SPECIAL AUDIT REPORT
ON
THE ACCOUNTS OF
PAKISTAN TEXTILE CITY LIMITED
AUDIT YEAR 2018 - 19

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 on the accounts of Pakistan Textile City Limited (PTCL) was carried out accordingly.

The Directorate General Commercial Audit and Evaluation (South), Karachi conducted Special Audit of Pakistan Textile City Limited (PTCL) during November 29, 2018 to February 08, 2019 for the period 2015 to 2017 with a view to report significant findings to the stakeholders. Audit examined the economy, efficiency, and effectiveness aspects of the PTCL. In addition, Audit also assessed, on test - check basis, whether the management complied with applicable laws, rules, and regulations in managing the PTCL. The Special Audit Report indicates specific actions that, if taken, will help the management realize the objectives of the PTCL. The observations included in this report have been finalized in light of discussion in the DAC meeting.

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

Dated:
Islamabad

(Muhammad Ajmal Gondal)
Auditor General of Pakistan

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ABBREVIATIONS AND ACRONYMS

AGP	Auditor General of Pakistan
BoD	Board of Directors
BoG	Board of Governors
BOO	Build-Own-Operate
BoQ	Bill of Quantity
BOT	Build-Operate-Transfer
CC	Cubic Centimeter
CEO	Chief Executive Officer
CETP	Combined Effluent Treatment Plant
CFO	Chief Financial Officer
CNIC	Computerized National Identity Card
DAC	Departmental Accounts Committee
DG	Director General
DGCA&E	Directorate General Commercial Audit & Evaluation
ECNEC	Executive Committee of the National Economic Council
EIA	Environmental Impact Assessment
EMC	Registered name of a company
EOGM	Extraordinary General Meeting
EOT	Extension of Time
EPC	*Engineering, procurement, and construction*
EPZA	Export Processing Zones Authority
GFR	General Financial Rule
GM	General Manager
GoP	Government of Pakistan
GoS	Government of Sindh
HR	Human Resource
HRSG	Registered name of a company
IA	Implementation Agreement
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
INTOSAI	International Organization of Supreme Audit Institutions
KESC	Karachi Electric Supply Company
KPMG	Registered name of a company
KW&SB	Karachi Water and Sewerage Board
LAD	Land Acquisition Department
LD	Liquidated Damages
LLB	Bachelor of Laws
LOA	Letter of Acceptance
MBA	Masters in Business Administration

MGD	Million Gallons per Day
MMCFD	Million Cubic Feet per Day
MoU	Memorandum of Understanding
MP	Management Position
MPA	Masters in Public Administration
MW	Mega Watt
NBP	National Bank of Pakistan
NEC	Registered name of a company
NESPAK	National Engineering Services of Pakistan
NOC	No Objection Certificate
OM	Office Memorandum
P&D	Planning & Development
PAO	Principal Accounting Officer
PEC	Pakistan Engineering Council
PIDC	Pakistan Industrial Development Corporation
PM	Prime Minister
PPA	Power Purchase Agreement
PPR	Public Procurement Rule
PPRA	Public Procurement Regulatory Authority
PQA	Port Qasim Authority
PTCL	Pakistan Textile City Limited
RFP	Request for Proposal
SECP	Securities and Exchange Commission of Pakistan
SFDAC	Synthetic Fiber Development and Application Centre
SI	Sitara-e-Imtiaz
SSGC	Sui Southern Gas Company
TID	Textile Industry Division
ToRs	Terms of Reference

EXECUTIVE SUMMARY

The Directorate General Commercial Audit & Evaluation (South), Karachi conducted Special Audit on the accounts of Pakistan Textile City Limited (PTCL) from November 29, 2018 to February 08, 2019. The main objectives of the audit were to; (1) Review project's performance against intended objectives, (2) Assess whether project was managed with due regard to economy, efficiency and effectiveness, and (3) Review compliance with applicable laws, rules, regulations and procedures. The audit was conducted in accordance with the INTOSAI Auditing Standards.

Key audit findings

i. Wasteful expenditure - Rs 6,101.42 million
ii. Unjustified land mortgage / loan for operational expenditure – Rs 2,182.203 million
iii. Non - availing of ECC approved additional financing facility due to inordinate delay - Rs 1,165 million
iv. Wasteful expenditure on infrastructure development of the textile city - Rs 1698.251 million
v. Irregular & unauthorized appointment, continuation of services beyond superannuation and payment of salary to CEOs & other officers - Rs 167.744 million
vi. Award of various work contracts without tender - Rs.213.340 million
vii. Unjustified additional payment to the contractor over and above the bid price - Rs 116.05 million
viii. Unjustified expenditure on obtaining electricity connections - Rs 42.680 million
ix. Irregular award of contract to the 2nd lowest bidder - Rs 29.251 million
x. Irregular capitalization of borrowing cost - Rs 653.015 million
xi. Non-payment of salaries / wages to employees - Rs 9.94 million
xii. Improper management of assets - Rs 15.377 million

Recommendations

i. Governance issues may be addressed on priority.
ii. Responsibility may be fixed on the persons at fault for appointing CEOs and other employees at higher salaries in violation of rules.
iii. The Chief Executive Officer and other officers (technical/non-technical) should be appointed in accordance with existing rules, regulations and procedures.
iv. Compliance of PPRA Rules 2004 may be made/ensured.

v. All the projects/works should be completed in time to avoid cost and time overrun, besides, damage to work done at the site.

vi. The rate of sale of land to investors of textile industries may be revisited/ revised.

vii. Rate of annual ground rent and other services should be charged to investors on prevailing market rate.

viii. Utilities such as water, electricity and gas should be arranged from PQA as the PQA is responsible for providing such facilities at site.

1. INTRODUCTION

Pakistan Textile City Limited was incorporated on May 18, 2004 under the Companies Ordinance, 1984 as a public unlisted Company. It is a joint venture of the Government of Pakistan, Public Sector Organizations and some of the financial institutions. Situated at Karachi, the Company is responsible for establishing the infrastructure of the Pakistan Textile City Project (the Project) which aims at providing all the necessary services for the establishment and development of the Textile City.

The details of the shareholders of the PTCL are as under:

Detail of shareholders:			
List of shareholders	**Percentage of holding**	**List of shareholders**	**Percentage of holding**
Government of Pakistan (GoP)	40	Export Processing Zone Authority (EPZA)	04
Government of Sindh (GoS)	16	Pak-Kuwait Investment Company (Private Limited)	04
Port Qasim Authority (PQA)	08	Pakistan Industrial Development Corporation	04
National Bank of Pakistan (NBP)	08	Saudi Pak Industrial and Agricultural Company	04
NIB Bank Limited	04	Pak-Libya Holding Company	04
Pak Oman-Investment Company Limited	04	**Total**	**100**

2. AUDIT OBJECTIVES

2.2.1 The major objectives of Special Audit were to:

i. Examine the expenditure and revenue of the Company during Financial Years 2015-17,
ii. Scrutinize process of award of contract and construction work of projects,
iii. Scrutinize record as to whether the projects were completed in time,
iv. Scrutinize as to whether the appointments were made in accordance with rules.
v. To see as to whether the procurements were made as per PPRA Rules.
vi. Analyze financial record with respect to existence and completeness of the transactions, etc.
vii. Review project's performance against intended objectives.
viii. Assess whether project was managed with due regard to economy, efficiency, and
ix. Review compliance with applicable laws, rules, regulations and procedures.

3. AUDIT SCOPE AND METHODOLOGY

3.1 Audit Scope

i. Functions of Pakistan Textile City vis-à-vis compliance with rules and regulations.
ii. Accounting records on random basis for the period 2015-17.
iii. Physical examination of assets and other relevant material of the company.

3.2 Audit Methodology

The Audit Methodology was:

i. Different meetings were arranged with the Management.
ii. Discussion among audit team members.
iii. The stratified random sample approach was applied to available data for examination and adequate evidence was gathered to support the observations.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Organization and Management

4.1.1. Wasteful expenditure due to poor performance of the Board of Directors and management – Rs.4,436.42 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, envisages that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objectives and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

Rule 23 of GFR states that every Government officer should realize fully that he will be held responsible for any loss sustained by the Government through fraud or negligence on his part.

During Special Audit of Pakistan Textile City Limited for the years 2015-17, it was observed that PTCL purchased 1250 acres of land from Port Qasim Authority (PQA) for establishing the infrastructure of the Pakistan Textile City Project in 2006 to 2007 vide allotment letter dated August, 2006 and February, 2007. On this land, an expenditure amounting to Rs 4,436.42 million was incurred, including cost of land. Detail is given as under:

					(Rs. in million)
S#	**Description**	**Amount**	**S#**	**Description**	**Amount**
1.	Cost of land	900.87	8.	Water Works	403.90
2.	Stamp duty and registration	90.58	9.	Combined effluent treatment plant	5.45
3.	Consultancy and Supervisory fee	114.07	10.	Road works	147.53
4.	Land Survey fee	0.97	11.	Electric work	40.50
5.	Borrowing cost	985.05	12.	Consultancy of power plant	14.05
6.	Project development cost	1,173.16	13.	Others	1.86
7.	Land leveling and grading	558.43		**Total**	**4,436.42**

Above expenditure proved unfruitful since project was not operationalized due to inefficient and uneconomical decision making. Some of such decisions were as under:

i. PTCL purchased land from PQA @ Rs 1.00 million per acre and decided to sale the land to investors @ Rs 21.00 million per acre, at 2000 percent higher than purchase price, which was unattractive for investors.

ii. Company failed to provide utilities such as Electricity, Water, Gas at the site despite incurring heavy expenditure. PQA was responsible for providing these facilities as per PQA Land allotment rules, but the management of PTCL did not make efforts to get these facilities from PQA, and tried to manage the same by itself. The management could not succeed to make these facilities available at the site, which was major cause of failure. The decision to finance the company’s day to day business through loan from NBP by mortgaging the project land also proved fatal and showed inefficiency of the management.

