SPECIAL AUDIT REPORT
ON
PNSC'S PROCUREMENT & CONTRACT MANAGEMENT OF DRY DOCKING
AUDIT PERIOD 2018-19 TO 2019-20

AUDITOR GENERAL OF PAKISTAN

PREFACE

The Auditor General of Pakistan conducts audit under Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Sections 8 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. The Special Audit of PNSC's Procurement & Contract Management of dry docking for the period 2018-19 to 2019-20 was carried out accordingly.

The Directorate General of Commercial Audit and Evaluation (South), Karachi conducted Special Audit of PNSC's Procurement & Contract Management of Dry Docking during February 10, 2021 to March 24, 2021 for the period 2018-19 to 2019-20 with a view to report significant findings to stakeholders. Audit examined the economy, efficiency and effectiveness aspects of Procurement & Contract Management in Dry Docking of PNSC. In addition, Audit also assessed, on test - check basis, whether the management complied with applicable laws, rules and regulations in managing the Corporation. The Audit Report indicates specific actions that, if taken, will help the management realize its objectives. Despite repeated requests, DAC meeting was not convened by the PAO.

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

Islamabad
Dated:

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

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ABBREVIATIONS AND ACRONYMS

AGP	Auditor General of Pakistan
BWTS	Ballast Water Treatment System
CIA	Chief Internal Auditor
DGCA&E	Director General Commercial Audit & Evaluation
ED	Executive Director
ICS	Internal Control System
INTOSAI	International Organization of Supreme Audit Institutions
ISS	Inchcape Shipping Services
ISSAI	International Standards of Supreme Audit Institutions
JPY	Japanese yen
LD	Liquidated Damages
LEC	Large Expenditure Committee
LOA	Letter of Acceptance
MT	Motor Tanker
MV	Motor Vessel
PCs	Personal Computers
PLC	Public Limited Company
PNSC	Pakistan National Shipping Corporation
PPRA	Public Procurement Regulatory Authority
PT PPG	*Name of a* company of supplier of paints, coatings, and specialty materials
SGD	*Singapore Dollar*

EXECUTIVE SUMMARY

The Directorate General of Commercial Audit & Evaluation (South) Karachi conducted Special Audit of Procurement & Contract Management of Dry Docking of Pakistan National Shipping Corporation for the period 2018-19 & 2019-20. The special audit was conducted with the main objectives to; 1) Ascertain as to whether the management followed standard process of procurement of spare parts of dry docking of PNSC vessels, 2) Examine as to whether the dry docking contracts were awarded with a sense of probity and propriety, 3) Scrutinize as to whether the procurements for dry docking were made in accordance with Public Procurement Rules, and 4) Review compliance with applicable laws, rules, regulations and procedures. The audit was conducted in accordance with INTOSAI Auditing Standards.

Key audit findings

i. Loss due to award of contract to the 3rd lowest bidder - Rs.114.118 million
ii. Irregular award of dry-docking contract of MV Malakand - US$1,085,000 equivalent to Rs.169.249 million
iii. Irregular award of additional contract of dry Docking of MV Malakand US$153,549 equivalent to Rs.24.413 million
iv. Irregular award of contract for procurement of Ballast Water Treatment System (BWTS) of MV Malakand - US$207,900 equivalent to Rs.33.721 million
v. Incurring excess expenditure due to late delivery of PNSC vessels - Rs.88.696 million
vi. Irregular award of Dry-Docking Marine Paints contract to the 2nd lowest bidder - Rs.12.8 million
vii. Irregular award of contract of dry docking of MV Malakand to 4th lowest bidder - US$2,324,539 equivalent to Rs.362.628 million
viii. Irregular award of contract of dry docking of MV Multan to 3rd lowest bidder - US$2,592,903 equivalent to Rs.432.367 million
ix. Irregular award of dry-docking marine paints contract to M/s Colombo Dockyard Ltd - Rs.13.909 million
x. Unjustified excess expenditure against budgeted amount in procurement of spare parts-Rs.69.525 million
xi. Unjustified excess expenditure of dry docking of MT Lahore-Rs.13.655 million
xii. Misprocurement of dry docking of PNSC Vessels - Rs.730.183 million
xiii. Irregular award of contract for procurement of spare parts - Rs.24.767 million
xiv. Irregular / unjustified procurement of spare parts of Ballast Water Pump of MV Multan-Rs.2.815 million
xv. Unjustified expenditure for procurement of spare parts of MV Shalamar without dry-docking-Rs.54.696 million

Recommendations

i. Proper planning and execution of dry-docking contracts should be made in order to save time and money.
ii. Contracts of dry docking should be made through competitive bidding as per PPRA rules and process of getting quotation through email should be streamlined in order to get competitive and economical rates.
iii. Financial management should be improved by following the principles of probity & propriety.
iv. Procurement of spare parts for dry-docking should be made in accordance with public procurement rules.
v. Proper monitoring should be carried out during execution of contracts.
vi. Internal controls should be strengthened to avoid administrative, financial and legal lapses.

1. INTRODUCTION

Pakistan National Shipping Corporation (the Corporation) was established under the provisions of the Pakistan National Shipping Corporation Ordinance, 1979 and is principally engaged in the business of shipping including charter of vessels, transportation of cargo and other related services and providing commercial, technical, administrative, financial and other services to third parties in relation to the business of shipping. The Corporation is also engaged in renting out its properties to tenants under lease arrangements. The Corporation is listed on the Pakistan Stock Exchange.

