12.2006. Quotation received against the tender from a local supplier M.J Enterprises was extremely high. So, original manufacturer was contacted for quotations for competitive price. Two quotations were received M/S Heraeus GmbH Germany, and M/S ESL UK. After making price comparison, the case was forwarded to end user PCB department for confirmation of quantities before further processing. File was received back on 28.02.2007 with remarks of C.E. Prod "Keep pending for time being till April,2007". Later on the end-user vide its letter No.HYB-PUR/pastes-01 dated 01.12.2007 requested to procure the material to meet the order of M/s AWC Wah. Accordingly, after fulfillment of procurement formalities case was put up to committee for final approval regarding placement of order as per TIP procurement procedure. The reply was not satisfactory as the tender was floated in the 2006 and procurement was made in 2007 after one year through direct contracting at higher rates.

DAC in its meeting held on 22nd January, 2018 directed the management to probe the matter and share the outcomes with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the matter may be investigated at PAO level to probe the facts and fix responsibility for excess payment.

(OM No.5)

4.4.13 Irregular expenditure for supply of copper strips and non-deduction of L.D charges-Rs1.347 million

According to Rule-21 of Public Procurement Rules 2004, the procuring agencies shall engage in open competitive bidding if the cost of the object to be procured is more than one hundred thousand rupees. Furthermore, Rule 12(1) of the PPRA, all procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

It was observed that TIP management procured 2,000 KG copper strips from two different suppliers for Rs1,300,181on quotation basis. The indent for the subject procurement was raised / approved on 28.05.2008. The quotations were evaluated / compared on 15.07.2008 as detail below:

Sr. No.	Name of Supplier	Description	Rate per KG (Rs)
1.	Hatimi Industrial Supplies	2000 KG copper strips	786
2.	Zia Corporation	-do-	680
3.	Malik Traders	-do-	689
4.	SB Enterprises	-do-	680

Both M/s Zia Corporation and SB Enterprises were selected to supply 1,000- KG copper strips each and purchase orders were issued on 25.07.2008 accordingly. M/s SB Enterprises supplied the store in time but M/s Zia failed to supply the same within stipulated time period. The procurement was held irregular as:

(i) An amount of Rs1,300,181 (Rs757,918 to M/s SB Enterprises and Rs542,263 to M/s Zia Corporation) was paid without calling open tenders and advertisement on the authority's website in violation of the Public Procurement Rules to get more competitive rates.

(ii) The work was irregularly split up between two firms by placing Purchase Order No.0412-L/6249 dated 25.07.2008 and Purchase Order No. 0413/L-6249 dated 25.07.2008 to M/s Zia Corporation and SB Enterprises respectively.

(iii) TIP management called for short email enquiries from the suppliers instead of calling open tenders.

(iv) M/s Zia Corporation supplied the stores on 26.11.2008 with a delay of 12 weeks as per IGR No. 43977 dated 26.11.2008. TIP management gave undue favor to the supplier and did not imposed L.D charges of Rs47,328 (788800 x 0.5% x 12) rather extended the delivery period upto November, 2008 vide No.0542/L-6249/MA, dated 04.02.2008. The supplier had tendency to get amended its previous purchase orders on account of short supply.

(v) M/s Zia Corporation was not blacklisted by TIP despite of several failures to supply the materials in the past.

This resulted into irregular expenditure for supply of copper strips and non-deduction of L.D charges of Rs1.347 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that all purchases were made on the instruction of the then management. The reply was irrelevant hence not accepted.

DAC in its meeting held on 22nd January, 2018 directed the management to conduct a fact-finding enquiry and share the outcomes with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends early implementation of the DAC directives.

(OM No.11)

4.4.14 **Irregular procurement-Rs1.158 million**

According to Rule-21 of Public Procurement Rules 2004, the procuring agencies shall engage in open competitive bidding if the cost of the object to be procured is more than one hundred thousand rupees.

It was observed that TIP management incurred an amount of Rs1,158,315 on procurement of 1,600 kg copper enameled wire size 3 mm . The expenditure was held irregular and unjustified as:

(i) Production department forwarded order slip No.26663 on 28.05.2008 for procurement of 1600 kg copper enameled wire size 3 mm. TIP management issued letters to suppliers of own choice for inviting quotations instead of calling open tender. M/s Crown Winding Wire Industry Lahore stood lowest with Rs688 per Kg excluding GST. Sample was called for from M/s Crown Winding and after testing, the sample was rejected being not according to specification of TIP. It is worth mentioning that the purchase department vide letter dated 27.06.2008 had informed that "Previous supply offered by M/s Crown Winding Wire Industry Lahore was OK'' against order No.0125/L-5482/MA dated 06.03.2007.

(ii) TIP management approached third lowest supplier (M/s USG) with quoted rate of Rs798 per Kg plus GST and ignored second lowest bidder M/S New Malik Traders who quoted Rs723 per Kg plus GST.

(iii) Purchase order of Rs1, 481,088 was issued in favour of M/s USG vide No.0423/L-6250/MA dated 04.08.2008. Meanwhile on 13.08.2008 TIP purchased 401 kg copper wire on cash basis from M/s USG for Rs371,198 and the supply was received in TIP on 15.08.2008.

(iv) M/S USG could supply only 30.390 kg wire against order of 1600 kg placed upon firm. TIP pursued the contractor for supply but no reply was received. The purchase order was cancelled on 24.12.2008. Neither TIP had any security deposit of defaulted contractor nor the contractor was blacklisted by TIP.

(v) TIP management again issued letters to six (06) suppliers of own choice for inviting quotations instead of calling the tender. Only three (03) firms participated. M/s Zia corporation stood lowest with offered rate of Rs665 per kg.

(vi) M/s Crown winding and wire industry who quoted rates as Rs669 per kg approached the management vide letter dated 12.01.2009 and reduced rates to the extent of Rs636. The management decided for re-quotation. In response three quotations were received. M/s Crown winding stood lowest and offered Rs619 per kg, M/s Zia Corporation stood second with offered rate of Rs623 and M/s Stark Corporation stood third position withRs679.

The management again invited quotations on 19.02.2009. M/s New Delite stood lowest with quoted rates of Rs575 per kg plus GST. Purchase order of Rs787,118 was issued vide No.0553/L-6256/MA dated 19.03.2009. The contractor completed supply by 30.06.2009.Thus the supply against local purchase got finalized after one year and one month. This resulted into irregular procurement of Rs1.158 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that procurement was made with the approval of component authority. At that time TIP management and Public Procurement Regulatory Authority were in the process of finalization of Public Procurement Rules implementation in the TIP. The reply was irrelevant so not tenable.

DAC in its meeting held on 22nd January, 2018 directed the management to conduct a fact finding enquiry under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that cogent reasons may be provided to audit for not observing public procurement rules.

(OM No.58)

4.4.15 **Irregular award of work and undue favor to the supplier-Rs0.650 million**

According to Rule-21 of Public Procurement Rules2004, the procuring agencies shall engage in open competitive bidding if the cost of the object to be procured is more than one hundred thousand rupees.