Audit was of the view that the management failed to run the company due to poor performance and inappropriate decisions. The objectives of Pakistan Textile City Limited to create, implement and manage an exclusive industrial zone that specialized in the large scale production of value added textile products were not materialized.

The Management vide its reply dated 15.05.2019 stated that main reasons for the delays in the completion of the project were following.

i. Non-availability of committed natural gas.
ii. Non-completion of dedicated water pipeline by KW&SB due to shortage of funding directly financed and monitored by GoP and GoS.
iii. Lack of support in raising the equity through right shares.
iv. The deals to sub-lease 200 acres to K-Electric to pay off total debt and mark-up did not succeed.

v. Non-arrangement of Government guarantee for captive power plant on Build-Own-Operate (BOO) basis.
vi. Blockage of accounts by NBP for more than four years during last five years.
vii. Allocation of Land after a delay of at least two years and under-capitalization of financing since inception also contributed towards non-performance.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.1.2 Illegal mortgage of land with National Bank for availing loan - Rs 1,250 million

According to Sr. No. (f) of lease agreement of land with Port Qasim Authority dated 13 September 2006, the lessor hereby acknowledge the purpose/ objective of the Project and grant rights to lessee for sublease, convey, transfer, retransfer, possess, repossess, all or any of the portion of the Demised Premises on such terms, conditions, rules, documents as the lessee deem fit singly without the permission/ approval and payment of fee/ charge lease to the lessor.

During Special Audit of Pakistan Textile City Limited (PTCL) for the years 2015-17, it was observed that management of PTCL mortgaged 1,250 acres of land purchased from Port Qasim Authority (PQA) with National Bank of Pakistan (NBP) for availing of loan to meet the day to day expenditure.

As per above provision of lease agreement, the company did not have the right to mortgage the land for availing loan facility. However, the land was mortgaged with the Bank which indicated a clear violation of lease agreement.

The management was required to arrange funds through its normal operations rather than arranging loan facility. The interest on the loan had accumulated tremendously over the years which the Company failed to pay back. This resulted in the blockage of the accounts of the Company and the Bank tried to confiscate the mortgaged property against such default. The Company was forced to hire legal consultant to release the mortgaged land.

Audit was of the view that the management failed to operate the business successfully and had to rely on the loans. This has put extra burden on the Company as it led to the risk of confiscation of land. As a result, the mortgage of PQA land of Rs 1,250.00 million to other party was illegal.

The matter was reported to the management in February, 2019. The Management vide its reply dated 15.05.2019 stated that PTCL was incorporated with SECP under Companies Ordinance, 1984 and the Board, under its powers in Companies Ordinance, 1984, had decided to mortgage land. Audit was of the view that as per terms of lease agreement with PQA, PTCL had no right to mortgage the land with NBP.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.1.3 Appointment of Chief Executive Officers without authorized Selection Board

The Establishment Division vide its OM. No. 1/72/2002-E.6 dated April 11, 2005, laid down procedure for the appointment of Chief Executive Officer of the autonomous bodies/organizations. Accordingly, Selection Board headed by the Minister In-charge shall consider and recommend from a panel of three names for the vacancy.

The constitution of Selection Board for the post of Chief Executive Officer shall be subject to approval of the Prime Minister through Establishment Division.

During Special Audit of Pakistan Textile City Limited for the years 2015-17, it was observed that the management appointed following Chief Executive Officers (CEOs) in violation of above orders of the Government of Pakistan.

				Amount in Rs.
Sr. No.	**Name of CEO**	**From**	**To**	**Salary per month**
1.	Mr. Zahid Zaheer	01-06-2005	31-01-2006	500,000
2.	Mr. Zaheer A Hussain	16-10-2006	31-07-2013	770,000
3.	Mr. Muhammad Hanif Kasbati	01-08-2013	31-03-2018	425,000

As per above orders of Establishment Division, Government of Pakistan, the Selection Board for the appointment of CEO was required to be headed by the Minister In-charge and the constitution of Selection Board was required to be approved by the Prime Minister (PM) through Establishment Division. This was not done.

PTCL constituted the Selection Board which included two (2) representatives of the Ministry of Textile and two (2) representatives of the Board of Directors. This was a clear-cut violation of the orders of the Establishment Division, Government of Pakistan. It could be inferred from above that the management extended undue favour to the incumbents who were appointed through unauthorized selection board. As a result, the appointment of above Chief Executive Officers was irregular and unjustified. The issue was communicated to the management and the Management vide its reply dated 15.05.2019 stated that:

(a) Appointment of Mr. Zahid Zaheer

It is mentioned in previous record of the Company that promoters of Pakistan Textile City had decided to form a Human Recourses Committee (HRC) to appoint HR consultant for selection of Chief Executive Officer in 2005. The Committee comprised following 4 members of the Board. Mr. S Ali Raza, Mr. Zafar Iqbal, Mr. Zaigham M. Rizvi and Mr. Azhar Jaffery.

The Committee developed profile of the CEO and devised advertisement strategy in consultation with HR Consultant both locally & internationally. Subsequently, the HR committee appointed KPMG as the HR consultant after inviting Expression of Interest. HR Sub - Committee consisted of following members of the Board: Dewan M. Yousuf Farooqi (Chairman), Mr. S. Ali Raza (Vice Chairman), Mr. Zafer Iqbal (Acting CEO), and Mr. Istaqbal Mehdi (CEO, Pak-Kuwait Bank).

An advertisement was published in Daily Dawn, The News and Business Recorder in January, 2005 for CEO position. Four candidates were shortlisted and interviewed by HR Sub - Committee of the Board. The Board after reviewing the profile and discussion on the remuneration package had approved appointment of Mr. Zahid Zaheer as CEO on one year contract.

(b) Appointment of Mr. Zaheer A. Hussain

In Board meeting, held on December 9, 2005, the HR Committee of the Board of Directors informed the Board that the committee had considered the subject of appointment of new CEO in their meeting in November, 2005 and shortlisted five (5) candidates for the interview. The candidates were interviewed on November 09, 2005 and Mr. Zaheer A. Hussain was selected as the best candidate. The profile and summary of all of the candidates and resume of Mr. Zaheer A. Hussain was also presented to the Board.

After detailed discussion, the Board decided to appoint Mr. Zaheer A. Hussain at a remuneration of Rs. 500,000 per month along with other benefits. The Board approved the appointment of Mr. Zaheer A. Hussain as new CEO of the Company w.e.f February 01, 2006.

(C) Appointment of Mr. Hanif Kasbati

In order to select the next CEO of the Company, vacancy was advertised in Daily Dawn and Business Recorder on July 7, 2013. The Ministry of Textile Industry, GoP had constituted a selection panel to conduct interviews of the candidates. The panel comprised following: Mr. M Raeesuddin Paracha (Senior Joint Secretary, TID, Convener), Mr. Mirza Ikhtiar Baig (Chairman of the Board), Mr. Abdul Rauf Siddiqui (Textile Commissioner) and Mr. Noman Khan (DG-P&D PQA).

The selection panel interviewed thirty one (31) shortlisted candidates. Majority of candidates had experience in Finance, marketing and management of industrial estate. The panel recommended five candidates for a final selection by Board, TID and GoP. On Recommendation of the selection panel Mr. Hanif Kasbati was appointed as Chief Executive Officer of the Company after the approval of Secretary Textile on a salary of Rs. 425,000 per month.

Thus, it could be established that no favor was given to any of the above candidates as these were appointed through HR Sub - Committee /Selection Board as per the approved criteria. Finally, the appointments of CEO's were approved by the Board of Directors of the Company.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the

Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.1.4 Fixing of Pay & Allowances of CEOs at exorbitant rates-Rs. 57.95 million

The Govt. of Pakistan, Finance Division vide its OM No. F.3(7)-R.4/98 dated August 18, 1998 introduced salary package and perqusites for professionals appointed on conrtact basis against top Managament Positions (MP) in the public sector organisatons.

Significant provisons of the above referred OM were as undr:

a. The salary package and perquisites of package MP-1 was meant for professional from the private sector proposed to be appointed on contract as Chief Executive in the public sector.
b. The terms and conditions of professionals appointed from the private sector against top management position in the public sector might be regulated/determined within the scope of salary and packages under reference.
c. The negotiated terms in each case might be submitted to the authority competent for formal approval. No other benefits of any kind would be admissible or might be considered for the contract appointments over and above those terms indicated in the perquisites packages under refernce.

The salary package of MP-1 as revised from time to time by the Govt. of Pakistan, Finance Division was as under:

(Amount in Rs.)