2. AUDIT OBJECTIVES

The major objectives of the audit were to:

i. Ascertain as to whether the management followed standard process of dry docking contracts,
ii. Examine as to whether the financial matters were handled with a sense of probity and propriety,
iii. Scrutinize as to whether the procurements of spare parts of vessels were made in accordance with Public Procurement Rules,
iv. Review compliance with applicable rules, regulations and procedures,
v. Assess whether project was managed with due regard to economy, efficiency, and effectiveness.

3. AUDIT SCOPE AND METHODOLOGY

Audit Scope

i. The audit examined the relevant documents, files of dry docking of PNSC vessels for the years 2018 - 19 and 2019 - 20.
ii. The record was reviewed in Principal Office PNSC in accordance with the audit objectives.

Methodology

The Audit Team reviewed Permanent & Planning files of PNSC for determining Risk Areas, held meetings with auditee management, reviewed paras of PNSC already printed in Compliance Audit Report, discussed matters with heads of team who conducted audit of PNSC in previous years. Stratified random sampling method was applied to available data for developing evidence-based audit findings. Audit checks were applied in accordance with the ISSAI Audit Standards. Besides, team reviewed audited accounts of the Corporation for the years 2018-19 & 2019-20 and PNSC’s own policy on dry-docking.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Procurement & Contract Management

4.1.1 Loss due to award of contract to the 3rd lowest bidder - Rs.165.241 million

According to Rule-38 of PPRA Rules, 2004, the bidder with the lowest evaluated bid shall be awarded the procurement contract, within the original or extended period of bid validity.

Rule 36 of PPRA Rules, 2004, on single stage – one envelope procedure for open competitive bidding, requires that each bid shall comprise one single envelope containing, separately, financial proposal and technical proposal (if any). All bids received shall be opened and evaluated in the manner prescribed in the bidding document. (ix) the bid found to be the lowest evaluated bid shall be accepted.

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management awarded contract of dry-docking of vessel MV Multan on 06-04-2019 to the 3rd lowest bidder M/s. Colombo Dockyard PLC at total value of US$2.5995 million equivalent to Rs.433.467 million. The management disqualified 1st and 2nd lowest bidders without any justification and awarded the contract to the 3rd lowest bidder. Details of the bids are hereunder:

S#	Vessel Name	Name of Contractor	Repair cost offered in US$	Opportunity Cost in US$	Total Cost in US$	Total Cost in Pak Rs.	Status
1.	Multan	M/s. Zhoushan Nanyang Star Building Co. Ltd.	1,154,203.31	176,300	1,608,550.81	268,225,847.57	1st Lowest
		M/s. Ruitai Nantong	1,338,595.22	176,300	1,802,583.33	300,580,770.49	2nd Lowest
		M/s. Colombo Dockyard PLC	**2,248,525.22**	**282,080.00**	**2,599,503.03**	**433,467,130.67**	**3rd Lowest**
Loss of Rs.165.241 million = (3rd lowest 433,467,130.67 – 1st lowest 268,225,847.57)							

Audit is of the view that management extended undue favor and awarded contracts to the 3rd lowest bidder which resulted into loss of Rs.165.241 million to the organization.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends that management may conduct an inquiry for fixing of responsibility on person (s) at fault under intimation to Audit.

4.1.2 Irregular award of dry-docking contract of MV Malakand - US$1,085,000 equivalent to Rs.169.249 million

Rule - 20 of PPRA Rules, 2004, stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

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

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management irregularly awarded the contract of Dry Docking of MV Malakand directly to M/s. Colombo Dockyard PLC at US$1,085,000 equivalent to Rs.169.249 million. Tender for dry docking was floated in newspapers on 08th September, 2019 and the last date for submission and opening of bids was 09th October, 2019. The management e-mailed /contacted 40 shipyards for the same contract and only 03 shipyards namely M/s. Colombo Dockyard PLC, M/s. Ruitai Nantong Shipyard Co. Ltd, and M/s. Zhoushan Xinya Shipyard Co. Ltd. submitted the bids. On the basis of technical evaluation carried out by the PNSC Committee, M/s. Colombo Dockyard PLC was declared qualified for dry dock whereas other two suppliers were disqualified on the basis of non-availability of yard for installation of additional parts i.e. Ballast Water Treatment System (BWTS).

Further details of bids submitted by the 03 bidders were not available on the files and the same were requisitioned, but not provided to Audit.

Audit, on the basis of record produced by management, is of the view that the undue favor was extended to the contractor M/s. Colombo Dockyard PLC for dry docking of the MV Malakand and for installation of Ballast Water Treatment System (BWTS) to M/s. Colombo Dockyard PLC at a cost of US$1,085,000 equivalent to Rs.169.249 million without considering bids of the two rejected bidders.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate the matter and fix responsibility on person (s) at fault.

4.1.3 Irregular award of additional contract of dry docking of MV Malakand - US$153,549 equivalent to Rs.24.413 million

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

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management awarded additional contract of Dry Docking of MV Malakand to M/s. Colombo Dockyard PLC at US$153,549 equivalent to Rs.24.413 million. Tender for dry docking of MV Malakand was awarded to M/s. Colombo Dockyard PLC on 10-01-2020 initially at total cost of US$900,000 but on the request of the contractor, an additional work amounting to US$45,000 was also awarded. Management of PNSC got approval of additional work of US$45,000 but amount actually paid to the contractor was US$153,549 and the difference of US$108,549 was adjusted against the Liquidated Damages (LD) charges which is also undue favour extended to the party by the management.

Audit is of the view that the management has extended undue favor to M/s. Colombo Dockyard PLC by awarding it additional contract of installation of Ballast Water Treatment System (BWTS) at a cost of US$153,549 equivalent to Rs.24.413 million in violation of rules and against the approval of expenditure.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate the matter and fix responsibility on person (s) at fault.