It was observed that TIP floated a tender No. 01/2007 on 14.02.2007 for procurement of 1,300 KG copper strips for production of energy meters on the purchase order of Chief Engineer, Electricity AJK. Bids were received from three firms as detailed below:

Sr. No.	Name of Supplier	Description	Rate per KG (Rs)
1.	Ghulfam Plastic Industries	1300 KG copper strips	437
2.	Zia Corporation	-do-	449
3.	Creative Industries	-do-	437

The samples provided by the firms were rejected and they were asked to submit revised samples on 06.04.2007. In response, only M/s Creative Industries came up with new sample. TIP management asked M/s Creative Industries to reduce its price but the proposal was turned down by the firm. Instead of retendering, M/S Zia corporation was again contacted to improve the quality and to reduce the rates vide letter dated 30.05.2007. The new improved sample of M/s Zia Corporation was received on 18.05.2007 and was passed by the quality assurance department. Revised comparative statement of only two firms was prepared and put up for grant of work order to M/s Zia Corporation. TIP officers noted negative remarks about the past performance of M/s Zia Corporation in the file but again on 31.10.2007 the supplier was asked to reduce its rates to Rs435 per KG. The supplier agreed and work was awarded on 20.02.2008 for Rs650,325 vide purchase order no. 0202/L-5567/MA regarding purchase of 1,300 KG copper strip @ Rs435 per KG excluding sales tax. M/s Zia Corporation supplied 660 kg and once again showed inability to supply the rest of the store quantity. TIP management cancelled the order for the remaining undelivered quantity on 20.06.2008. In this regard, the following irregularities were observed:

(i) The tender process was defective as there was nothing mentioned in the tender about technical aspects. Furthermore, the attendance sheet of participating firms was also not available in file.

(ii) The work was irregularly awarded by giving undue favor to M/s Zia Corporation without re-tendering to get competitive rates from market.

(iii) The supplier was not blacklisted despite several failures in the past to supply the material.

(iv) The earnest money deposited by the supplier was not forfeited.

(v) Due to non-provision of stores by M/s Zia Corporation, the production of energy meters on behalf of Chief Engineer, Electricity AJK was compromised.

This resulted into irregular award of work and undue favor to the supplier of Rs0.650 million.

The matter was reported to the management and PAO in March / April,

2017. It was replied in DAC meeting that M/s Gulfam was the lowest, M/S Zia Corporation 1st Lowest and M/s Creative Industries was the 2nd lowest bidder. M/S Gulfam did not provide the improved sample. Thus M/s Zia became the lowest bidder and order was placed to it as per Procurement Rules. The reply was not satisfactory as undue favour was extended to the supplier.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to conduct a fact-finding enquiry under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that responsibility should be fixed for procurement without re-tendering.

(OM No.12)

4.4.16 Irregular procurement and loss-Rs0.530 million

According to Rule-10 of GFR,Volume-I, every government servant should exercise the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

It was observed that TIP management incurred an amount of $4,311 equivalent to PKR 468,028 ($1= Rs108.566 as on 04.12.2013) on procurement of photopolymer dry film resist. The expenditure was held irregular and unjustified on the following grounds:

(i) Production department forwarded indent No.1139/2011 on 27.11.2011 for procurement of 26 photopolymer dry film resist. Consequently, TIP management processed the tender No.08/2012 with bid opening date as 28.03.2012. The file was silent about received bids and evaluation / comparative statements etc.

(ii) The tender was not finalized and on 16.05.2012, TIP management procured 04 photopolymer dry film resist from two different foreign companies (M/s Elga Europe, Itly and M/s Circuit Works pvt Ltd, Singapur) through M/s Zohaib Ali Brothers Rawalpindi representing as authorized dealer. One firm representing two competitors of same sector of industry?

(iii) Manager procurement TIP vide letter dated 18.11.2012 informed that the rates received against tender No.15/2012 were more competitive as compared to price received against tender No.08/2012. On 06.12.2012, Manager PCB responded that tender No.08/2012 may be pended and case for tender No.15/2012 be processed immediately for an early procurement. He further mentioned that only four rolls were available in stock which would be consumed within next three weeks.

(iv) In response to tender No.15/2012, only one bidder M/s Kolon Industries Inc. Korea quoted its rates and purchase order dated 04.12.2013 for supply of 22 rolls of photopolymer dry film resist was issued to firm at a cost of $3735.32. The firm supplied requisite roll on 31.12.2013 which were received in TIP on 15.01.2014. It was clearly evident that the said procurement was not required on urgent basis and a false or baseless indent was raised. In other words the expenditure on said procurement was avoidable.

(v) The shipment arrived at Islamabad airport on 31.12.2013, the custom clearing agent of TIP (M/s Khyber express) asked TIP management to produce authority letter and clearance documents immediately as there was three (03) days free time but TIP management failed to supply the requisite documents in stipulated time which resulted in loss in shape of imposition of additional custom duty of Rs111,652.

This resulted into irregular procurement and loss of Rs0.530 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that against indent No. 1139 / 2011, a tender No. 08/2012 with opening date 28.03.2012 was floated on PPRA website. After technical evaluation and opening of commercial proposals against tender No .08/2012. The end user (PCB department) had suggested that offered brands were new and to avoid any production complications, two rolls of each brand may be procured for trial production. A meeting was held on 26.08.2013 to review the status of under process procurement cases related to PCB production. The deputy manager PCB requested to procure the pending 22 rolls against Indent No.1139/2011. Procurement department floated tender no. 15/2013 with opening date 29.10.2013.The reply was evasive so not tenable.

DAC in its meeting held on 22nd January, 2018 directed the management to probe the matter under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that a fact finding enquiry may be conducted under intimation to audit.

(OM No.2)

4.4.17 Non-implementation of Public Procurement Rules

The Govt. of Pakistan (GoP), through Public Procurement Regulatory Authority (PPRA), implemented Public Procurement Rules-2004 to streamline the procurements. Adherence to these rules is binding on all Government departments. PPRA hired the services of M/S Abdullah Associates to visit and study the existing procurement setup and issues faced by TIP while applying these rules. M/s Abdullah Associates letter dated 05.04.2005 indicated that TIP management did not cooperate with the consultants in the finalization of procurement manual.

The PPRA, vide letter dated 24.08.2005, forwarded first and second report of consultants (both reports were not available in file). According to the contents of letter in the first report, the consultant had pointed out certain impediments/bottlenecks in the existing procedures of TIP which were contradictory to Public Procurement Rules. Second report contained critique of existing procedures and practices. It also included detailed proposals to formulate the revised procedures. The Procurement Regulatory Authorities directed TIP management to forward comments/observations within 21 days of the receipt of this letter. No response was given from TIP management.

From the record, it appeared that despite full engagement of Public Procurement Regulatory Authority and the Consultants, TIP by using delaying tactics, neither implemented Public Procurement Rules in letter and spirit nor finalized procurement manual even after twelve (12) years. During scrutiny of procurement files following issues were common found;

- Local/international procurement without tendering
- Frequent changes in quality/quantity of goods procured after tendering/ awarding purchase order
- Acceptance of partial delivery
- Repeated extensions granted to suppliers resulted in imposition of LD/ forfeiture of security deposit of TIP
- Calling quotations from contractors of own choice
- Extending undue favor to contractors
- Advance payment to contractors
- Non-deposit of security/performance bond from contractors
- Cash purchases

Non-observance of PPR reflects weak internal controls, absence of flawless mechanism and pilferage of public money. This resulted into non-implementation of public Procurement Rules, 2004 in TIP.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that during the referred period of time, TIP was a subsidiary of PTCL and not auditable as per Telecom Act, 1996. However, once TIP was parked with Ministry of IT, Public Procurement Rules were implemented in letter and spirit. The reply was not acceptable as procurements were made in violation of Public Procurement Rules even after the year 2008.

DAC in its meeting held on 22nd January, 2018 directed the management to investigate the issue of non-implementation of Public Procurement Rules in TIP under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends early implementation of DAC directives.

(OM No.56)

4.5 Asset Management

4.5.1 **Short Physical Assets-Rs209.628 million**

According to Rule-23 of GFR,Volume-I, every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part. Further Rule-156 of GFR, period lists recording both quantities and values should be maintained in cases where the stores are intended to be converted into money, or where it is desired to distribute their cost over the works, items or objects on which they are actually used. In such cases, the expenditure on stores must be charged to a stores suspense head in the first instance.