MP – I w.e.f.	Basic pay per month Minimum/ Maximum	House Rent Minimum/ Maximum	Utilities Minimum/ Maximum
18-08-1998	130,000/160,000	50,000/70,000	6,500/8,000
11-04-2007	195,000/240,000	75,000/105,000	9,750/12,000
01-01-2013	263,000/324,000	101,000/142,000	13,100/16,200
01-12-2016	289,300/355,300	101,000/142,000	13,100/16,200
14-07-2017	433,950/532,950	101,000/142,000	19,650/24,300

During audit of Pakistan Textile City Limited (PTCL) for the Years 2015-17, it was observed that the management appointed Chief Executive Officers at exorbitant salaries, in violation of above orders of Finance Division, Government of Pakistan. Detail of salary allowed to the CEOs is given as under:

S#	Name of CEO	From	To	Period in months	Salary drawn (Rs)	Salary Entitled (Rs)	Diff (Rs)	Total (Rs)
1.	Mr. Zahid Zaheer	01/06/2005	31-01-06	08	500,000	130,000	370,000	2960000
2.	Mr. Zaheer A Hussain	16-10-06	31-07-13	81	770,000	195,000	575,000	46,575,000
3.	Mr. Muhammad Hanif Kasbati	01/08/2013	31-03-18	52	425,000	263,000	162,000	8,424,000
Total								**57,959,000**

Audit was of the view that undue favour was extended to the officers by paying higher salary beyond the MP-I scales mentioned in the notification. This resulted in financial burden on the company which could have been avoided.

The matter was communicated to the management which was replied vide letter dated 15.05.2019 that Pakistan Textile City Limited was an independent Corporate Entity with the status of Public private Joint Stock Company, with GoP shareholding of less than 50%. The positions hired were not based on Government Scale and regulations. Therefore, the MP scales did not apply in this case.

The Companies Ordinance, 1984 as well as Articles of Association of the Company granted power to Board of Directors of the Company to determine the terms and conditions of the Chief Executive. They were entitled to fix the remuneration in order to hire professionals. Therefore, first, the calculation be corrected and observation be removed.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.1.5 Irregular appointment of CEO beyond the age of superannuation-Rs.57.445 million

Cabinet Secretariat (Establishment Division) letter No 06/02/2000 R-3 dated May 06, 2000 states iii) (a) where a nature of particular job/vacant position requires contract appointment for a specific period, standing instructions should be issued by the administrative Ministry/Division concerned, after consultation with the Chairman of the BoD/BoG, specifying such posts and parameters governing appointment on contract basis against such post. Selection should be made through regularly constituted selection board.(e) Vacancies should be advertised in the leading national and regional newspapers. (v) The contract appointments, where justified, may be made for maximum period of 02 years on standard terms including termination clause of one month or one month pay in lieu thereof.

According to Establishment Division O.M.No.4/1/84-R.I, dated 02-09-1990, all Ministries/Divisions are required to adhere to the instructions issued by the Establishment Division and not to allow any officer to continue in service beyond the age of superannuation or contractual appointment without prior approval of the competent authority i.e. Prime Minister.

During Special Audit of Pakistan Textile City Limited for the years 2015-17, it was observed that Mr. Zaheer A Hussain was appointed as CEO for a period of 03 years w.e.f.15-01-2006 on contract basis by the BoD in its 9th meeting held on 09-12-2005 at a salary of Rs 500,000/-per month.

As per above orders of Establishment Division, the maximum tenure of contract should have been two years. However, the management appointed him for a period of 03 years which was beyond the authorized time limit. The contract period expired on 15-01-2009, which was further extended for another period of 03 years vide circulation dated 19-02-2009. The BoD in 44th meeting held on 23-12-2011 approved the renewal of contract on existing terms and conditions at a salary of Rs.700,000 per month up to 15-01-2013. However, his services were continued as CEO till 31-07-2013.

In addition, he had attained the age of superannuation (60 years) on 27-04-2008, but continued for 05 years after superannuation without the approval of the Prime Minister of Pakistan. Thus, the appointment and extension of contract beyond the age of superannuation without approval of the Prime Minister and the salary amounting to Rs 57.445 million were irregular. Detail of salary is as under:

From	**To**	**Months**	**Salary (Rs)**	**Total (Rs)**
15-01-2006	14-01-2009	36	500,000	18,000,000
15-01-2009	14-01-2012	36	700,000	25,200,000
17-01-2012	14-01-2013	12	770,000	9,240,000
17-01-2013	31-07-2013	6½	770,000	5,005,000
			Total	**57,445,000**

Audit was of the view that the management extended undue favour to the officer by appointing and extending of his contract beyond the age of superannuation in violation of the directives of Establishment Division.

The matter was communicated to the management and its reply dated 15.05.2019 stated that in 9th Board meeting (held on December 9, 2005), the HR Sub-Committee informed the Board that the committee had considered the subject of appointment of new CEO in their meeting on November, 2005 and shortlisted five (5) candidates for the interview.

The candidates were interviewed on November 09, 2005 and Mr. Zaheer A. Hussain was selected as the best candidate for the position of CEO of Textile City. The profile and summary of all the candidates and resume of Mr. Zaheer A. Hussain was also presented to the Board. After detailed discussion, the Board decided to appoint Mr. Zaheer A. Hussain at a remuneration of Rs.500,000 per month along with other benefits.

Thus, it was established that no undue favor was given in his appointment. He was selected as the most suitable candidate for the post as he had vast relevant experience with senior management profile.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.1.6 Irregular appointment of GM, Human Resource - Rs.18.533 million

Establishment Division O.M.No.4/1/84-R.I, dated 02-09-1990 states that all Ministries/Divisions are required to adhere to the instructions issued by the Establishment Division and not to allow any officer to continue in service beyond the age of superannuation or contractual appointment without the prior approval of the competent authority i.e. Prime Minister.

The conditions for appointment of General Manager (as mentioned in the HR manual) were as under:

- Minimum Graduate qualification with specialization in HR, MBA/MPA in Human Resources
- 10-12 years' experience with similar position
- 35-40 years of age

During Special Audit of Pakistan Textile City Limited for the years 2015-17, it was observed that Ms. Rifaat Jafari was appointed as General Manager, HR in Grade M-3 vide appointment letter dated 03-02-2006.

Following irregularities were observed:

- Qualification of the said person was Bachelor in Arts. Whereas, the required qualification was graduate with specialization in HR, or MBA/MPA in Human Resources
- The officer did not possess required experience of 10-12 years in similar position.
- The age of officer was 52 years, which was beyond the limit.

Furthermore, it is worth mentioning here that the officer attained the age of superannuation on 30-04-2013, but was permitted to continue his services in the organization for one more year after the age of superannuation. This was in violation of above orders of Establishment Division of Government of Pakistan.

It could be induced from the above analysis that the appointment of GM-HR was in contravention of the Manuals of the company. Similarly, the decision of utilization of her services beyond the age of superannuation was in contravention of the Establishment Division Order. As a result, the payment of Rs 18.533 million on account salary was irregular and inadmissible.

Salary calculation is given below:

From	To	Months	Salary per month (Rs)	Total Amount (Rs)
15-09-2006	30-06-2007	9.5	130,000	1,235,000
01-07-2007	30-06-2008	12	144,000	1,728,000
01-07-2008	30-06-2009	12	170,000	2,040,000
01-07-2009	30-06-2010	12	200,000	2,400,000
01-07-2010	30-06-2011	12	230,000	2,760,000
01-07-2011	31-01-2014	31	270,000	8,370,000
Total				**18,533,000**

Audit was of the view that the management extended undue favour to the officer by appointing and extending of contract without observing relevant rules and regulations.

The Management vide its reply dated 15.05.2019 stated that the GM HR was hired in February, 2006 on the basis of her previous work experience. By that time, neither Human Resources Managers Manual nor any Job description was formulated by the Company. These documents were developed by CFO and GM HR of the

Company in July 2006 and finally approved by the Board of Directors in its 16th Board meeting held on February 14, 2007.

As per the record, GM HR had work experience of more than 25 years as for as experience is concerned, as mentioned in her CV, she worked as Assistant Director, HR and Administration for 18 years with M/s Arfeen GM. Her appointment was finalized by CEO after approval by the Board. Therefore, it was clear that the Company, being an independent Corporate Entity, could appoint personnel and define terms and conditions as well as Company's policies regarding age.

DAC in its meeting held on 16th March, 2020 decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.1.7 Appointment of General Manager, Technical operation without advertisement and continuation of his services after the age of superannuation –Rs.16.162 million

According to Establishment Division O.M.No.4/1/84-R.I, dated 02-09-1990, all Ministries/Divisions are required to adhere to the instructions issued by the Establishment Division and not to allow any officer to continue in service beyond the age of superannuation or contractual appointment without prior approval of the competent authority i.e. Prime Minister.

Cabinet secretariat (Establishment Division) letter No 06/02/2000 R-3 dated May 06, 2000 states: (iii) (a) where a nature of particular job/vacant position requires contract appointment for a specific period, standing instruction should be issued by the administrative Ministry/Division concerned, after consultation with the Chairman of the BoD/BoG, specifying such posts and parameters governing appointment on contract basis against such post. Selection should be made through regularly constituted selection board.(e) vacancies should be advertised in the leading national and regional newspapers. (v) The contract appointments, where justified, may be made for maximum period of 02 years on standard terms including termination clause of one month or one month pay in lieu thereof.

Clause-9 of appointment letter of the said person dated 29-05-2008 states that "You will be due for retirement on attaining the age of 60 years. The retirement age will be calculated on the basis of your Matriculation Certificate or as per your NIC whichever is earlier. The management may, at the sole discretion, extend the age of retirement if you are found medically fit."

During Special Audit of Pakistan Textile City Limited for the years 2015-17, it was observed that Col. (R) Syed Asif Jamal was appointed on 29-05-2008 as General Manager, Technical Operation in Grade-M3 at a salary of Rs. 250,000 per month.