4.1.4 Irregular award of contract for procurement of Ballast Water Treatment System of MV Malakand -US$207,900 equivalent to Rs.33.721 million

Rule - 20 of PPRA Rules, 2004, stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

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

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management awarded the contract to M/s. Headway Technology Group (Qingdao) Co. Ltd, for supply of Ballast Water Treatment System (BWTS) for PNS Ship MV Malakand worth US$207,900 equivalent to Rs.33.721 million directly on the basis of emergency stating dry docking of MV Malakand was scheduled on 27th October, 2019. However, the actual dry dock was carried out from 10-01-2020 to 21-02-2020 (03 month late). Furthermore, purchase order was issued to M/s. Headway Technology Group (Qingdao) Co. Ltd, for supply of BWTS and agreement was signed with the supplier on 23rd September, 2019, but advance 20% payment of US$41,580 was paid on 18th October, 2019 and 70% on 6th November, 2019.

Audit is of the view the management directly procured Ballast Water Treatment System (BWTS) from the supplier without having any emergency situation, as the dry docking was pre-planned work, carried out twice in a five-year period.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate the matter and fix responsibility on person (s) at fault.

4.1.5 Irregular award of marine paints contract to 2nd lowest bidder - Rs.19.906 million

According to Rule-38 of PPRA Rules, 2004, the bidder with the lowest evaluated bid shall be awarded the procurement contract, within the original or extended period of bid validity.

Rule 36 (b) (viii) & (b) (ix) of PPRA Rules, 2004, stipulates that (viii) 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; and (ix) the bid found to be the most advantageous bid shall be accepted.

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management awarded contract of dry-docking marine paints of vessel MV Multan to the 2nd lowest bidder M/s. PT PPG Coatings. The tender for dry docking marine paints was floated in newspapers on 24-12-2017 against which three suppliers submitted their bids and were declared technically qualified. After evaluation of financial bid, M/s Jotun Paint stood 1st with lowest bid of US$117,237. However, the management awarded the contract to 2nd lowest bidder M/s. PT PPG Coatings at total value of USD 119,200 equivalent to Rs.19,906,400. Detail of bids is as under:

S#	Name of Contractor	Bid Value in US$	Total Cost in Rs.	Status
1	M/s Jotun Paint	117,237	19,578,579	1st Lowest
2	M/s PT PPG Coatings	119,200	19,906,400	2nd Lowest
3	M/s Akzo Nobel UAE Paints	133,104	22,228,368	3rd Lowest

Audit is of the view that the management extended undue favor and awarded contract for dry-docking marine paints of vessel to the 2nd lowest bidder at total value of USD 119,200 equivalent to Rs.19,906,400 and rejected the first lowest bidder even after the qualification in technical evaluation.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate the matter and fix responsibility on person (s) at fault.

4.1.6 Irregular award of dry-docking marine paints contract to the 2nd lowest bidder - Rs.12.8 million

According to Rule-38 of PPRA Rules, 2004, the bidder with the lowest evaluated bid shall be awarded the procurement contract, within the original or extended period of bid validity.

Rule 36 of PPRA Rules, 2004, on single stage – one envelope procedure for open competitive bidding, requires that each bid shall comprise one single envelope containing, separately, financial proposal and technical proposal (if any). All bids received shall be opened and evaluated in the manner prescribed in the bidding document. (ix) the bid found to be the lowest evaluated bid shall be accepted.

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management awarded contract of dry-docking marine paints of vessel MV Sibbi to the 2nd lowest bidder M/s. PT PPG Coatings. Tender for dry docking marine paints was floated in newspapers on 24-12-2017. Tender Committee recommended following three manufacturers as prequalified and same was also approved by the competent authority. Three prequalified contractors submitted their financial bids. After evaluation, M/s Jotun Paint, was 1st lowest bidder with a cost of US$74,156, however, tender committee discarded its bid on unjustified reasons and awarded contract to 2nd lowest bidder M/s. PT PPG Coatings at total value of US$82,356 equivalent to Rs.12,818,711. Details of bids submitted by the contractors against the tender are tabulated below:

S#	Name of Supplier	Bid Value in US$	Total Cost in Rs.	Status
1	M/s Jotun Paint (Malaysia)	74,156.60	11,542,474	1st Lowest
2	M/s PT PPG Coatings	82,356.00	12,818,711	2nd Lowest
3	M/s Akzo Nobel UAE Paints	101,116.49	15,738,705	3rd Lowest

Audit is of the view that the management extended undue favor and awarded contract for dry-docking marine paints of vessel MV Sibbi to the 2nd lowest bidder M/s. PT PPG Coatings at total value of Rs.12,818,711 and rejected the first lowest bidder even after qualifying technical evaluation.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate the matter and fix responsibility on person (s) at fault.

4.1.7 Irregular award of contract of dry docking of MV Malakand to 4th lowest bidder- US$2,324,539 equivalent to Rs.362.628 million

Rule - 20 of PPRA Rules, 2004, stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

Rule - 4 of PPRA Rules, 2004, states that 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.

According to Rule-38 of PPRA Rules, 2004, the bidder with the lowest evaluated bid shall be awarded the procurement contract, within the original or extended period of bid validity.