It was observed from the audited Accounts for the financial year 2012-13 of TIP that assets ofRs209,628,066 were not physically available. This was highlighted in the report M/s Deloitte Yousaf Adil Saleem & Co. Physical verification of the assets was required to be carried out and presented to the Board. It was observed that no such report had been completed and presented to the Board. Audit was of the opinion that non-conducting of physical verification may result into unauthorized use and loss of assets. This resulted into short physical assets of Rs209.628 million.

The matter was reported to the management and PAO in March / April, 2017.It was replied in DAC that management had already signed a contract with Riaz Ahmed & Company for verification, updating and tagging of fixed asset register in the year 2017. The assignment was under process. The reply was not acceptable as the issue was not resolved till finalization of this report.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to conduct a fact finding enquiry on the issue. The outcomes be shared with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the matter may be investigated and report thereof be shared with audit.

(OM No.36)

4.5.2 **Loss on purchase of fixed wireless telephone sets-Rs122.678 million**

According to Rule-10 of GFR,Volume-I, every government servant should exercise the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

It was observed that TIP management procured 35,000 CDMA Fixed Wireless Telephone (FWT) @ Rs4,894 in anticipation to PTCL purchase order. Afterwards, the FWTs could not be sold to PTCL and were sold in open market causing colossal loss to the company as detailed below:

Sr. No.	No. of FWTs (1)	Cost @ Rs4894 (2)	Sold @ Rs1400 (3)	Loss (3-2)
1.	34,723	169,934,362	48,612,200	121,322,162
2.	277	1,355,638	Unsold	1,355,638
Total	**35,000**	**171,290,000**	**48,612,200**	**122,677,800**

This resulted into loss on purchase of CDMA telephone sets of Rs122.678 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that the referred issue had already been settled by DAC in the year 2011. The reply was not acceptable as DAC in its meeting held on 4th January, 2011 directed the management to sale out the remaining 2,000 sets. Further, in referred audit observation, the audit raised issue as excessive procurement rather loss sustained by TIP due to non-sale of telephone set at offered rates and afterwards sold in open market at lower rate.

DAC in its meeting held on 22nd January, 2018 directed the management to probe the matter as the already settled audit para was different in nature. The outcomes be shared with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the matter be investigated at PAO level to fix reasonability for such colossal loss to national exchequer.

(OM No.21)

4.5.3 Loss due to blockage of public money and forfeiture of bank guarantee -Rs26.496 million

According to Rule-10 of GFR,Volume-I, every government servant should exercise the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money. Further, Rule-8 of GFR, it is the duty of the Administrative Department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the treasury.

It was observed that TIP management incurred an expenditure of Rs13,670,388 on 23.02.2006 for procurement of 134,750 kg High Density Polyethylene Borstar HE6062 from M/s Borealis U.A.E @ Rs101.45 per kg. Following shortcomings were observed:

a) TIP management purchased High Density Polyethylene Borstar HE6062 in bulk against the order of PTCL regarding manufacturing of 16,000 kilometer drop wire vide contractNo.Pur.7-1/2006/1428/TIP Dated 19.05.2006. The supply of 16,000 kilometer drop wire was scheduled to be completed by 16.09.2006 but TIP could provide only 750 kilometer drop wire in stipulated time period. PTCL served a notice to TIP on 01.11.2006 to complete the supply within one month but again TIP failed to supply balance quantity of 15,250 kilometer drop wire. Resultantly, PTCL vide letter No. Pur 7-1/200/1428TIP dated 15.03.2007 terminated contract and forfeited bank guarantee presented by TIP of Rs7,631,504. The cancellation of PTCL's order after one year of purchase of material for the subject order was mismanagement at the part of TIP.

b) After cancellation of PTCL's order in 2007 whole quantity of High Density Polyethylene was required to be disposed off to avoid any chance of loss of valuable material as well as blockage of money but no serious efforts were made at the part of management.

c) The Ministry of Information Technology (MoIT) vide letter No.20-I/2003-DT dated 27.07.2003 directed TIP to ensure representation of MoIT in all tenders/ auctions. Procurement department memo No. PO/L-6635/MA dated 02.03.2010 clearly indicated that representative of MOIT was not invited in tender No. 2/2010.

d) Tender No. 2/2010 for auction was opened on 02.03.2010 and M/s Sharafat Brothers Lahore stood highest with offered rate of Rs100.92 per kg. This great opportunity was not availed by TIP.

e) M/s L.T. Engineering & Trade Services (Pvt.) Ltd. Vide letter No. 08/02-B/Inq/TIP-1 dated 02.03.2010 offered rate of Rs104.98 per kg for whole lot of 134,750 kg. The said letter was faxed on the same date but was not included in tender. The validity of M/s L.T. Engineering‘s offer was up to 09.03.2010 but same was not entertained at any level thus another chance of recovering loss was not availed.

f) The management received another offer from M/s Flash communications for Rs15,135,120 (@ Rs96 per kg plus GST) but all the offers were turned down by TIP management and cancelled the process of auction on the assumption of PTCL’s future order of drop wire.

g) M/s Flash communications after negotiation increased offer to Rs133 per kg plus GST (comes to Rs155.61 per kg) whereas M/s L.T. Engineering & Trade Services (Pvt.) Ltd. Vide letter No. 08/02-B/Inq/TIP-6 dated 26.04.20111 offered rate of Rs140 per kg (including all taxes) but management did not dispose off the bulk quantity of HDPE which resulted in blockage of Rs18,865,000 (134,750 KG @ Rs140)

h) Since the material was stored in TIP premises, the quantity, quality and maintenance of controlled environment for material might be compromised keeping in view the current circumstances and status of the factory.

This resulted into loss due to blockage of public money and forfeiture of bank guarantee of Rs26.496 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that according to contract the supply of 16,000 KM drop wire was scheduled to be completed by 16.09.2006 but TIP could supply only 750 KM drop wire in stipulated time period. The balance quantity 15,250 kilometers drop wire could not be supplied due to plant fault. After the cancellation of PTCL order the TIP management stored the remaining quantity of High Density Polyethylene in 2010and 2011.

The reply was not acceptable as it was admitted that order drop wire of PTCL could not be completed by TIP and the subject raw material was dumped/stored in TIP since 2010.

DAC in its meeting held on 22ndJanuary, 2018 directed the management to investigate the matter and share the outcomes with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that responsibility may be fixed for this huge loss to national exchequer.

(OM No.26)

4.5.4 Loss due to short-realization of rent-Rs18.866 million

According to Rule-10of GFR,Volume-I, every government servant should exercise the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

It was observed that TIP office building at Islamabad was rented out to M/s Pakistan Telecom Mobile Ltd (PTML) for office use. Initially agreement was made on 01.04.2000 for a period of 05 years with covered area of 8500 sqft @

Rs8 per sqft and 20422 sqft open area @ Rs2 per sqft with 10 % increase per annum. The clause 1 (ii) of contract revealed that tenant (M/s PTML) will be allowed to construct 1st floor at his own cost for which no additional rent would be charged. During scrutiny of record relating to rental income it was observed that the rent of additional floor of building was not charged from (M/s PTML) w.e.f 01.04.2005 (after expiry of said contract). It was also observed that TIP management failed to determine the actual covered area under the use of (M/s PTML). In this way TIP sustained a loss of Rs18,865,654.

This resulted into loss due to short realization of rent of Rs18.866 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that PTML was allowed to extend the building as per their requirement. It was agreed that no rent would be charged for the additional construction as the same would become the asset of TIP on expiry of rental agreement. The reply was not acceptable as it was evasive and irrelevant as audit observation was relating to second tenure of contract with M/sPTML.