As per above orders, the vacancy was required to be advertised in the newspaper, however it was not done in violation of the above orders of the Government of Pakistan. The officer attained the age of superannuation on 08-06-2011, but his services were continued in the organization for more than one year without obtaining approval of the Prime Minister of Pakistan.

In addition, the contract was made for three years instead of two years, which was again a violation of Government orders. Thus, the appointment without advertisement and extension after the age of superannuation without approval of Prime Minister was irregular. As a result, the salary of Rs 16.162 million was also irregular and not admissible as per rules.

Detail of salary is given as under:

From	To	Months	Salary per month (Rs)	Total Amount (Rs)
02-06-2008	30-06-2009	13	250,000	3,250,000
01-07-2009	01-07-2010	12	290,000	3,480,000
01-07-2010	01-07-2011	12	350,000	4,200,000
01-07-2011	31-07-2012	13	402,500	5,232,500
Total				**16,162,500**

Audit was of the view that the officer was given undue favour by appointing and extending of contract. Hence, the appointment and payment of salary of Rs. 16.162 million were irregular and inadmissible.

The Management vide its reply dated 15.05.2019 stated that for the vacancy of GM, Technical operations, Col (R) Syed Asif Jamal SI(M) was referred through a recruiting agency, HRS Global. He was selected for the post as he had technical qualifications and relevant experience as well as a senior management profile. Further, his appointment was approved by the Board of Directors vide his appointment letter duly signed by the Chairman Board of Directors. Therefore, it was clear that the Company, being an independent Corporate Entity, could appoint personnel and define terms and conditions as well as Company's policies regarding age.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.1.8 Appointment of General Manager, Technical operation after the age of 60 years-Rs.6.500 million

According to Govt. of Pakistan, Establishment Division O.M.No.4/1/84-R.I, dated 02-09-1990, all Ministries/Divisions are required to adhere to the instructions issued by the Establishment Division and not to allow any officer to continue in service beyond the age of superannuation or contractual appointment without prior approval of the competent authority i.e. Prime Minister.

According to clause 9.2 of appointment letter of the said person dated 10-09-2012, "considering that you have reached 60 years of age, this appointment shall be valid for 3 years from date of joining in the initial stage and may be renewed at sole discretion of the management on terms and conditions mutually agreed in writing at that time."

During Special Audit of Pakistan Textile City Limited for the years 2015-17, it was observed that Lt. Col. (R). Musleh-ud-din Saadi was appointed as General Manager, Technical Operation vide letter dated 10-09-2012 at a monthly salary of Rs. 325,000 for 03 years.

This was done without advertisement and approval of the Prime Minister of Pakistan; Thus, it was in violation of orders of Government of Pakistan. It is worth mentioning here that date of birth of the officer was 18-08-1952 necessitating the superannuation date to be 18-08-2012. The BoD took serious view of not advertising the post in newspapers vide 46th BoD minutes dated 05-09-2012. However, no action was taken on the part of the management against such irregular appointment.

Audit was of the view that undue favour was extended to the employee by violating the rules and regulations. The appointment and payment of salary of Rs. 6,500,000 (Rs. 325,000 x 20 months = Rs. 6,500,000) was irregular and inadmissible.

The Management vide its reply dated 15.05.2019 stated that to hire GM Technical Operations, a recruiting agency, M/s HRSG Recruiting was contracted by the Company through procedure. The job vacancy was posted on PEC website and circulated amongst senior engineers which resulted in the company receiving 30 CV's out of which 6 candidates were shortlisted where Mr. Saadi was selected as most suitable candidate for the vacancy due to his vast and relevant experience in major infrastructure projects and appointed on 10.09.2012.

The Board took serious view on the process of his hiring. CEO explained before the Board that position of GM technical was very difficult to fill on account of non-availability of senior engineers with the required experience in infrastructure development and senior management profile.

The Board directed the Company that in future job vacancies should be posted in newspapers as well as professional forums and websites. Further, the Board emphasized that in future an interview panel should be formed to interview shortlisted candidates for GM posts. The panel should consist of the management as well as members of the Finance & HR Sub-Committee. Nevertheless, after detailed discussion on the appointment of new GM Technical Operations, the Board approved the appointment of Lt. (R) Musleh-ud-din Saadi as GM Technical Operations. Therefore, it was clear that the Company, being an independent Corporate Entity, could appoint personnel and define terms and conditions as well as Company's policies regarding age.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.1.9 Irregular appointment of Senior Manager-Rs11.124 million

According to job Description of Senior Manager, Legal & Land Acquisition, Grade-M-5, following were the conditions:

- Qualification MBA, LLB
- Experience in industrial estate management highly desirable
- Knowledge of Land Acquisition Laws and processes for land management.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17, it was observed from personal file of Mr. Ali Murtaza Kazmi, that he was appointed as Senior Manager, Legal & Land Acquisition Department in Grade M-5 vide appointment letter dated 01-04-2010. This was done in spite of the fact that he did not possess the required qualification and experience. His qualification was LLB. It was mentioned in confidential interview evaluation sheet that his experience and knowledge for position at land acquisition was low and was marked as poor by the GM, HR & Admin on 09-09-2010. Further, at the time of interview, adverse remarks were given against him. His date of joining was 01-04-2010. He was removed from service on 30-01-2015.

His monthly salary was fixed at Rs.140,000 with additional benefits of Rs.32,665. Subsequently, his salary was increased to Rs.155,000 with effect from 01-07-2011. Advance salary of Rs.465,000/- for another three months was paid to him on separation from service.

Details of salary and benefits paid to him are as under:-

S#	Salary period	Monthly Salary (Rs.)	Total Months	Amount paid (Rs.)
1	01-04-2010 to 30-06-2011	140,000	15	2,100,000
2	01-07-2011 to 30-01-2015	155,000	43	6,665,000
3	01-04-2010 to 30-01-2015	32,665	58	1,894,570
4	Advance salary (on separation)	155,000	3	465,000
	Total			**11,124,570**

The following irregularities were observed:

- At the time of appointment, he had only LLB degree without MBA as required in job description
- His career information disclosed that he had no experience in similar position
- He had poor knowledge of land acquisition and was marked as poor by the GM, HR & Admin in the interview evaluation sheet

Audit was of the view that appointment of the Senior Manager was irregular as he was appointed in violation of company Human Resource policy. Therefore, payment of Rs.11,124,570 was also irregular and inadmissible.

When the issue was reported to the Management, the management in its reply dated 15.05.2019 stated that the Senior Manager, Ali Kazmi was appointed in April, 2010 on the basis of job requirement mentioned in Employee Requisition Form which was initiated and recommended by HR & Admin and approved by CEO. According to which minimum LLB with 5-6 years of relevant experience was required for the post and brief description of duties as followed (i) Handle all the legal issues of the Company (ii) legal documentation related to project and management of the sale of land processing and approvals.

Further, according to interview evaluation sheets, earlier rated by GM HR on 9-9-2010 and then by CEO on 15-3-2010, Mr. Ali Kazmi was given average and above average positions respectively with good comments by interviewers and was selected for the post on probation. Later, on completion of three months probation period, he was rated again by CEO and GM HR with the remarks “very satisfactory” for the position of Sr. Manager Legal and LAD.

It was also noted from the record that Job Description for the position of senior manager legal & LAD was formulated after his appointment which was signed by CEO on 30-4-2010 and then by Mr. Ali Kazmi on 3-5-2010.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.1.10 Non-payment of salaries / wages of employees- Rs. 9.94 million

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

During Special Audit of Pakistan Textile City Limited (PTCL) it was observed from the review of financial statements that an amount of Rs. 9.94 million was payable to employees and security guard company on account of salaries and wages since 2016. Detail of outstanding dues is as under:

		(Rs. in million)
S#	**Details**	**Amount**
1	Present employees' salaries since April, 2017	7.44
2	Security company's charges since October, 2016	2.5
	Total	9.94

The company was completely non-functional. However, four (4) employees out of 40 had been retained to coordinate/ provide/arrange record and other miscellaneous work. The employees wrote letters to the Ministry of Textile and other concerned quarters for salary, but no action was taken. Building up liabilities on the part of the company, when it was known to the management that company was not generating revenues to pay that liability, was an act of gross negligence. Thus, financial prudence should have been displayed and accumulation of liabilities should have been instantly stopped. If the liabilities were created due to unavoidable circumstances, they should have been cleared on timely basis. The company's interest should have been protected and efforts made to pay the dues in time.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.2 Financial Management

4.2.1 Irregular capitalization of borrowing cost - Rs 653.015 million

According to International Accounting Standard 23, the "Borrowing Cost" was required to be charged to the Profit and Loss Accounts for the concerned years.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17, it was observed that the management capitalized the borrowing cost of Rs 175.419 million, Rs 180.369 million, Rs 170.625 million and Rs 126.602 million during the year 2013, 2014, 2015 and 2016 respectively, whereas, the active development of the Project remained suspended from 2013 to 2016, which was in violation of International Accounting Standard 23 "Borrowing Cost". Had the Borrowing cost been expensed out, the Company's capital work in-progress in aggregate would have decreased by Rs 653.015 million, and financial costs, net loss after tax for the years ended on June 30, 2013, to June 30, 2016, and accumulated losses as on June 30, 2013, 2014, 2015 and 2016, would have increased by Rs 175.419, Rs 180.369, Rs 170.625 and Rs 126.602 million in each of the respective years.

The external auditors had also observed the above irregularity in the annual accounts for year ended June 30, 2016.

Audit was of the view that the management had tried to underrate losses by capitalizing the borrowing cost of Rs 653.015 million from 2013 to 2016, which was irregular and unjustified.