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management awarded contract of

Dry Docking of MV Malakand to M/s. Colombo Dockyard PLC at a total cost of US$2,324,539 equivalent to Rs.362.628 million being the only evaluated bidder. On the scrutiny of file and e-mail record submitted by the bidders, it was found that out of 40 shipyards, only 05 shipyards submitted bids which were evaluated but only one bid was shown in the approval sheets for award of the contract while four remaining bids were technically disqualified on the basis of e-mail clarifications. The record of the rejected bids was not available in the relevant files and the same was called by Audit but was not provided to justify the disqualification version of management. The management allowed price increases. As per scrutiny of e-mail record, five shipyards submitted bids and 03 lowest bidders were disqualified on technical grounds. Details of bids submitted by 05 shipyards are tabulated are as under:

S#	Name of Shipyard	Date of bid submission	Duration of Dry-Docking	Bid cost in US$	Standings	Remarks
1.	M/s. Zhoshan Huafeng Shipyard Co. Ltd	-	50	2,429,392	5th lowest	Rejected
2.	M/s. Zhoshan Huafeng Shipyard Co. Ltd	-	45	2,366,692	3rd lowest	Rejected
3.	M/s. Ruitai Nantong Shipyard Co. Ltd	-	20	1,269,977	1st lowest	Rejected
4.	M/s. Zhoushan Xinya Shipyard Co. Ltd	-	38	2,236,935	2nd lowest	Rejected
5.	**M/s. Colombo Dock yard PLC**	**09.10.2019**	**24**	**2,324,539**	**4th lowest**	**Contract awarded**

The management unjustifiably awarded contract to M/s. Colombo Dockyard PLS and also allowed price increases. Scrutiny of e-mail record reflected that this supplier submitted bid before the deadline i.e. 09.10.2019 but PNSC management in violation of PPRA rules disqualified 04 lowest bidders (their financial bids should have been returned unopened had they not been the responsive bidders) on technical grounds and awarded contract to M/s. Colombo Dockyard PLC which was 4th lowest in price.

Audit is of the view that the management has extended undue favor to M/s. Colombo Dockyard PLC by awarding dry docking contract at a cost of US$2,324,539 equivalent to Rs.362.628 million in violation of rules.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate irregular award of contract to 4th lowest bidder and fix responsibility on person (s) at fault.

4.1.8 Irregular award of contract of dry Docking of MV Multan to 3rd lowest bidder - US$2,592,903 equivalent to Rs.432.367 million

Rule - 20 of PPRA Rules, 2004, stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

Rule - 4 of PPRA Rules, 2004, states that 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.

According to Rule-38 of PPRA Rules, 2004, the bidder with the lowest evaluated bid shall be awarded the procurement contract, within the original or extended period of bid validity.

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management awarded contract of dry docking of MV Multan to M/s. Colombo Dockyard PLC at a total cost of US$2,592,903 being the only single evaluated bidder. Out of 40 shipyards contacted through e-mail , only 03 submitted bids and the same were evaluated but only one bid was shown in the approval sheets and two remaining bids were disqualified on the basis of e-mail clarifications. The record of the rejected bids was not available in the relevant files and the same was called by the Audit but was not provided to justify the disqualification version of management. The management allowed price increases and as per scrutiny of e-mail record, three shipyards submitted bids, but the management disqualified the two lowest bidders on technical grounds Details of bids submitted by 03 shipyards are tabulated are as under:

S#	Name of Shipyard	Date of bid submission	Time for Dry-Docking days	Bid cost in US$	Standing	Remarks
1.	M/s. Zhoushang Longsheng Ship Industry Co. Ltd	-	20	1,121,901	1st lowest	Rejected
2.	M/s. Ruitai Nantong Shipyard Co. Ltd	-	20	1,284,172	2nd lowest	Rejected
3.	**M/s. Colombo Dockyard PLC**	**25-05-2021**	**32**	**2,241,925**	**3rd lowest**	**Contract awarded**

Audit is of the view that the management has extended undue favor to M/s. Colombo Dockyard PLC by awarding dry docking contract at a cost of US$2,592,903 equivalent to Rs.432.367 million in violation of rules.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate irregular award of contract and fix responsibility on person (s) at fault.

4.1.9 Irregular award of dry-docking marine paints contract to M/s Colombo Dockyard Ltd -Rs.13.909 million

According to Rule-38 of PPRA Rules, 2004, the bidder with the lowest evaluated bid shall be awarded the procurement contract, within the original or extended period of bid validity.

Rule 36 of PPRA Rules, 2004, on single stage – one envelope procedure for open competitive bidding, requires that each bid shall comprise one single envelope containing, separately, financial proposal and technical proposal (if any). All bids received shall be opened and evaluated in the manner prescribed in the bidding document. (ix) the bid found to be the lowest evaluated bid shall be accepted.

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management awarded contract of dry-docking marine paints of tanker Lahore to M/s Colombo Dockyard Ltd. The management invited bids from pre-qualified bidders for supply of dry-docking marine paints. Three suppliers namely, M/s Akzo Nobel, M/s PT PPG Coating and M/s Jotun Paint, submitted their bids and M/s PT PPG Coating was evaluated lowest bidder and was awarded the contract at a total value of US$88,770.50 equivalent to Rs.11,034,173/-. Later on, M/s PT PPG Coatings regretted the availability of paint within specified time mentioned in their bid. Then, the management decided to procure paints from M/s Colombo Dockyard Ltd on spot bargaining basis at a cost of US$100,871 equivalent to Rs.13,909,777. Further, M/s Colombo Dockyard submitted invoice of US$111,904 equivalent to Rs.13,909,777 on account of dry-docking paints and the difference of US$11,033 was adjusted in Dockyard Service Charges.