DAC in its meeting held on 22nd January, 2018 directed the management to conduct a fact finding enquiry under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends early implementation of DAC directives.

(OM No.57)

4.5.5 Theft of copper bars-Rs10.240 million

According to Rule-23 of GFR,Volume-I, every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part.

It was observed from the examination of record relating to TIP sub office Karachi that 160 copper bars measuring 10 x 100 x 4880 mm were stolen from the store between the period 10.05.2010 to 21.06.2010. These stolen copper bars had approximate monetary value of Rs10,240,000 (160 bars x 80 kgs x Rs800). Besides, following irregularities were observed:

(i) FIR No.339/2010 was lodged in Sadder Police Station on 18.07.2010, whereas the incident occurred in May, 2010 as per report of store keeper.

(ii) In referred FIR, it was reported that 160 number of copper bars were stolen but afterwards, these were shown as 16 bars in subsequent correspondence which creates doubts as the respective ledger card number 293/170 was also tampered to reduce the quantity of bars from 160 to 16.

(iii) The final report of police was written on 13.10.2010, but received in TIP on 07.06.2011 after the lapse of eight months.
This resulted into theft of copper bars ofRs10.240 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that the theft of copper bars of Rs10.240 million was not correct as its value was Rs0.8 million at that time containing 16 numbers of copper bars. The FIR was lodged by the manager S&S TIP Karachi, in Saddar Police Station on 18.07.2010. The reply was not acceptable as the record was tampered and number of bars was changed from 160 to 16.

DAC in its meeting held on 22ndJanuary, 2018 directed the management that the matter be investigated at PAO level to fix responsibility for this loss. However, no progress was made on the matter till finalization of this report.

Audit recommends implementation of the DAC directives without further delay.

(OM No.46)

4.5.6 **Loss due to non-renting out building and short-realization of rent-Rs9.165 million**

According to Rule-8 of GFR,Volume-I, it is the duty of the Administrative Department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the treasury.

It was observed that first floor of TIP office building situated at I–9/2 Islamabad was rented out to M/s Pak Datacom (Pvt) Ltd. Initially agreement was made on 14.01.2010 for a period of 10 years valid up to 29.02.2020 at the rate of Rs29 per sqft for 8,700 sqft covered area with 10% annual increase and Rs16 per sqft for 1,000 sqft open area with 10% annual increase.

Following irregularities were observed by the Audit.

(i) M/s Pak datacom vide letter No. PDL/TIP/Rent/2010 dated 15.02.2012 served notice for vacation of half space of the floor w.e.f 29.02.2012. Whereas, As per clause 3 (ix) of the agreement, M/s Pak Datacom (Pvt) Ltd was required to submit three months prior written notice before such vacation. Moreover, there was no provision for partial vacation of the rented area. The half space was vacated w.e.f 29.02.2012 instead of 15.05.2012 (i.e three month notice period) which was accepted by the TIP management. So, in this way TIP was deprived from the revenue of Rs363,255 (4175 sqft x 3 months x Rs29).

(ii) TIP management was required to get the first floor vacated from M/s Pak Datacom (Pvt) Ltd as a whole and rented out the same to any other party but the proposal of M/s Pak Datacom (Pvt) Ltd was accepted and in this way remaining vacated half space could not be rented out till date. This decision of TIP management costs a loss of Rs8,802,269.40 as detailed below:

Sl.No	**Period**	**Months**	**Rent Per sqft**	**Total area**	**Amount(Rs)**
1	1.4.2012 to 31.3.2013	12	35.09	4175 sqft	1,758,009
2	1.4.2013 to 31.3.2014	12	38.60	4175 sqft	1,933,809.9
3	1.4.2014 to 31.3.2015	12	42.46	4175 sqft	2,127,246
4	1.4.2015 to 31.3.2016	12	46.71	4175 sqft	2,339,670
5	1.4.2016 to 30.6.2016	03	51.38	4175 sqft	643,534.5
Total					**8,802,269.4**

This resulted into l**oss** due to non-renting out building and short-realization of rent of Rs9.165 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that half of the portion was vacated from M/s Data com after approval from the MD TIP due to financial constrains of M/s Data com. The other half portion of building could not be rented out due to limited availability of washrooms. TIP building was not located at main road so limited tenants options were available. Both tenants of TIP (U Phone and Pak Data com)were selected under the directions of the then higher authorities; the direction of PTCL (for U phone) and MoIT (for Data com).The reply was not acceptable as it was evasive and irrelevant.

DAC in its meeting held on 22nd January, 2018 directed the management to conduct a fact finding enquiry under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends early implementation of DAC directives.

(OM No.18)

4.5.7 Unjustified outsourcing for manufacturing aluminum base of energy meter - Rs3.600 million

According to Rule-10 of GFR, Volume-I, every government servant should exercise the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

It was observed that TIP management incurred an amount of Rs3,585,560 on manufacturing of aluminum base for energy meters from local market. The expenditure was held irregular and unjustified on the following grounds:

(i) The Chief Engineer Electricity AJK Muzaffarabad vide purchase order No.17101-03/CE/E/2006 dated 14.09.2006 placed order of 13,000 AC single phase energy meters with total value of Rs14,438,200. Against this order of 13,000 AC single phase energy meters TIP management floated the tender No.01/2007 regarding manufacturing of 55,000 Aluminum base frames of energy meters from local market. It was not understood why outsourcing was felt necessary despite having required machinery, two moulds and large number of idle workers.

(ii) The management declared in tender that mould will be provided by TIP. In this way an asset of company was mismanaged.

(iii) M/s Creative Electronics (Pvt) Ltd, being the lowest, was awarded contract vide PO No.0225/L-5571/MA dated 01.02.2008 with delivery schedule of eight weeks. The production was required to be completed on 01.04.2008 but contractor failed to complete his job in stipulated time.

The mould was handed over to contractor on 17.01.2007 in previous contract and after completion of job the mould was required to be returned to TIP on expiry of contract. The record indicated that mould was received back in TIP on 28.06.2010(after three and half years). During entire period, two contracts of eight (08) weeks each were awarded to the contractor. In the remaining period of more than three years the mould was used for private production.

This resulted into unjustified outsourcing for manufacturing aluminum base of energy meter of Rs3.600 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that an order was placed on M/s Creative Electronics (Pvt) through tender and mould was provided to the said firm for the production of 55,000 aluminum base of TIP. The contractor could not provide the required number of aluminum base due to the damaged mould of TIP. The reply was not acceptable as it was evasive and irrelevant.

DAC in its meeting held on 22nd January, 2018 directed the management to probe the matter under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the whole case may be probed to fix responsibility for mis-utilization of TIP asset and enabling Creative Electronics (Pvt) Limited to become a big supplier of energy meters to WAPDA.

(OM No.27)

4.5.8 Loss due to non-renting out of building-Rs3.000 million

According to Rule-8 of GFR,Volume-I, it is the duty of the Administrative Department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the treasury.