The Management vide its reply dated 15.05.2019 stated that International Financial Reporting Standards (IFRS) are the broad guidelines for the accounting treatment and presentations based on the practical situation and ground realities. IFRS 23 in its paragraph 21 explains that "An entity does not normally suspend capitalizing borrowing costs during a period when it carries out substantial technical and administrative work."

It was clear that although technical work was suspended but the administrative work of the whole project was still underway and justified the capitalization of borrowing costs.

The reasons given were that it was just an accounting treatment, it did not involve any funds or loss to any company or party, administration of the company was underway. They also mentioned that this treatment and presentation were deliberated in detail and were in the interest of the Company to present true and fair view of the cost incurred on the assets developed.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.2.2 Loss due to payment of Interest to the Banks-Rs. 369.203 million

GFR Rule 23 states that Every Government officer should realize fully that he will be held responsible for any loss sustained by the Government through fraud or negligence on his part.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17, it was observed that the management availed loan from National Bank of Pakistan for running the business affairs of the Company. Details of loan are as under:

- Demand Finance-I Rs 800.00 million
- Demand Finance-II Rs 300.00 million
- Demand Finance-III Rs 349.07 million
- Demand Finance-IV Rs 21.00 million

PTCL paid an amount of Rs369.203 million as interest on loan availed from NBP as given in the following table:

			(Rs in million)
Year	**Interest payment**	**Year**	**Interest payment**
2005	0.177	2011	19.437
2006	0.016	2012	23.984
2007	0.603	2013	39.973
2008	2.664	2014	46.949
2009	25.814	2015	91.996
2010	13.863	2016	103.727
		Total	**369.203**

Instead of focusing on earning revenues to sustain and undertake business operations, the company looked for alternate sources of finance. This led to heavy payment of interest which was not sustainable. Companies that earn profit are in a position to re-invest them. Audit was of the view that the management failed to earn profit from business due to inefficiency of the management.

PTCL sustained a loss of Rs369.203 million due to payment of interest to the banks against loan availed.

The Management vide its reply dated 15.05.2019 stated that these loans were approved by ECC, Finance Division and Board to run the Company based on the detailed discussions and justifications. The bank adjusts accumulated mark-up when new financing was approved and entitled.

The offer letters from NBP consisting of all the terms and conditions including mark-up rates, securities, and other details, were approved by Ministry of Finance. In view of the above explained position it was clear that mark-up on loan was guaranteed by the Government. They needed to be adjusted or paid as per the terms approved by the Ministry of Finance. This would have led to financial cushion for the company.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.2.3 Non-achievement of revenue target due to non-operation of the Company – Rs 22.790 billion

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17,it was observed that Business plan of Textile City was initially prepared in 2007, which was revised in 2011.

According to the revised business plan 2011, the yearly projected revenues of Textile City were as under:

		(Rs. in million)
S#	**Year**	**Amount of Revenue**
1	2013-14	16,904
2	2014-15	1,911
3	2015-16	1,082
4	2016-17	1,355
5	2017-18	1,538
Total		**22,790**

Due to poor performance of the management, the project could not be completed in time and the revenues forecasted could not be realized. The company could not achieve revenue target amounting to Rs.22.790 billion.

The Management vide its reply dated 15.05.2019 stated that the Company approved its first business plan in April, 2007, which was amended from time to time. In July 2011, the company formally launched the sale of its plots, the ceremony of which was also attended by the then Prime Minister of Pakistan. Furthermore, an aggressive marketing campaign was also launched for this purpose. The Company, however, could not sell even a single plot due to non-availability of utilities i.e. power, gas and water. Although it had concrete plans and was giving commitments to provide the same to encourage the potential customers. This affected the company's plans and financial condition and resultantly, further progress slowed down significantly. All infrastructure work had to be stopped in 2012 due to non-availability of funds.

After approval of additional financing in 2013 and on the basis of limited availability of water from tube wells, expected 9 MMCFD gas from SSGC and expected 50 MW electricity from K-Electric, the Board in a meeting held on January 15, 2014, decided to go for phase-wise launch from 106 acres in first phase.

But due to non-support from the external parties as well as blockage of bank accounts for more than four years, the plans could not be executed. These external factors were beyond the control of the Company.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.2.4 Closure of bank accounts by NBP due to non-repayment of loan - Rs. 563.00 million

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

During Special Audit of Pakistan Textile City Limited (PTCL), it was observed that National Bank of Pakistan blocked the bank accounts of PTCL due to non-payment of loan and interest thereon. The loans were availed to run the business of PTCL against the guarantee of Government of Pakistan and mortgage of land. Detail of unutilized available loan limit is given below:

(Rs in million)

Description	Amount
Principal paid	Nil
Un utilized limit of loan on 30-6-2015	759.00
Accrued Interest amount due on 30-6-2015	196.00
Available limit with NBP 30-6-2015	563.00

Audit was of the view that the management failed to perform efficiently and effectively due to which bank accounts were blocked and the operation of company was stopped. Thus, the inefficiency of management caused blockage of funds of Rs 563.00 million. Companies which are run successfully do not default on the lending limits. From the books of the PTCL, it was apparent that funds were available in the form of shareholders equity. If the funds were available successfully used for off take purposes then the need to use lending facility would not be immediate. However, the situation deteriorated to that level where lending facilities were used to a large extent without any inflows to pay them off. Therefore, the end result was that none of the interest payments were made and subsequently the lending facility was frozen by the bank.

The Management vide its reply dated 15.05.2019 stated that approved bank limits and un-utilized facilities were saved carefully in order to avoid wasteful expenditure because spending money on infrastructure without having resources like gas, electricity and water would have increased the loan as well as mark-up. The mark-up being accrued was not paid and was mainly for the loan prior to 2012.

Non-utilization of loan led to saving in mark-up and this limit was kept for utmost important requirements i.e., for gas demand notes, water arrangements, internal electricity lines once these utilities became available. These issues were discussed in the Board meetings of the Company where Secretary Textile, Secretaries from Sindh Government, and other experience and prominent directors were present in finalizing the decision. At this stage, it was not desirable to spend money on the infrastructure without necessary utilities. Presently, Company’s land value was much higher than the cost incurred so far and whenever sold out would be highly profitable for the shareholders especially Government’s share.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint

Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.2.5 Inordinate delay in fulfilling conditions of National Bank of Pakistan, resulting into delayed works-Rs.1.165 billion

Economic Coordination Committee approved the enhancement of Government guarantee for textile city from Rs. 2 billion to Rs 3.165 billion in March, 2013. Subsequently, the President of NBP was issued a letter of comfort by the Ministry of Finance in May, 2013.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17, it was observed that the management did not complete the formalities of NBP for timely release of funds which resulted into delay of development works.

Further scrutiny of record revealed that additional financing was approved by ECC in March, 2013 and the NBP was issued letter of comfort in May, 2013. However, the utilization of funds began in August 2014 with a delay of 15 months. If time value of money is accounted for, in addition to factors such as work that could have been done in these months, this tantamounts to significant loss - both operational & financial. To make matters worse the accounts were blocked after 5 months in December, 2014. They remained blocked till April, 2015. The snowball effect of delays was reflective of inefficiency of the management.

The Management vide its reply dated 15.05.2019 stated that on December 01, 2013, NBP issued the offer letter along with all relevant documents. NBP incorporated few conditions which were different from the last offer letter. After a series of discussions and correspondence among the Company, NBP, Textile Division and Finance Division, the Ministry of Finance approved the final terms on April 24, 2014. The same was forwarded to Ministry of Textile on April 18, 2014, for approval by Ministry of Finance. Detailed discussion also took place in the rescheduled Board meeting dated June 24, 2014, and the full case was approved.

Therefore, it was apparent that Company has put continuous and expedient responses for the purposes of approvals. It had also kept all stakeholders updated It sought support and approval immediately wherever it was necessary. Extraordinary difficult conditions were incorporated by NBP which were not accepted by Ministry of Finance.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.3 Procurement and Contract Management

4.3.1 Irregular award of contract to KW&SB for laying water pipelines and non-disclosure of expenditure in annual accounts - Rs 636.00 million

GFR Rule 23 states that Every Government officer should realize fully that he will be held responsible for any loss sustained by the Government through fraud or negligence on his part.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17, it was observed that the management awarded execution contract to KW&SB at a cost of Rs 636.00 million for laying water pipelines from Dhabeji to PTCL at Port Qasim. The initiation of work was supposed to start in February, 2009 and the target date of completion was November, 2009. Thus, the water was expected to be available in a period of 9 months. The timelines for the completion were extended five times but without any success. Subsequently, the work was suspended permanently in June, 2015.

Total expenditure was estimated at Rs 636.00 million on work, out of which an amount of Rs 471.00 million was spent, which is 74% of the total expenditure. However, the physical progress of the work remained below25%. This was indicative of clear negligence and misconduct on the part of PTCL management. Federal Government released Rs 199.66 million out of its Rs 318.29 million share and Sindh Government released Rs 271.79 million out of Rs 318.29 million share. The execution work was assigned to KW&SB, which failed to complete the project despite provision of sufficient funds. In addition, the annual accounts of the PTCL did not show the expenditure incurred on the water works, which is concealment of the expenditure and budget releases by the Federal and Sindh Government.

Audit was of the view that the management extended undue favour to the KW&SB by allowing execution of water pipeline work from Dhabeji to PTCL. KW&SB not only failed to complete the project but wasted an amount of half billion rupees. Thus, the award of execution of contract of Rs 636.00 million to KW&SB was illogical and irregular.