Audit is of the view that the management did not follow competitive bidding, extended undue favor and procured dry-docking marine paints for tanker Lahore from M/s Colombo Dockyard at total value of Rs. 13,909,777. Thus, the procurement of dry-docking marine paints for tanker Lahore from M/s Colombo Dockyard was held irregular and unjustified in audit.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate the matter and fix responsibility on person (s) at fault.

4.1.10 Irregular award of contract for procurement of spare parts - Rs.16.613 million

Rule - 20 of PPRA Rules, 2004, stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

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

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management awarded the contract of supply of spare parts directly through e-mail, without going through competitive bidding process. The management awarded various contracts to agents stating that they were the only single suppliers in the market. Details of some spare part contracts awarded by PNSC during the year 2019-20 are tabulated below:-

S#	Description	Details of manufacturer	Supplier/Agent awarded contract	Amount of contract in (JPY)	Amount in Pak Rupees
1.	Spare parts code book- MV Hyderabad	Yanmar Co. LTD	Albwardy Damen	1,044,360	1,664,605
2.	-do-	-do-	-do-	670,326	1,060,188
3.	Mitsubishi Self-Injector F.O purifier MV Karachi	M/s. Mitsubishi Kakoki Kaisha KT	-do-	1,436,400	2,050,318
4.	Auxiliary Engine. MV Karachi	M/s. Yanmar Co. Ltd	-do-	3,266,904	4,689,640
5.	Cylinder Block & Liner-MV Sibbi	M/s. Yanmar Diesel Engine	-do-	961,470	1,365,672
6.	Auxiliary Engine. MV Sibbi	-do-	-do-	2,315,610	3,289,092
7.	-do-	-do-	-do	161,700	251,007
8.	-do-	-do-	-do-	2,593,038	3,68,3,151
9.	Lubricant Oil Purifier. MT Khairpur	M/s. Samgong Mitsubishi	-do-	762,930	1,056,124
10.	Yanmar Diesel Engine	M/s. Yanmar Amagasaki Japan	-do	820,980	1,187,219
Total					**16,613,865**

In addition to the above, following irregularities were observed:

1. Advance 100% payments were made without receiving the guarantee/warranty of the procurement of spare parts.
2. M/s. Albwardy Damen, Marine Engineering (Dubai) Ltd was an agent/supplier of the different companies and submitted certificates of authorized agent.
3. M/s. Yanmar Ltd liaison office Dubai has been issuing authorization letter to the supplier M/s. Albwardy Engineering Company at Dubai instead of providing the sole agent/supplier certificate.
4. The management of PNSC was issuing purchase order in piece meal of the same vessels in order to avoid competitive bidding process.

5. Delivery orders of the procured spare parts were neither available nor were provided to Audit, which shows that the same were not received by the store department of the PNSC as only stamp copy of ship captains for receipt of spare parts were available in the files.
6. Certificate of working spare parts fixed by the shipyard were also not available and provided to audit which could justify whether actual spare parts were replaced and new fixed.

Audit is of the view that the management extended undue favor to the supplier, M/s. Albwardy Damen, Marine Engineering (Dubai), by awarding contract in violation of the PPRA rule as the said contractor was not a sole supplier for providing spare parts of different manufacturing companies.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate the matter and fix responsibility on person (s) at fault under intimation to Audit.

4.1.11 Irregular award of contract for procurement of spare parts - Rs.8.154 million

Rule - 20 of PPRA Rules, 2004, stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

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

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management awarded contract by directly approaching the supplier, M/s. Main Energy Solution, through e-mail and getting quotation instead of awarding contract through competitive bidding. Details of some spare-parts contract awarded by PNSC during the year 2019-20 are tabulated below:-

S#	Description	Name of manufacturer	Name of Supplier/Agent awarded contract	Amount of contract in Rs.
1.	Main Engine Stuffing Box, MV Sibbi	M/s. Makita Mitsui	M/s. Main Energy Solution	1,580,882
2.	Main Engine Fuel Pump, MV Sibbi	-do-	-do-	2,318,412
3.	Main Engine Piston & ROD Exhaust Valve, MV Sibbi	-do-	-do-	1,765,604
4.	Main Engine, MV Sibbi	-do-	-do-	2,488,981
Total				**8,153,879**

Audit is of the view that the management extended undue favor to the supplier M/s. Main Energy Solution by awarding contract of spare-parts of MV Sibbi directly in violation of PPRA rule as the said contractor was not a sole supplier of the spare parts of different manufacturing companies.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate the matter and fix responsibility on person (s) at fault under intimation to Audit.

4.1.12 Irregular / unjustified procurement of spare parts of ballast water pump of MV Multan - Rs.1.249 million

Rule - 20 of PPRA Rules, 2004, stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

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

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management directly procured spare-parts of ballast pump, on requisition of Master and Chief Engineer of MV Multan. The management directly approached the supplier through e-mail and awarded the contract for procurement of ballast pump to M/s. ISS Machinery Services Ltd. at a total cost of JPY 807,100 equivalent to Rs.1,249,148.67 in violation of PPRA rules.

Management of PNSC had already procured complete system of Ballast Water System (BWS) from M/s. Headway Technology at US$214,000 equivalent to Rs.34.240 million along with paid commissioning charges of US$171,338 equivalent to Rs.27.417 million to M/s. Colombo Dockyard PLC, but the spare parts of the same newly procured system were also procured during the year from M/s. ISS Machinery Services Ltd., which was unjustified and irregular.

Audit is of the view that the management extended undue favor to the supplier, M/s. ISS Machinery, by awarding contract of ballast pump and their spare parts in violation of PPRA rules.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate the matter and fix responsibility on person (s) at fault under intimation to Audit.