It was observed that TIP office building situated at 40-Abu-Bakar Block New Garden Town, Lahore was used for rest house / residential accommodation of employees only and no commercial activities were being carried out in this building since last five years as evident from TIP Lahore office letter dated 09.01.2012. TIP acquired a shop on rental basis for all commercial activities. Due to advancement in technology and almost nil production at Haripur, the role of Lahore office had been minimized. The maintenance of building and utility bills were additional burden on the sinking organization. The TIP office building was located at a posh and expensive area of the city but could not be rented out to get optimal utilization of this prime location. This resulted into estimated loss of Rs3,000,000 as detailed below:

Total Size of Plot (Sqf)	Covered Area (Sqf)	Open Area (Sqf)	Estimated per month rent in market	Estimated Loss for 5 years
11,550	10,460	5,535	500,000*	Rs500,000 x 12 months x 5 years = Rs3,000,000

* Estimated rent obtained from www.zameen.com

This resulted into loss due to non-renting out of building of Rs3.000 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that building required huge repair and maintenance work before renting out to prospective tenant. However, strenuous efforts were made through advertisement and by informal means in 2017. The short listing of applications had been finalized by a committee set up by the management. The matter was in its final stage of negotiation and would be finalized in next two weeks. The reply was not acceptable as the building was not rented out till finalization of this report.

DAC in its meeting held on 22nd January, 2018 directed the management to use this building for the benefit of TIP. However, no progress was made on the matter till finalization of this report.

Audit recommends that the optimal utilization of prime land of Lahore be made under intimation to audit.

(OM No.28)

4.5.9 Irregular commercialization fee paid to LDA-Rs2.400 million

According to Rule 10 of GFR Volume-I, every government servant should exercise the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

It was observed that TIP incurred an expenditure of Rs2,400,049on account of commercialization charges and late payment surcharge to Lahore Development Authority for commercial activities at residential area, as detailed below:

Sr. No.	Transaction / Journal / Cheque No. & date	Description	Amount	Remarks
1.	L1-27, dated 26.09.2006	Commercialization fee paid to LDA Lahore	282,533	-
2.	L1-62, dated 02.01.2008	Commercialization fee paid to LDA Lahore	172,048	-
3.	L1-26, dated 27.08.2008	Commercialization fee paid to LDA Lahore	172,048	-

4.	29716, dated 11.04.2013 (ERP) Cheque No.	Commercialization fee paid to LDA Lahore	443,355	-
5.	29619, dated 25.07.2013 (ERP)	Commercialization fee paid to LDA Lahore	443,355	-
6.	29730, dated 24.12.2013 (ERP)	Commercialization fee paid to LDA Lahore	443,355	-
7.	Cheque No. 8063733, dated 23.10.2013	Commercialization fee paid to LDA Lahore	443,355	Not found in ERP
Total			**2,400,049**	

In this regard, audit noticed following ambiguities:

(i) TIP management conducted commercial activities on a declared residence due to which heavy expenditure had to be borne by the company.

(ii) TIP management could save this expenditure by getting a shop on rent as the same was done later on after paying these charges.

(iii) TIP delayed the payment of these charges. Resultantly, the company had to bear late payment surcharge of Rs250,510.

This resulted into irregular commercialization fee paid to LDA of Rs2.400 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that LDA did not point out commercial utilization of building located in the residential area till 2006, so TIP had to pay commercialization fee to LDA on yearly basis. Later on a small shop for the sale of telephone set sets were hired in nearby locality. The reply was not acceptable as it was evasive and irrelevant.

DAC in its meeting held on 22nd January, 2018 directed the management to probe the matter under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that cogent reasons may be provided to audit for payment of commercialization and late payment charges thereof.

(OM No.37)

4.5.10 **Unjustified outsourcing and use of sophisticated asset of TIP by a third party and non-recovery of dues-Rs0.250 million**

According to Rule-10 of GFR,Volume-I, every government servant should exercise the same vigilance in respect of the expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

It was observed that TIP placed two purchase orders Nos.0846/R&D/01889/MR dated 06.03.2014 and 0851/R&D/01889/MR dated 22.04.2014 to M/s Gujranwala Tools Dies Moulds Centre, Sialkot Road Gujranwala for scanning, modeling & rapid prototyping and manufacturing of Mould Inserts respectively within 10 working days of delivery period.

As per Purchase Orders, 50% advance payment of Rs250,000- was also paid to contractor vide cheque No. 8726965 dated 10.03.2014 for Rs44,273 (excluding GST) and cheque No. 8726965, dated 25.04.2014 for Rs200,000.

The award of contracts was irregular as:

(i) TIP has its own R&D and stands as a pioneer in manufacturing of telephone sets, exchanges and its accessories.

(ii) Purchase orders were placed on the basis of limited email enquiries rather than calling open tender.

(iii) The work was not completed even after the period of 2.5 years.

(iv) The purchase orders were cancelled on 27.04.2016 but the advance payment of Rs250,000- was not recovered from the contractor.

(v) The fate of GST, deducted by TIP from the advance payment to the contractor, was again, controversial.

(vi) A mold valuing rupees of three million (approximately) was handed over to a contractor on loan basis in June 2014, to execute the work order which was not plausible.

(vii) The machine remained in the custody and use of vender from June 2014 to March 2017 without any benefits to TIP.

(viii) On return of referred machine, it was reported by the concerned section and gate security that certain parts (at least two major parts) were not found attached with the machine.

(ix) Advice note was prepared by the R&D whereas it was supposed to be prepared by the forwarding office under the administrative control of Marketing and Sales Office.

This resulted into unjustified outsourcing and use of sophisticated asset of TIP by a third party and non-recovery of dues of Rs0.250 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that the referred amount and equipment had been received in TIP from the company (third party).The reply was not acceptable as it was evasive.

DAC in its meeting held on 22nd January, 2018 directed the management to probe the matter under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that responsibility may be fixed for allowing a third party to use a sophisticated asset of TIP for a period of 2.5 years and returning it back incomplete to TIP. Further recovery may be effected under intimation to audit.

(OM No.30)

4.5.11 **Illegal possession of TIP plot by PTCL**

According to Article-24 of PT&T Initial Account Code, Volume-I and Serial No. 7 of Appendix-2 to GFR Volume-I, loss and fraud cases are required to be reported to audit office immediately on occurrence. In all such cases departmental proceedings should be instituted at the earliest against all the delinquents even against a government servant being prosecuted in a criminal court.

During the scrutiny of record of TIP, it was observed that a land measuring 7,666.66 Square yards for construction of Telephone Exchange and 1,333.33 square yards for office of MD TIP had been allotted by CDA at Sector F-5/1 Islamabad. TIP had made payment of Rs754,666 for that plot vide cheque No. TIP-022163, dated 31.12.1988. PTCL handed over possession of 3000 square yards to PTA out of 9,888.88 Sqr.yards and remaining piece of land (6,888.88 sqr.yards) is still available with PTCL including share of TIP's land 1,333.33 square yards. The share of TIP land had not been handed over by PTCL since long. The same had been confirmed by the Divisional Engineer (Buildings) Islamabad vide his letter No.DE (Bldgs/32), dated 25.01.2006.

This resulted into Illegal possession of TIP plot by PTCL.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that TIP had a firm stance on this issue and was of the clear view that since cost of land was paid by TIP in 1988. The land should be handed over to TIP being the rightful owner. TIP vide letter dated 10.01.2018 had demanded from PTCL to hand over the said piece of land/plot within fifteen (15) days, failing which TIP shall be constrained to initiate remedial measures for recovery of plot. The reply was not satisfactory as the referred plot was not got registered in the name of TIP even after laps of 30 years.

DAC in its meeting held on 22nd January, 2018 directed the management to get the possession and title of plot in the name of TIP under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the plot may be got vacated from PTCL under intimation to audit.

(OM No.41)

4.5.12 Non-transfer of title of ownership of Land at sub office Karachi in the name of TIP

According to Article-24 of PT&T Initial Account Code, Volume-I and Serial No. 7 of Appendix-2 to GFR Volume-I, loss and fraud cases are required to be reported to audit office immediately on occurrence. In all such cases departmental proceedings should be instituted at the earliest against all the delinquents even against a government servant being prosecuted in a criminal court.