The Management vide its reply dated 15.05.2019 stated that works on pipeline project was started in 2009 with 12 months' completion period. But the work could not be completed in time because of funding constraints. Funds were directly released to KW&SB by Federal Government and Provincial Government. Since, it was not an expenditure of the cost or spending from the Company, it did not appear in the Company's books.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.3.2 Unjustified award of contract to the 2nd lowest bidder-Rs.27.999 million

The applicable points in Single stage - two envelope procedure are following:

(i) The bid shall comprise a single package containing two separate envelopes. Each envelope shall contain separately the financial proposal and the technical proposal (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 lowest evaluated bid shall be accepted.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17, it was observed that Tender Notice for construction of Admin block was published in newspapers on 02-04-2009. Five (05) parties submitted their bids. Out of which following three (03) parties were technically qualified on 21-04-2009:

- M/s. Abdul Majeed& Company
- M/s. Al-shafi Enterprises
- M/s. Principal Builders

Financial Bids of the above parties were opened on 28-04-2009 and offers of parties were as under:

- M/s. Abdul Majeed & Company -------------- Rs.45,397,405.
- M/s. Al-shafi Enterprises ----------------------- Rs.24,833,989.
- M/s. Principal Builders ------------------------- Rs.27,999,995.

M/s. Al-Shafi Enterprises with Rs.24,833,989 was the first lowest bidder, but the contract was awarded to M/s. Principal Builders for Rs.27,999,995 who was the 2nd lowest bidder.

Audit was of the view that award of contract to the 2nd lowest bidder was violation of PPRA-2004 rules.

The Management vide its reply dated 15.05.2019 stated that Evaluation Criteria adopted for selection of contractor for Construction of Administration Block (First Phase-Ground floor) was based on single stage –two envelope procedure as required under PPRA Rules. The evaluation criteria for the work were discussed in 28th Board meeting held on June 19, 2009, and technical weightage for the package was fixed at 60%.

Advertisement for hiring the contractor was published in Newspapers on April 2, 2009.Five (5) bidders submitted their technical and financial bids in separate envelope by due date of submission. Evaluation committee examined and analyzed technical proposals based on approved criteria.

Final results/ranks based of approved weightages (i.e. 60% to technical & 40% to Financial) were as under:

- M/s Abdul Majeed& Company Ranked 3rd (Third)
- M/s Al-ShafiEnterprises Ranked 2nd(Second)
- M/s Principal Builders Ranked 1st (First)

In 26th Board meeting, the Board approved the award of work to M/s Principal Builders at his quoted price. There was no irregularity in award of contract for Construction of Administration Block (First Phase-Ground Floor) to M/s Principal

Builders who was 2nd lowest in financial bid opening but stood first after applying approved weightages to technical & financial bids.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.3.3 Wasteful expenditure on installation of tube wells-Rs 1.731 million

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17, it was observed that the Company engaged a consultant to carry out consultancy services for design tendering and technical supervision for installation of test tube wells. The company installed 700 feet deep test borehole, which was successfully completed in September, 2014.The expenditure incurred was as follow:

S#	Description	Amount (Rs)
1.	Tube wells survey and Consultancy	247,500
2.	Tube wells construction	720,500
3.	Fountain, Equipment, contractor & others	763,122
Total		**1,731,122**

The management incurred expenditure of Rs1.7 million on tube wells. However, the benefit of this facility could not be availed as office at the site did not become operational. Thus, tube wells along with machinery deteriorated over time. This indicated poor planning and performance of the management in achieving its objectives.

The Management vide its reply dated 15.05.2019 stated that tube wells were not planned for providing water in admin building. Basically, installation of tube wells was considered as an alternate source of water and to ascertain long term availability as well as to know its quality for industrial use. Besides, tube wells installation was planned to bring the utilities on ground so that confidence of the customers could be enhanced in Textile City project because the Company had planned to go for phase-wise launch of the project in 2014.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.3.4 Award of contracts without tender - Rs.213.340 million

Rule-12 (2) of PPRA, 2004, states that 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.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17, audit observed following irregularities in award of contract;

a) Contract for consultancy services of Textile City was awarded to M/s. Nespak at Rs.123,347,038 for providing certain consultancy services to establish textile city at Port Qasim, Karachi in violation of PPRA Rules. As per rules, the company was required to advertise in newspaper before procurement of consultancy services, but it was not done. Thus, the award of consultancy contract to M/s Nespak for Rs. 123.34 million without tender was violation of PPRA rules.

b) Management awarded the contract of Nallah Protection Works to M/s. Abdul Sattar and Company for Rs. 90.00 million in violation of above rules. Before award of contract, tender was published in newspapers on 27-02-2008 for the said work. However, tendering process was stopped to explore the possibility of award of work to the firm already mobilized at site with following aspects;

   The first was to avoid induction of more than one contractor at site for similar nature of works and in the same area of operation. The second aspect was to save time/efforts required for tendering process and ultimately reaching almost the same decision as has been taken. Accordingly, M/s. Abdul Sattar and Company, who was engaged for land leveling and grading at the site, was awarded the above contract. As a result, the award of contract for Nallah Protection Work to the above contractor for Rs.90.00 million was in violation of PPRA rules.

The matter was reported to the management on 06.09.2019. The management vide its reply dated 15.05.2019 stated that:

a) In the first Board meeting held on May 30, 2004, it was mentioned that 'the Promoters of Pakistan Textile City had appointed Nespak as the consultant for the project with the understanding that this appointment along with its terms and compensation package would have to be approved by the Board.' Nespak was also given the responsibility to prepare tender document and contracts for the various requirements by the companies.

In the Second Board meeting held on November 29, 2004, the Infrastructure Sub-Committee was empowered to study and take decision on fees and other terms of appointment of project consultant. The following resolution was passed in the meeting:

"Resolved that Chairman Infrastructure Sub - Committee of the Board of Directors of Textile City and CEO of Textile City are hereby authorized to sign the Nespak contract and all relevant documents"

b) Nespak suggested changing the stream by making protection works so as to reclaim 25 acres of land besides providing protection against seepage into the project area. To carry out this work, separate bids were called through tender notice published in newspapers on February 27, 2008. However, the tendering process was stopped by the Infrastructure Sub-Committee to avoid induction of more than one contractor at site for similar nature of works and in the same area of operation, so as to retain effective control of project and avoid complications.

The cost of the protection works estimated by Nespak was Rs.90 million whereas the estimated value of the reclaimed land was around Rs.450 Million, therefore the expenditure was considered viable and it was presented to the Infrastructure sub-committee meeting where the proposal was agreed and it was further decided that since Nespak considered the protection works as part of the ongoing works and that since the contractor was already mobilized at the site therefore the Board through its prudence agreed that leveling and grading contractor should be awarded the protection works as the cost associated with the tendering of the work would be very high and awarding the contract to a different company would interrupt the ongoing work. Subsequently, it was agreed by the Board in 24^{th} Board meeting. Increase in cost was regularized by preparing variation orders by Nespak.

The company did not give any favor to the contractor. As per the procedure, separate bids were called to hire separate contractor for the work. However, the Board advised to assign the *nallah* protection work to leveling and grading contractor who was already working at same location.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC may be implemented in letter and spirit and responsibility may be fixed on person (s) at fault.

4.3.5 Loss due to allowing contract over and above the bids price - Rs.101.25 million

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17, it was observed that the management awarded a contract on 30-5-2007 to M/s Abdul Sattar for carrying out Leveling and Grading of 1250 acres of land on the price over and above the bid price of Rs 101.25 million submitted by the contractor. The contractor quoted total cost of work as Rs.284,750,000. This cost was revised to Rs.299,550,000 on 30-9-2007. Later on 25-8-2008, the cost was revised to Rs.400.80 million due to change in type of soil/ error in specification and design by Nespak.

Board of Directors also showed their displeasure in 24^{th} Board meeting held on 07-10-2008 and expressed their dismay over the fact that Nespak had not only failed to provide the company with proper estimates resulting in an increase in cost by approximately Rs.100 million, but they had also given approval to the contractor instead of submitting the details of additional work to the Board before allowing the contractor to undertake it as they were supposed to complete the assignment within the contract price of Rs.299 million. G. M., Technical Operations assured the Board that written clarifications would be obtained from the Consultant regarding the above-mentioned errors. However, the mistake in this regard was accepted by the consultant.

Audit was of the view that management extended undue favour to the contractor as well as consultant for allowing additional cost of Rs.101.25 million without obtaining approval of the Board of Directors.

Thus, the company sustained a loss of Rs 101.25 million due to permitting additional cost without logical justification and approval of the board of directors.

The Management vide its reply dated 15.05.2019 stated that before start of any cut and fill activities at site, Joint survey was conducted and the cut and fill quantities were revised and accordingly, contract cost was increased to Rs. 299.55 Million. This increase was incorporated after approval. During implementation stage of the leveling and grading package, the contract value increased to Rs.400.80 Million from Rs.299.55 million. This increase in cost was recommended by the project consultant Nespak.

The increase of Rs 101.25 million was due to change in type of earth fill, the consultant stated that tender/construction drawings indicated earth fill by selected earth in the entire portion of roads including right of way but the quantities depicted in BOQ were not matching. Accordingly, Nespak revised the quantities as under:

- Selected fill increased from 350,000 $M^3$to 1,719,851 M^3. The rate of this item in BOQ was Rs. 100 per M^3 which increased the cost to Rs. 136.99 M.
- Common earth fill reduced to 2,811,622 M^3 from 4,200,000 M^3. The rates of this item in BOQ were Rs. 25 per M^3 which reduced the cost to only 34.71 million.