4.1.13 Irregular / unjustified procurement of spare parts of ballast water pump of MV Sibbi - Rs.1.566 million

Rule - 20 of PPRA Rules, 2004, stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

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

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management directly procured spare parts of ballast pump. The management directly approached the supplier through e-mail and awarded contract for procurement of ballast pump to supplier, M/s. Chong Lee Leong Seng (CLLS) Company Ltd, Singapore at SGD13,034 equivalent to Rs.1,566,295.78 in violation of PPRA rules.

Management of PNSC had already procured complete system of Ballast Water System (BWS) from M/s. Headway Technology at total cost of approximately US$208,000 equivalent to Rs.33.280 million along with commission charges of US$146,182 equivalent to Rs.8.771 million from M/s. Colombo Dockyard PLC, but spare parts of the same / new procured system were also procured during the year from M/s. ISS Machinery Services Ltd., which was unjustified and irregular.

Audit is of the view that the management extended undue favor to the supplier, M/s. ISS Machinery, by awarding contract of ballast pump and their spare parts in violation of PPRA rules.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate the matter and fix responsibility on person (s) at fault under intimation to Audit.

4.1.14 Unjustified expenditure on procurement of spare parts of MV Shalamar without dry-docking - Rs.54.696 million

According to PNSC Internal Control System (ICS) General Guidelines: Clause-2.7.2.3(3):- Head of the departments and concerned officers delegated with authority are responsible for approvals culminating in financial expenditure and are accountable for all transactions submitted by their respective department. However, due diligence will be carried out by Finance Department, including financial discipline, appropriateness of the transaction and compliance of relevant rules and procedures.

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management planned the dry-docking of vessel MV Shalamar during the year 2019-20, but the same was not carried out and the reserved budgeted amount was utilized for the repair maintenance of the ship instead of dry-docking. Details of approved budget reserved and not utilized for dry docking of MV Shalamar during the period 2019-20 are tabulated below:

As per PNSC Dry-Docking time line 2019-20

S#	Description	Budgeted amount in US$	SM department estimation in US$	LEC approval Cost in US$	Actual cost incurred against dry-docking in Rs.
1.	Dry-Docking Cost	797,000	690,000	2,233,846	5,383,832
2.	Dry-Docking Paint	-	120,000	110,000	
Total					**5,383,832**
Procurement of Spare Parts in 2019-20					**49,585,889**
Grand Total					**54,696,721**

Moreover, as per scrutiny of budget of spare parts procured for repair and maintenance of vessel MV Shalamar, it was observed that the management of PNSC, without dry-docking, incurred expenditure of Rs.49.586 million in 2019-20 for procurement of spare parts during the repair maintenances of the vessel, which was unjustified and irregular.

Audit requisitioned the detailed plan of dry-docking along with actual budget utilized against the dry-docking vide requisition No.02 dated 24-05-2021, but the same was not provided.

Audit is of the view that the management misused the capital budget reserved in the head of dry-docking of vessel, MV Shalamar, and also incurred unjustified expenditure on procurement of spare parts of vessels in violation of the above stated rules which showed weak financial management in the Corporation.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate the matter and fix responsibility on person (s) at fault under intimation to Audit.

4.2 Financial Management

4.2.1 Misprocurement of dry docking of PNSC vessels - Rs.730.183 million

Rule - 4 of PPRA Rules, 2004, states that 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 – 30 ibid states that all bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents. No evaluation criteria shall be used for evaluation of bids that had not been specified in the bidding documents.

Rule – 32 ibid states that save as otherwise provided, no procuring agency shall introduce any condition, which discriminate between bidders or that is considered to be met with difficulty. In ascertaining the discriminatory or difficult nature of any condition reference shall be made to the ordinary practices of that trade, manufacturing, construction business or service to which that particular procurement is related.

Rule – 35 ibid states that procuring agencies shall announce the results of bid evaluation in the form of a report giving justification for acceptance or rejection of beds at least ten days prior to the award of procurement contract.

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management has been awarding dry docking contracts in violation of PPRA rules. Following irregularities were observed during the scrutiny of dry-docking contracts of PNSC vessels for the years 2018-19 & 2019-20:

1. E-mail record of dry docking was called but incomplete record was provided to audit and scrutiny of the provided record,shared that the management had technically disqualified lowest bidders on the basis that they did not provide data in excel format i.e. MV Hyderabad, MV Multan, MV Chitral and MV Malakand etc.
2. The management awarded additional contract work as well as extended dry-docking period from the initially awarded period i.e. MV Multan, MV Chitral, MT Lahore etc. This resulted into opportunity loss and incurring of excess expenditure than the budgeted amount.
3. The management did not undergo effective planning before awarding of dry-docking contract and even engineering estimates of the work were not prepared/available in the relevant files, resulting into abnormal/excess expenditure.
4. E-mail of dry-docking of the retendered MT Lahore was not available in the files as the management retendered and awarded the contract to M/s. Colombo Shipyard PLC in violation of PPRA rules.
5. The management nominated Chief Internal Auditor (CIA) to travel to the shipyards for settlement of dry-docking invoice of MT Lahore which was in violation of PPRA Rules and Internal Control Manual. This reflects that procurement was not made in a fair, transparent and economical manner.
6. Dry docking contract of MV Multan was awarded to M/s. Colombo Dockyard PLC as it was the only shipyard qualified for award of contract and remaining shipyards i.e. M/s. Ruitai Nantong Shipyard Co. Ltd, M/s. Zhoushan Long Sheng Ship Industry Co. Ltd and M/s. Dung Quat Shipyard were technically disqualified due to non-submission of bid forms in Excel Sheet format and even the comparative statement of financial bids were not prepared and the same were also not available on files. Moreover, bids submitted through e-mail were required to audit, but the same were not provided by the management, stating that due to virus, the data was removed and the same was not available in personal computers (PCs) as well as in e-mails.