It was observed that a piece of land measuring 3.17 acres situated at Rafiquee Shaheed Road, adjacent to Jinnah Post Graduate Medical Centre, Karachi was allocated to T&T Department by Sindh Government free of cost in 1988. Out of that 0.7 acre (30,800 sq. feet) was the share of TIP for construction of its offices and other set up. TIP built up its structure measuring 25,921 sq. feet by spending an amount of Rs1,291,583- in addition to actual cost of land.

During discussions with TIP management and scrutiny of relevant record it was observed that title of the ownership of the referred land was not in the name of TIP.

This resulted into non-transfer of title of ownership of Land at sub office Karachi in the name of TIP.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that as extract from the general land register cantt 2-A(1), Karachi cantonment, a piece of land called survey No. 194, had been transferred in favor of PTCL, subject to the terms and conditions mentioned vide Government of Pakistan, ministry of defense (ML&C department) Rawalpindi letter No. 42/274/Land/ML&C/99 which would be managed by PTCL but the land lord would remained Government of Pakistan. In 1956, out of that plot a portion of the same, measuring 0.7 acre had been provided free of cost to TIP to utilize as transit store (Called SS-II)for raw material/products, using in the installation of telephone exchanges. Therefore, the title of the land/building was awaited. The reply was not acceptable as title of the land was not transferred to TIP till finalization of this report.

DAC in its meeting held on 22nd January, 2018 directed the management to pursue the case vigorously and get the title of the land in the name of TIP under intimation to audit. However, no progress was made on the matter till finalization of this report.

Audit recommends that the title of land may be transferred in the name of TIP under intimation to audit.

(OM No.48)

4.5.13 Transfer of Land and infrastructure to PTCL and NRTC

TIP was incorporated in 1953 as a private limited company with shareholding of Government of Pakistan and Siemens. In the year 2002-03, the Government of Pakistan (PTCL erstwhile T&T Department) and Siemens had shareholding of 71.90% and 29.10% in the TIP.

According to Company Act 2017 (erstwhile Company Ordinance 1984), a company is a corporate individual and has perpetual life. It can sue and can be sued by its own name. A company is a separate legal entity and managed by the BoD through its shareholders. Principally, shareholders cannot get assets of the company without any consideration especially when a company had negative equity or net worth. TIP had negative equity of Rs133.780 million in the year 2003-04.

Contrary to the above, 1408 Kanal land along with its infrastructure was transferred to PTCL and 611 Kanal land to NRTC in the year 2003 and 2004 from the land of 2451 Kanal and 11 Marlas acquired in 1952-53 for the TIP company. PTCL was shareholder in TIP with shareholding of 71% till the year 2006 when the shares of PTCL in TIP was acquired by GoP against consideration of Rs152 million and PTCL was also granted indemnity by Government against any loss of

TIP occurred in past or future loss. So, transfer of land to a shareholder of TIP (PTCL) who had its shares in tact in the year of transaction of land and transfer of land to third party (NRTC) was not plausible.

Further, President of CBA filed writ petition No.550/2016 and General Secretary of CBA filed writ petition No.703/2016 against the withdrawal of land appeal No.FGA 8-A/2013 by TIP/MoIT and illegal transfer of land to NRTC in 2003 and to PTCL in 2005.

This resulted into transfer of Land and infrastructure to PTCL and NRTC.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that the Colony Board had been wounded-up along with its expenses with effect from 01.07.2016. Writ Petition No. 550/2016 and 703/2016 were filed by president and General Secretary of TIP CBA Union respectively against the withdrawal of TIP Land Appeal No. RFA 8-A/2013, in the Honorable Peshawar High Court Abbottabad Bench Abbottabad. The said writ Petition No. 585/2016 filed by the employee of Colony Board. All the above said Writ Petitions were fixed for order on 08.8.2017. The honorable Peshawar High Court, Abbottabad Bench had dismissed the W.P No. 585/2016 as announced in the open court on 08.8.2017.The reply was not tenable as the referred land was transferred to NRTC and PTCL without any financial legal consideration.

DAC in its meeting held on 22ndJanuary, 2018 directed the management and audit to revisit the issue in detail. However, no progress was made on the matter till finalization of this report.

Audit recommends that the status of the court cases may be shared with audit. Further, cogent reasons may also be provided to audit for the transfer of land along with infrastructure thereon to a third party (NRTC) and a shareholder of TIP (PTCL) without any consideration (monetary value etc)

(OM No.35)

4.6 Compliance with Grants / Loan Covenants

4.6.1 Loss due to non-submission of revitalization plan and accumulated interest Rs2,035.801 million

Economic Coordination Committee (ECC) of the Cabinet decided in its special meeting under the Chairmanship of Minister of Finance, Economic Affairs and Statistics on 1st September,2009 and directed vide its letter No.F-I/16/2009.Com, dated 4th September,2009 to accord and issuance of Government of Pakistan's guarantee of Rs1,075 million in favour of National Bank of Pakistan for rescheduling of Telephone Industries of Pakistan (TIP)'s loan subject to the condition that the plan for revitalization, up-gradation of technology and strategic divestment may be developed and put up for the consideration of ECC within three months.

It was observed that TIP did not submit its plan for revitalization, up-gradation of technology and strategic divestment for the consideration of Honourable ECC forum even after the lapse of eight (08) years which was actually required to be submitted within three months. Further, TIP did not pay a single installment of its loan to the National Bank of Pakistan of Rs1,075 million for which the Government of Pakistan was the guarantor. TIP defaulted in the books of NBP as it had outstanding amount of Rs960.801 million till 5th Installment which was supposed to be paid by 03.07.2016 as per National Bank of Pakistan letter No.NBP/LHR/SAMD/1649, dated 20.07.2016. Audit was of the opinion that revitalization plan could not be submitted due to inefficiency of TIP management which resulted into loss due to accumulated interest of Rs960.801 million in addition to principal amount Rs1,075 million.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that the revitalization plan was prepared during 2008-09 and was not at par with future requirements of technology that is why same was not approved by ECC and return back to MoIT for the amendment of plan as per future scope of work of telecom equipment line. Presently, due to continuous losses and no business at hand, the Company has been placed in the list of privatization on early implementation basis. The reply was not acceptable as revised revitalization plan was not submitted which was a condition to the guarantee of Government of Pakistan to National Bank of Pakistan.

DAC in its meeting held on 22nd January, 2018 directed the management to conduct a fact finding enquiry regarding non-submission of revitalization plan to ECC against guarantee of government of Pakistan. The outcome be shared with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends early implementation of DAC directives.

(OM No.24/2015-16)

4.7 Sustainability

4.7.1 Non-revitalization of TIP due to minimal role of Research & Development

It was observed that TIP failed to achieve its major targets:

(i) TIP was a manufacturer of electromagnetic energy meter since 1992 for Water and Power Development Authority (WAPDA).

(ii) The WAPDA authorities vide letter No. Member(C&M)P/CE(P&D)/T-2756/2090-3008 dated 25.07.2007 informed that WAPDA intend to switch over to single phase static-energy meters. Thus the technology of electromagnetic meters used by TIP became obsolete.

(iii) The major share of revenue of TIP was based on production of energy meters. During 2007-08 & 2008-09, WAPDA issued tenders for the supply of more than 800,000 static-energy meters but TIP could not participate due to lack of technology.

(iv) The static-meters were produced by the companies around the world since last two decades but R&D of TIP was silent. In 2009, the management of TIP decided to switch over to single phase static-meter. Three attempts were made but all these attempts failed in achieving the target due to lack of knowledge and mismanagement.