Both types of soils were available within the Textile City site, the only difference was the level of compaction. The selected earth fill was required to be compacted 95% of maximum dry density as per lab test in layers not exceeding 200 mm.

There were no changes in the scope of works but the work being executed required additional amount due to difference in design and BOQ quantities which required enhancement of contract price through revision as there was no additional work for which retendering could be considered. Increase in cost was regularized by preparing variation orders by Nespak.

The case was presented to the Infrastructure Sub-Committee and Finance and HR Sub-Committee where both committees after deliberation recommended revision in the cost of the project. In 24^{th} Board meeting held on October 7, 2008, the Board after thorough deliberation and analysis in detail approved the recommendations of both committees.

No favor was given to the contractor or the consultant. The company did not make any payment to the contractor over and above the contract amount prior to the approval of revision by the Board of Directors of Textile City.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.3.6 Wasteful expenditure on hiring of consultant for power plant - Rs.12.700 million

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During Special Audit of Pakistan Textile City Limited (PTCL) it was observed that M/s. Najam Farooqi Project Consultant was awarded contract on 21-11-2008 for consultancy on power plant at the rate of Rs 300,000 per month on retainer ship fee. The permitted time duration for setting up of the power plant was 24 months. Extension of 12 months was given twice. Another extension was given for 3 months. The Consultant was responsible for consultancy of power plant and also for bringing the sponsor for installation of captive power plant on Build, Own and Transfer (BOT)/ Build, own and operate (BOO) basis. Accordingly, M/s. Vasti Power Inc. was brought as sponsor by the consultant for installation of power plant. Letter of intent was issued to M/s. Vasti Power Inc. However, the consultant did not deliver nor power plant was installed.

Audit was of the view that payment to the consultant remained wasteful as no power plant could be installed at the site. This resulted into wasteful expenditure of Rs.12,700,000. Detail of payment is given as: Retainer-ship Payment for 24 months+12 months+3 months+special fee of Rs.1.00 million. Total 39 months x 300,000 + 1,000,000 = Rs.12,700,000

The Management vide its reply dated 15.05.2019 stated that in the 18th Board meeting held on April 20, 2007, the Board gave concept approval of 150 MW Power plant and advised to commence process of hiring a consultant immediately. Later, in 21st Board meeting held on October 5, 2007, the Board approved 250 MW capacity power plant as KESC (K Electric) was unable to provide 250 MW electricity to Textile City.

A considerable time was required for the complicated job of selection of international sponsors who could agree to invest huge amount to establish Power plant on BOO/BOT basis. Therefore early actions were required by the Board in appointing power plant consultant to move forward.

Accordingly, Mr. Najam Hasan Farooqi, Project Consultant was appointed as a consultant for the power project of Textile City. Initially, the consultancy contract was awarded for a period of 24 months based on estimated time normally required for establishing a power plant but due to non-availability of gas from SSGC, the power plant could not be established in due time. During the period, Mr. Najam Farooqi successfully completed Pre-feasibility studies, Request for Proposal (RFP) for selection of sponsors, power purchase agreement (PPA), implementation agreement (IA) and assisted in selection of sponsors.

An international sponsor M/s Vasti Power Inc. was selected as BOO partner to establish this power plant. At expiry of original contract period of consultancy services, negotiations were underway with BOO sponsors on alternate fuel (coal) for power plant and soon we had to negotiate Power Purchase Agreement (PPA) with sponsors, therefore, Mr. Najam Farooqi’s contract was extended for 12 months on existing terms. Further, at expiry of consultant’s extension period, SSGC had approved 9 MMCFD gas in Sept. 2011 for first phase of Power plant which was expected by February, 2012. Meantime SSGC required power plant related technical data particularly use of waste energy. In this regard, Mr. Najam Farooqi furnished required information/technical data and finalized power plant related matters with

SSGC. The company was not sure about exact time required to conclude the ongoing matters. Therefore, consultant's contract was further extended for three (3) months.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.3.7 Wasteful expenditure on multiple design works - Rs.20.809 million

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During Special Audit of Pakistan Textile City Limited (PTCL), it was observed that several works were to be undertaken by the Textile City for which Nespak was appointed as consultant. Details of works to be performed by the consultant are at **Annex - A**. Nespak completed design services of 11 works out of which 7 works amounting to Rs.20,809,059 (payable to Nespak on account of service rendered) were not initiated / tendered / executed.

Audit was of the view that due to poor planning of the management, the work could not be initiated for execution, which caused wasteful expenditure / loss of Rs.20,809,059.

The management vide its reply dated 15.05.2019 stated that in June, 2005, the Board exercised its power and awarded the consultancy contract to Nespak after negotiating the fee. The consultancy contract was awarded to carry out design works on all infrastructure packages on fast - track. Accordingly, Nespak had completed design works and prepared tender documents of most of the essential packages by 2009. The consultancy contract was awarded to carry out design works on all infrastructure packages on fast - track. Accordingly, Nespak had completed design works and prepared tender documents of most of the essential packages by 2009.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends investigating the matter and fixing responsibility on the person (s) at fault.

4.3.8 Unjustified expenditure on obtaining electric power from K-Electric-Rs 42.679 million

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During Special Audit of Pakistan Textile City Limited (PTCL), it was observed that MOU was signed between PTCL and KESC on 20-02-2013 for new connection. Demand Note based on provisional estimate amounting to Rs.35,780,951/-(including security deposit of Rs.1,230,408) was issued by KESC on 11-2-2013, which was paid from 15-06-2013 to 08-08-2014. However, connection was installed on 12-03-2015 at a total cost of Rs 42,679,931.

Audit was of the view that connection was installed on 12-03-2015 but the same could not be utilized as there were no operational activities in PTCL. Hence, all the efforts and expenditure of Rs.42,679,931 went to waste.

The Management vide its reply dated 15.05.2019 stated that on February 20, 2013, a memorandum of understanding (MoU) was signed between Textile City and K-Electric for un-interrupted supply of 50 MW electricity to Pakistan Textile City. To meet immediate power requirement at site, K-Electric was requested to supply 1 MW electricity initially.

This electricity was for the purpose of initial construction phase of industrial purposes and not exclusive for office operations. Later on, in order to avoid the fixed charges of K-Electric, they were requested to turn off the electricity supply. The electricity was available and long electricity line already laid down would be very much use-able whenever required.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.3.9 Wasteful expenditure on consultancy services for combined effluent treatment plant–Rs 8.151million

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17, it was observed that the management hired consultant, M/s NEC private limited at Rs.13,002,500 for consultancy services for the establishment of combined effluent treatment plant at textile city in 2009. Some of the assigned works were carried out by the consultant for which an amount of Rs 8,151,500 was paid to him. But the work on establishment of combined effluent treatment plant could not be started. This was the primary task of the consultant. Thus, the expenditure of Rs 8.151 million incurred without completion of primary task was unjustified and wasteful.

The Management vide its reply dated 15.05.2019 stated that parallel to other infrastructure facilities, the Company had planned to undertake the construction of Combined Effluent Treatment Plant (CETP) for the Textile City. In 25thBoard meeting held on March 21, 2009, Appointment of CETP consultant was presented to Board for approval. All board members agreed that work should be initiated at a fast pace vide minutes of the Board meeting.

Forgoing in view, consultancy services for Combined Effluent Treatment Plant was awarded to M/s NEC Consultants (Pvt) Ltd through competitive bidding at their lowest quoted price Rs.13,002,500/- million in May 2009. The remuneration of consultancy works completed so far was Rs.8.151 Million. Further works of the consultancy would proceed at hiring of contractor and its construction. Unfortunately, further activities could not be taken up due to financial limitations. The Engineer's estimate for the work was Rs. 1,378.82 million.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.4 Construction and Works

4.4.1 Irregular and unjustified expenditure on water works at PTCL-Rs 471.00 million

GFR Rule 23 states that Every Government officer should realize fully that he will be held responsible for any loss sustained by the Government through fraud or negligence on his part.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17, it was observed that PTCL purchased 1250 acres of land from Port Qasim Authority for establishing the infrastructure of the Pakistan Textile City Project in 2006 to 2007 vide allotment letter dated August, 2006 and February 10, 2007.

As per PQA land allotment rules, the utilities such as water was required to be arranged by PQA. However, the management of PTCL incurred expenditure of Rs 471.0 million at its own on water from outside Port Qasim i.e. from Dhabeji, which was unjustified and irregular. Further, the management should have tried to arrange the water at site from the PQA, which was not done. Thus, the expenditure of Rs 471.00 million on water works was held irregular and unjustified.

The Management vide its reply dated 15.05.2019 stated that as per PQA terms/conditions for allotment of land for eastern industrial zone:-

> "The basic facilities shall include the provision of road, potable water supply and sewerage system. These services shall be provided on receipt of peripheral development charges or as and when made available at site of plots. The

quantity of potable water supply per day shall be as per availability depending on supply from KW&SB. Any additional requirement shall be met by you under your own arrangement"

Similarly, same above statement was mentioned in allotment letter of 700 acres to Textile City by PQA vide letter No. PQA/ET-III/10/2004 dated 28th April, 2005.Therefore, it was obvious that PQA was providing only potable water to the industries in eastern zone only on availability by KW&SB. Earlier, it was decided in a meeting of Minister's Committee held on August 4, 2004, that "the Textile City will undertake all development and maintenance costs associated with area allocated for support services. No annual maintenance cost would therefore be charged to the Textile City".