Audit is of the view that management did not adhere to the rules while making procurements in the above instances. Thus, there were instances of misprocurement of dry docking amounting to Rs.730.183 million.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate the matter and fix responsibility on persons found at fault.

4.2.2 Unjustified excess expenditure against budget in procurement of spare parts-Rs.69.525 million

According to per Internal Control Manual of PNSC Clause-2.7.2.3(1), all expenses should be within the approved departmental budgets and for the purpose of business, wherein financial propriety is ensured.

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management utilized excess budget against the approved budget in procurement of spares of vessels for dry-docking. Detail of vessel-wise excess expenditure against approved budget is given as under:

(Amount in Rs.)

S#	Vessel Name	Approved Budget 2019-20	Actual budget utilized in 2019-20	Excess Expenditure in 2019-20	Excess Expenditure in percentage
1.	MV Chitral	34,454,545	41,592,370	7,137,762	20.72
2.	MV Malakand	34,454,545	60,016,499	25,561,954	74.19
3.	MV Sibbi	34,454,545	46,239,389	11,784,844	34.20
4.	MT Karachi	34,454,545	39,489,459	5,034,914	14.61
5.	MT Lahore	34,454,545	38,820,357	4,365,812	12.67
6.	MT Shalamar	34,454,545	49,585,889	15,131,344	43.92
7.	MT Quetta	34,454,545	34,962,805	508,260	1.48
Total		**241,181,815**	**310,706,768**	**69,524,953**	**28.827**

Audit is of the view that the management incurred excess expenditure amounting to Rs.69.953 million for procurement of spare parts of dry-docking of PNSC vessels.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to justify the matter and fix responsibility on person (s) at fault under intimation to Audit.

4.2.3 Loss of income due to non-disposal of replaced plates of MV Multan - Rs.36.00 million

According to per General Conditions of Contract of Dry-dock Multan clause-5, Tools Equipment, Material and Workmanship (c), all old material, except heavy parts of machinery, propellers, steel and tail shafts shall be the contractor's property, unless otherwise agreed in writing. However, removal of all such material, debris etc. and the cleaning of all work spaces during and after repairs, will be at the Contractor's cost and responsibility.

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management awarded contract of dry-docking of MV Multan to M/s. Colombo Dockyard PLC at Rs.433.467 million, plus additional cost for replacement of steel plates of 120 metric ton and other items were made at a cost of US$900,000 equivalent to Rs.83,350,000. Furthermore, as per contract agreement, the heavy material, especially old steel plates, was the property of ship-owner, however, the same was disposed of by the shipyard and scrap value (1/4 of total cost of new plates=US$900,000×1/4=US$225,000 equivalent to Rs.36,000,000) was not duly adjusted/recovered from the shipyard by PNSC management against the total bill of drydock.

Audit is of the view that the management extended undue favor to the contractor by non-adjusting/recovering the scrap value of replaced plates of 120 metric tons. The management disposed of the said scrap material to any third party which resulted into loss of income amounting to Rs.36.00 million to the Corporation.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate the matter and conduct an inquiry with a view to fix responsibility on person (s) at fault.

4.2.4 Loss of income and incurring of excess expenditure due to late delivery of PNSC vessels - Rs.88.696 million

According to per General Terms & Conditions of Dry Docking Contract Clause-6 & 8, the yard shall undertake that it shall give the highest priority to the work and any additional work and shall not assign a higher priority to any other work which may interfere with its diligent prosecution of work and any additional work.

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that four vessels of the Corporation utilized more days during dry docking than the actual planned days which led to not only incurring of excess expenditure of fuel, but also resulted into opportunity loss in the form of freight income business. Details of dry dock period, excess expenditure and loss of freight income sustained during the period 2018-19 and 2019-20 are calculated as under:

S#	Vessel Name	Name of Contract awarded	Approved days	Actual days	Difference	Opportunity cost per day calculated in US$	Opportunity Cost lost in US$	Total Passage Cost in US$	Total cost incurred during dry dock in US$	Total Cost incurred in dry dock in - Rs.
1	Chitral	M/s. Zhoushan Nanyang Star Building Co. Ltd.	28	51	23	8,676	199,548	17,240	216,788	34,057,395
2	Sibbi	M/s. Colombo Dockyard PLC	24	27	03	6,567	19,701	0	19,701	3,091,087
3	Malakand	M/s. Colombo Dockyard PLC	24	39	15	10,521	157,815	235,903	181,405	28,299,180
4	Multan	M/s. Colombo Dockyard PLC	24	32	08	8,815	70,520	68,898	139,418	23,247,952
Total									**557,312**	**88,695,614**

Audit is of the view that dry-docking of the vessels beyond the time specified resulted into opportunity cost and excess expenditure.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to justify the matter and fix responsibility on person (s) at fault under intimation to Audit.

4.2.5 Non-recovery of late delivery charges - US$155,000 equivalent to Rs.24.413 million

Rule-38 (1) of GFR provides that it is primarily responsibility of the departmental authorities to see that all revenue or other debts due to government, which have to be brought to account, are correctly and promptly assessed, realized to public account.