(v) Lastly TIP management launched tender No.23-2011 at national and international level for manufacturing of single phase static-meter in collaboration with TIP and transfer of technology. A note mentioned the scope of work which stated that the meter case comprising of meter cover, meter base, security base (FRP Box), terminal block, face plate etc., will be manufactured in TIP being indigenous part of production.

(vi) The para ‘C’ and ‘F’ of scope of work further restricted the contractor to manufacture electrical parts of meter according to TIP specification and sizes.

(vii) All the leading firms in the business of static-meter did not take interest in tender because they already produced meters as per their specific designs. Manufacturing of electrical parts of meter according to TIP specification meant developing a new product through R&D, designing new molds etc. which was not possible.

(viii) The proposal presented by TIP was neither economical nor technically feasible hence resulted in wastage of time and money.

(ix) It was also observed that in the past, the R&D of TIP, either remained inactive or the products designed /developed by R&D were not approved by the management. The R&D of TIP developed appliances such as air conditioner, solar panel, parts of motorcycle, towers, drop wire, gas meters and EVM etc., the models of the same products were displayed in factory workshop but no production was made thereof.

The matter was reported to the management and PAO in March / April, 2017. It was replied in DAC meeting that the revitalization plan was prepared during 2008-09 and was not at par with future requirements of technology that is why same was not approved by ECC and return back to MoIT for the amendment of plan as per future scope of work of telecom equipment line. Presently, due to continuous losses and no business at hand, the Company has been placed in the list of privatization on early implementation basis. The reply was not acceptable as revised revitalization plan was not submitted which was a condition to the guarantee of Government of Pakistan to National Bank of Pakistan.

DAC in its meeting held on 22nd January, 2018 directed the management to conduct a fact finding enquiry regarding non-submission of revitalization plan to ECC against guarantee of government of Pakistan. The outcome be shared with audit. However, no progress was made on the matter till finalization of this report.

Audit recommends early implementation of DAC directives.

(OM No.67)

4.8 Overall Assessment

It was assessed that TIP was misdirected which not only hampered its overall performance in the field of Research & Development (R&D) but also caused its failure as manufacturing unit of telecommunication equipments. Further, the weak asset and receivable management had resulted in non-recovery, non-reconciliation and wastage of financial resources.

4.8.1 Relevance

The prevalent policies of TIP were not in line with Government. rules, regulations and instructions.

4.8.2 Efficacy

TIP was unable to achieve its overall objectives and goals, especially after the year 2000, for which it was established. Moreover, it could not establish its vibrant research and development department which not only hampered its overall performance in the field of Research & Development (R&D) but also caused its failure as manufacturing unit of telecommunication equipments.

4.8.3 Efficiency

The projects/orders of TIP could not be completed within stipulated time which resulted into cancellation of orders or imposition of liquidity damages charges by the clients/customers. In this way its projects remained cost overrun and time overrun.

4.8.4 Economy

The area of procurement of goods and services was gray area as public procurement rules were not implemented in letter and spirit.

4.8.5 Effectiveness

The targets, goals and objectives were not achieved in effective way.

4.8.6 Compliance with Rules

- The management of TIP remained non-compliant to prevalent and applicable rules, regulations and instructions of Government of Pakistan, SECP and FBR as:

    - There were violations of procurement rules. Procurements were made without proper planning. There was weak asset, receivables and financial management. Record of certain important transactions was not maintained and produced to audit. Besides, the audit observed serious weaknesses of internal controls.

4.8.7 Performance rating of TIP

- The performance rating was unsatisfactory as:

    - The performance of TIP remained at minimum level especially after the year 2000.No key performance indicators of employees were developed so management was unable to judge the performance of employees.

    - No SOPs for hiring, contracting, research and development, production, security and internal controls etc. were in vogue.

4.8.8 Risk Rating of TIP

- Financial and other resources were at high risk.
- Research & Development department was very weak.
- Human Resources Development policies were not in place.

5. CONCLUSION

5.1 Key Audit findings

Auditable record was not produced to Audit.[1]

v. Loss and fraud occurred due to weak internal controls-Rs233.952 million.[1]

vi. Procurements were made in violation of Public Procurement Rules, 2004-Rs58.235 million.[2]

vii. Procurements were made without proper planning- Rs164.799 million.[3]

viii. TIP sustained loss due to weak asset and financial management-Rs98.164 million.[4]

ix. Weak receivable management resulted into non-recovery of dues-Rs1,746.594 million.[5]

x. Audit highlighted issue of non-maintenance of record and violation of rules & regulations –Rs2,182.354million.[6]

5.2 Key Audit Recommendations

Following steps are suggested for implementation:

- Proactive and effective R&D wing may be evolved to grab major market share of telecommunication equipment manufacturing sector;
- Internal controls, especially with respect to transactions relating to cash and bank, be strengthened to stop the embezzlement and misappropriation of funds;
- Asset and receivable management be strengthened for optimal utilization of its assets and timely recovery of outstanding dues;
- A mechanism be evolved for training of workforce and Training Need Assessment (TNA) may be done for timely entry of financial transactions in the system (SAP). So, the financial and technical analysis could be done in time;

[1] Para 4.2.5, 4.3.9, 4.3.14, 4.3.16, 4.3.17, 4.5.1 & 4.5.5
[2]Paras 4.4.1,4.4.3,4.4.5,4.4.6,4.4.8 to4.4.12, 4.4.14, 4.4.15 & 4.4.17
[3]Paras 4.4.2, 4.5.2, & 4.5.3
[4]Paras 3.3.4, 4.3.7, 4.3.8, 4.3.10, 4.3.13, 4.5.4, 4.5.6 & 4.5.8 to 4.5.12
[5]Paras 4.3.1, 4.3.2, 4.3.5, 4.3.11, 4.3.12 & 4.3.15
[6]Paras 4.2.4, 4.3.3, 4.3.6 & 4.6.1

ACKNOWLEDGEMENT

We wish to express our appreciation to the Management and Staff of Telephone Industries of Pakistan for the assistance and cooperation extended to the auditors during the assignment.

ANNEXURE-I

LIST OF ORDINARY PARAS

(Rs in million)

S.No.	OM No	Subject	Amount
01	42-17	Non transfer of TIP revenue to Federal Consolidated Fund and irregular expenditure from the receipts without obtaining budget from Finance Division	2626.546
02	40-17	Unjustified expenditure on medical reimbursement and purchase of medicine	393.470
03	38-17	Irregular expenditure on ERP support	1.030
04	55-17	Irregular payment of house requisition	0.876
05	19-17	Loss due to payment of electricity bill of TIP building at Islamabad against defective electricity meter	0.247
06	25-17	Loss due to less realization of rent	2.035
07	49-17	Unlawful payment to a contract/contingent employee	0.155
08	07-17	Irregular procurement of refurbished (used) items through imprest account	0.120
09	44-A-17	Use of two cheque books simultaneously	0
10	45-17	Irregular expenditure related to Medical reimbursement	0.079
11	51-17	Robbery of cash-Rs60,000	0.060
12	54-17	Irregular / Doubtful payment to contingent paid staff	0.038
13	03-17	Suspected Misuse of TIP Asset by a vendor	0
14	43-17	Non-auction of off-road vehicle No. LOK-5515 at TIP Lahore	0
15	53-17	Excess payment on account of EOBI	0
Total			**3,024.656**

APPENDIX-I

TELEPHONE INDUSTRIES OF PAKISTAN

No. MD/TIP/5896

Islamabad, the 6th September, 2016

The Auditor General of Pakistan,
Islamabad.

Subject: **SPECIAL AUDIT OF TELEPHONE INDUSTRIES OF PAKISTAN.**

I am directed to refer to the subject noted above and to say that the Board of Directors of Telephone Industries of Pakistan(TIP) in their 187th meeting held on 23rd June, 2016 resolved as under:-

> "On the recommendation of Audit Committee Board resolved that TIP Annual Accounts for the years form 2006-07 to 2014-15 a **SPECIAL AUDIT** conducted through Auditor General Office."

2. In the light of above, the Auditor General of Pakistan Office is requested to carry out Special Audit of TIP accounts at the earliest.

(Syed Khalid Ali Raza)
Managing Director (TIP)

FAXED 6-9-16

1. Manager (HR), TIP, Haripur.
2. DGM(CP), TIP, Haripur.
3. Manager (M&S/A), TIP, Islamabad.

APPENDIX-II

TERM OF REFERENCES (TORs) FOR SPECIAL AUDIT OF TELEPHONE INDUSTRIES OF PAKISTAN (TIP) HARIPUR HAZARA

i. Examination of bank accounts of TIP (drawls of amounts vs vouchers) along with bank reconciliation statement and relevant vouchers.
ii. Assets and Receivable Management;
iii. Cash Handling Process;
iv. Issue of Quarters and other fixtures constructed by TIP;
v. Issue of Losses sustained due to Gas & Electricity purchased at Bulk rates and its provision at subsidized rates.
vi. Approval of Salary, allowances and other perks including pension rate and multiplier.
vii. Dues from Colony Board, TSC, School and Hospital
viii. Employment of contract employees
ix. Reasons of losses;
x. Non-Implementation of Revitalization Plan;
xi. Huge amount of Loan and other liabilities;
xii. Non-diversification;
xiii. Non commercialization of deliverables projects i.e Electronic Voting Machine (EVM), Energy Meters, Gas Meters, Helmet etc;
xiv. Management and distribution of Land between TIP, NRTC and PTCL;
xv. Composition of Colony Board and its Operations- Expenditure Vs Revenue;
xvi. Operation and Sponsorship of Private Housing Scheme;
xvii. Issue of rented out property.

APPENDIX-III

Office of the
AUDITOR-GENERAL OF PAKISTAN
Special Audit Wing
Audit House, Constitution Avenue G-5/2
ISLAMABAD

No. SSAW/Spl/Per.Audit/F-8/150 Dated: 27 -01-2017

To,

Deputy Auditor General (CA&E)
Local.

Subject: **SPECIAL AUDIT OF TELEPHONE INDUSTRIES OF PAKISTAN**

The Auditor General of Pakistan has been kind to approve the subject special audit of the Annual Accounts of Telephone Industries of Pakistan (TIP) for the years from 2006-07 to 2014-15 as requested in the Manager (HR&A) TIP, Haripur/Hazara letter No. HR&A/TIP/2017/AGP/02 dated 12.01.2017 (copy enclosed).

2. It is requested to direct DG Audit PT&T to undertake the subject special audit assignment.

Diary No. 1210 Dir (CA&E)
Dated: 7-2-2017

Irshad Ahmed Kaleemi
Deputy Auditor General
Special Sector Audit Wing

Cc:

i. SPS to Addl.AGP-I
ii. SPS to Addl.AGP-II
iii. DG Audit (PT&T), Lahore
iv. PA to DG to AGP
v. Master File

2237 27/1/17

Department of the
AUDITOR GENERAL OF PAKISTAN
Corporate Audit & Evaluation Wing
Audit House, Constitution Avenue, G-5/2,
Islamabad.

No.F-90/CA/DGA/PT&T/2016-17/623 Dated: 26.09.2016

To,

The Director General Audit,
PT&T,
Lahore

Subject: **SPECIAL AUDIT OF TELEPHONE INDUSTRIES OF PAKISTAN.**

Please refer to Telephone Industries of Pakistan letter No. MD TIP 5896 dated 6 September, 2016 on the subject cited above (Copy enclosed).

2. The competent authority has desired that "*Terms of References*" (TOR) of special Audit of Telephone Industries of Pakistan may be finalized by identifying vital areas to be attended to in coordination with the management. The same may be forwarded to this wing at the earliest for further necessary action.

Encl: As above

(Muhammad Asif Khan)
Director (CA&E)
Ph. 051-9224036

DG.SR No.646
27/9/16

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Office of
THE DIRECTOR GENERAL AUDIT,
POSTS, TELEGRAPHS & TELEPHONES,
AUDIT COMPLEX, LAHORE
PHONE No. 042-99210934

No.F-Coord/PA/Spl.Audit/271

Dated: 09 .11.2016

To

The Deputy Auditor General,
CA&E Wing,
Audit House, Constitution Avenue,
Islamabad.

Subject: **SPECIAL AUDIT OF TELEPHONE INDUSTRIES OF PAKISTAN.**

Kindly refer to your office letter No.F-90/CA/DGA/PT&T/2016-17/623 dated 26.09.16 on the above subject.

2. "Terms of References" (TORs) of Special Audit of Telephone Industries of Pakistan (TIP) are hereby finalized by identifying vital areas to be attended to in coordination with the Management of TIP and enclosed hereby for necessary action at your end.

Ikram Khan.
(Muhammad Ikram Khan)
Director General

Encl: As stated above.

APPENDIX-IV

Government of Pakistan
Ministry of Information Technology and Telecommunication
***

No.PA/JS(A)/2016-TIP

Islamabad, the 8th November, 2016

To

Mr. Niamat Ali Baig,
Audit Officer,
O/o DG Audit PT&T,
LAHORE

SUBJECT: **SPECIAL AUDIT OF TELEPHONE INDUSTRIES OF PAKISTAN (TIP)**

Please refer to your office letter No.CAIP-13/TORs/Spl. Audit/TIP/01 dated 18.10.2016 on the subject noted above.

2. As desired, term of references (TORs) for conducting special audit of TIP for the last ten years are enclosed for further necessary action.

Encl.: A/a

(SYED KHALID GARDEZI)
Joint Secretary (Admn)/Managing Director (TIP)

Copy to the DG Audit PT&T Lahore.

Gmail Muhammad Ajmal <ajmalptt@gmail.com>

TORs to be considered for special audit of TIP
3 messages

Rehmat Ali <rehmatalimoit@gmail.com> Mon, Oct 31, 2016 at 12:45 PM
To: niamatalibaig@gmail.com
Cc: ajmalptt@gmail.com

Kindly see attachment.

TOR (TIP).pdf
15K

Muhammad Ajmal <ajmalptt@gmail.com> Mon, Oct 31, 2016 at 12:54 PM
To: niamatalibaigofficial@gmail.com

---------- Forwarded message ----------
From: **Rehmat Ali** <rehmatalimoit@gmail.com>
Date: Mon, Oct 31, 2016 at 12:45 PM
Subject: TORs to be considered for special audit of TIP
To: niamatalibaig@gmail.com
Cc: ajmalptt@gmail.com

Kindly see attachment.

TOR (TIP).pdf
15K

N.A Baig <niamatalibaig@gmail.com> Mon, Oct 31, 2016 at 1:21 PM
To: muhammad ikram <mikram60@hotmail.com>
Cc: Ajmal PT T <ajmalptt@gmail.com>

Sir

Kindly find attached TORs for Special Audit of TIP as received from MoITT today. All points of MoITT have already been included in Proposed TORs by undersigned sent to you through e mail on 28.10.2016

Regards
Niamat Ali Baig,
Audit Officer

---------- Forwarded message ----------
From: "Rehmat Ali" <rehmatalimoit@gmail.com>
Date: 31 Oct 2016 12:45
Subject: TORs to be considered for special audit of TIP
To: <niamatalibaig@gmail.com>
Cc: <ajmalptt@gmail.com>

Kindly see attachment.

TOR (TIP).pdf
15K