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the dry docking of MV Malakand contract was awarded to M/s. Colombo Dockyard PLC on 10-01-2020, initially at a total cost of US$930,000, but actual cost of dry dock incurred was US$1,085,000 and an additional cost of US$155,000 equivalent to Rs.24.413 million was adjusted against Liquidated Damages (LD) charges by the management of PNSC in violation of rules.

Audit is of the view that the management extended undue favor and awarded additional contract of installation of Ballast Water Treatment System (BWTS) to M/s. Colombo Dockyard PLC at a cost of US$153,549 equivalent to Rs.24.413 million and did not recover the Liquidated Damages (LD) charges from the contractor and adjusted the same in violation of rules and against the approval of expenditure.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to justify the matter and fix responsibility on person (s) at fault.

4.2.6 Unjustified excess expenditure of dry docking of MT Lahore-Rs.13.655 million

According to General Terms & Conditions of Dry Docking Contract Clause-6 & 8, the yard shall undertake that it shall give the highest priority to the work and any additional work and shall not assign a higher priority to any other work which may interfere with its diligent prosecution of work and any additional work.

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the management awarded the contract of dry docking of MT Lahore to M/s. Colombo Dockyard PLC, Sri Lanka being the 1st lowest bidder at a total cost of US$1,598,101. However, the management paid excess amount against the tender cost of the services offered by the shipyard. Details of excess cost paid by the management during the dry docking of MT Lahore 2018-19 are as under:

S#	Description	Approved Cost/Offered Cost in US$	Actual Cost incurred in US$	Excess Expenditure Paid in US$	Total excess expenditure paid in Rs.
1.	Docking & General Services	64,889.60	76,301.18	11,411.58	1,417,318.24
2.	Access opening cutting between Engine Room & Pipe Room	7,529.90	98,068	98,538.10	12,238,432.02
Total		**72,419.50**	**174,369.18**	**101,949.68**	**13,655,750.26**

Audit is of the view that the management made excess expenditure against the offered and tender price of the contract amount in violation of the above stated rules.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to investigate the matter and fix responsibility on person (s) at fault under intimation to Audit.

4.3 Monitoring & Evaluation

4.3.1 Irregular appointment of Chief Internal Auditor as chairman tender committee in procurement of dry docking services -Rs.408.802 million

According to Corporate Governance SOPs of PNSC, Chapter-2, 2.5.8, Tender Committees, Category "C" over Rs.1,000,000, General Manager to be nominated by the Chairman, will act as the Chairman of the Tender Committee for the purpose of inviting tenders, carrying out evaluation of bids received and for making appropriate recommendations for final approval by the concerned Divisional head, Executive Director (Finance).

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that Chief Internal Auditor, Mr Baber Jamal Zubairi, was appointed as Chairman of Tender Evaluation Committee for procurement of Dry-docking services of the following PNSC vessels;

(Amount in Rs.)

S#	Ship Name	Period	Contract Amount	Contractor name
1	MV Chitral	2019-20	92,429,400	M/s Zhoushan Nanyang Star Ship building Co. Ltd.
2	MV Sibbi	2019-20	134,000,000	M/s Colombo Dockyard
3	MV Multan	2019-20	182,373,000	M/s Colombo Dockyard
Total			**408,802,400**	

Audit is of the view that appointment of Chief internal Auditor (CIA) as Chairman of Tender Evaluation Committee for procurement of dry-docking services of the PNSC vessels is conflict of interest as the CIA's job description did not require him to be involved in operational/procurement activities. The management was rather required to appoint a General Manager for the same but instead it appointed CIA, which was irregular and unjustified.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to justify the matter along with documentary support or fix responsibility on person (s) at fault under intimation to Audit.

4.3.2 Irregular appointment of General Manager (Legal) as Chairman Tender Committee of procurement of Dry-docking services of MV Malakand - Rs.147.860 million

According to Corporate Governance SOPs of PNSC, Chapter-2, 2.5.8, Tender Committees, Category "C" over Rs.1,000,000, General Manager to be nominated by the Chairman, will act as the Chairman of the Tender Committee for the purpose of inviting tenders, carrying out evaluation of bids received and for making appropriate recommendations for final approval by the concerned Divisional head, Executive Director (Finance).

During special audit of PNSC procurement & contract management of dry-docking for the years 2018-19 & 2019-20, it was observed that the General Manager (Legal) Mr Zafarullah Khan was appointed as Chairman of Tender Evaluation Committee for procurement of Dry-docking services of PNSC vessel MV Malakand:

(Amount in Rs.)

S#	Ship Name	Period	Contract amount	Contractor Name
1	MV Malakand	2019-20	147,860,700	M/s Colombo Dockyard

Audit is of the view that appointment of General Manager (Legal) as Chairman of Tender Evaluation Committee for procurement of Dry-docking services of MV Malakand is conflict of interest as the GM Legal's job is related to legal matters only and it did not require him to be involved in operational/procurement activities. Thus, the procurement of dry-docking services made through the GM legal was irregular and unjustified.

The matter was reported to the management on 08.09.2021, but no reply was received.

Despite request and subsequent reminders on 12.10.2021 and 06.10.2022, DAC meeting was not convened by the PAO.

Audit recommends the management to justify the matter along with documentary support or fix responsibility on person (s) at fault under intimation to Audit.

5. CONCLUSION

Audit observed that there are instances of deviation from procurement rules. Some of the instances reflected that procurements are not made in a fair & transparent manner. The lowest evaluated bidders were rejected after declaring them responsive bidders which compromised competitive process & value for money.

ACKNOWLEDGEMENT

We wish to express our appreciation to the Management and Staff of Pakistan National Shipping Corporation for the assistance and cooperation extended to the auditors during this assignment.