After this decision by Minister's Committee, PQA was not supposed to supply even potable water to Textile City because it was not being charged peripheral development charges by PQA. In view of above, the Textile City had to arrange, on its own, uninterrupted supply of water to their industries. Therefore, the bulk water supply of 20 MGD was entrusted to Karachi Water & Sewerage Board (KW&SB). Not having any financial involvement on the part of Pakistan Textile City Limited, the works on pipeline project was started in 2009.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.4.2 Loss due to expiry of performance security before completion of work-Rs.149.790 million

Rule-39 of the PPRA-2004 states that **"**Where needed and clearly expressed in the bidding documents, the procuring agency shall require the successful bidder to furnish a performance guarantee which shall not exceed ten percent of the contract amount."

Rule-45 of the PPRA Rules, 2004, states that **"**Except for defect liability or maintenance by the supplier or contractor, as specified in the conditions of contract, performance of the contract shall be deemed close on the issue of overall delivery certificate or taking over certificate which shall be issued within thirty days of final taking over of goods or receiving the deliverables or completion of works enabling the supplier or contractor to submit final bill and the auditors to do substantial audit."

During Special Audit of Pakistan Textile City Limited (PTCL), it was observed that M/s. Reliance Consultancy & Engineering Works (Pvt.) Ltd. was awarded the contract for construction of road for Rs 149.790 million. Contractual agreement required that work be started on 12-06-2006 and completed on 12-09-2009. Thus, the contractor had 36 months to complete the work. The quantum of delay could be estimated by the fact that completion dates were extended seven times. However, the work was not completed. In January, 2019, 90 percent of the work was complete and the remaining was still pending. The contractor left the work incomplete

Audit was of the view that the management extended undue favour to contractor due to which neither any action was taken for delayed and incomplete work, nor arrangement was made to renew performance bank guarantee. Thus, Company sustained a loss of Rs 149.790 million due to non-encashing bank guarantee by allowing it to expire.

The Management vide its reply dated 15.05.2019 stated that value of completed works so far was 90% whereas, as security, for completion of remaining works, the Company had in-hand an amount of Rs. 74.5 Million as retention money which was deducted at source from contractor's interim payments and which would be released to the contractor after completion of works and consented by the consultant. Further, it had already been discussed with consultant that performance security would be revalidated first at start of remaining works.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.4.3 Loss due to payment of ground rent and mark-up to PQA-Rs 557.72 million

Clause-V of the final letter of allotment dated 31-08-2006 states that no relaxation in Annual Land Rent is allowed to M/s. PTCL and they shall be charged @ Rupees 9,918 per acre, which is to be increased 5% annually compounded every year.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17,it was observed that 1250 acres of land was allotted by Port Qasim Authority to Pakistan Textile City Limited in two phases on lease basis for the period of 50 years at a cost of Rs.1,000,000 per acre. 700 acres were allotted on 13-09-2006 and 550 acres on 25-08-2008. The annual ground rent of Rs 527.89 million was paid to PQA. Details of ground rent and mark-up on ground rent charged by PQA are as under:

			(Amount in Rs.)
S#	**Year**	**Ground Rent**	**Mark up on ground rent**
1	2008	4,400,000	
2	2009	16,051,992	
3	2010	30,265,830	
4	2011	42,254,370	
5	2012	54,842,346	
6	2013	58,059,710	
7	2014	71,937,950	
8	2015	86,510,102	2,185,823
9	2016	163,572,840	27,644,977
10	2017	Amount not available	
	2018		
Total		**527,895,140**	**29,830,800**

Audit was of the view that the management failed to start the project, which showed inefficiency. However, PTCL had to pay annual ground rent to PQA without operation of the project. Thus, PTCL sustained a loss of Rs.557.72 million due to payment of annual ground rent without operation of the company.

The Management vide its reply dated 15.05.2019 stated that liabilities shown in the books of accounts were for reporting purposes as per conservative accounting treatment. The ground rate was chargeable as per the lease agreement whereas PQA had changed the rates to very high level and our plea was that those could not be changed as 50 year's schedule had already been agreed by both the parties. However, on the advice of external auditor these were recorded as a precaution. These had not been paid to PQA and would only be settled when Company negotiated payment in future. Further, summation of liabilities for all years was just an incorrect figure calculated in the paragraph.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.4.4 Non-completion of road works-Rs.149.79 million

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During Special Audit of Pakistan Textile City Limited (PTCL), it was observed that M/s. Reliance Consultancy & Engineering Works (Pvt.) Ltd. was awarded the contract for construction of road for Rs 149.790 million. The start date was 12-06-2006 and completion date on 12-09-2009. Despite various extensions in completion dates the work remained incomplete. The position in January, 2019 was that 90 percent work was completed.

Audit was of the view that the contractor was not capable to do the road works as, not only there was inordinate delay in the work, but also the work remained unsatisfactory as pointed out by the consultant.

The Management vide its reply dated 15.05.2019 stated that progress of works was satisfactory in the beginning. By February, 2010, the progress was 70% and it was expected that remaining works would tentatively be completed in March, 2010. However, after giving additional works, the progress of works remained slow.

Despite various reminders to contractor by Nespak and Textile City, the pace of work could not be enhanced. Even liquidated damages were also recommended by Nespak. However, after submission of undertaking by the contractor regarding completion of remaining works, the application of liquidated damages was withheld. The extension in time was approved to contractor as a special case in the interest of successful completion of remaining works so that sale of land could be started at the earliest. 90% works had been completed at site and due to various reasons, including paucity of funds and non-resolution of escalation bill raised by the contractor extended completion date was determined as 28 Feb 2013. However, due to tight financial situation of the company, the works had to be suspended in Jan 2013.

In August 2013, limited funds were made available but firm, when contacted, declined to undertake the remaining works without paying escalation. Nespak did not agree to pay escalation. However, in February, 2014, due to delays, Nespak expressed willingness to allow payment of escalation and extension in time subject to prior approval by Textile City. The matter could not be taken up due to paucity of funds (minutes of 61st Board meeting).

On 6th August 2015, the firm, M/s Reliance Consultancy & Engineering Works (Pvt) Ltd, was called for a meeting to discuss the matter and to ask to carry out necessary works to complete the remaining works. It was also informed to contractor that the Board did not agree to pay escalation as delays in work was at contractor's end. However, the Board agreed to pay retention money on the availability of funds as per contract, subject to consent by Nespak.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.4.5 Wasteful expenditure due to non-completion of construction of water works- Rs.403.909 million

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17,it was observed that Gallop tender notice for construction of water works package-III was published in newspapers on 23-06-2009. Contract was awarded to M/s. Principal builders on 19-03-2010. The work began on 24-03-2010 and the contract required completion in twelve months. However, the work could not be completed within due time and extension was given for 9.5 months to the contractor. Finally, the work was suspended on 25-04-2012 and at this stage, only 60% work was completed. Payment of Rs. 403,909,806 was made to the contractor up till suspension of work.

Audit was of the view that due to lack of interest of the consultant and improper monitoring by the Management, the task at hand was left incomplete. This resulted in wasteful expenditure of Rs.403.909 million.

The Management vide its reply dated 15.05.2019 stated that industrial water requirement for the project was estimated at 20 MGD. For this purpose, work by KW&SB from Dhabejee to Textile City site was approved by ECNEC in 2006 and after detailed survey and design, construction activities on it was initiated in 2008. As per plan, the works on it had to be completed by 2010. Therefore it was necessary for the company to arrange water reservoirs facilities at Textile City to store/supply of water for use by various industrial units.

In 25th Board meeting held on March 21, 2009, package for construction of Water Works (Water reservoirs) was presented to Board for approval. All board members agreed that work should be initiated at a fast pace. Forgoing in view, package for Construction of Water Works amounting to Rs.678 million was awarded in March, 2010. The cost of the works completed so far was Rs.403 million about 60% of the total contracted amount. Due to financial limitation, the pace of works was slow. Eventually, the works were suspended in April, 2012 due to paucity of funds.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.5 Environment

4.5.1 Unjustified award of contract for environmental impact assessment study to the 2nd lowest bidder-Rs.1.251 million

According to Rule 36 (b) of PPRA Rules, 2004, single stage –two envelope procedure is as follows:

(i) The bid shall comprise a single package containing two separate envelopes. Each envelope shall contain separately the financial proposal and the technical proposal;

(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 lowest evaluated bid shall be accepted.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17, it was observed that advertisement for Expression of Interest was published in newspapers on 22-08-2007 for appointment of environmental consultant for conducting Environment Impact Assessment Study. Eight parties participated in the bidding process, out of which following four parties were technically qualified on 28-09-2007: Nespak, M.M. Pakistan Pvt. Ltd, NEC Consultant Pvt. Ltd and Environmental Management Consultant.

Financial evaluation was carried out on 1-10-2007 and amount offered by the firms were as under:

- NEC Consultant Pvt. Ltd. --------------------------------Rs.851,275
- Environmental Management Consultant-------------- Rs.1,251,000
- Nespak --- Rs.3,490,000
- M.M. Pakistan Pvt. Ltd --------------------------------- Rs.9,278,365

The lowest bidder was NEC Consultants Pvt. Ltd, however the contract was awarded to the 2nd lowest bidder M/s. Environment Management Consultant. Thus, the award of contract to the 2nd lowest bidder was in violation of PPRA Rules-2004.

The Management vide its reply dated 15.05.2019 stated that Evaluation Criteria adopted for selection of consultant for Environmental Impact Assessment (EIA) study was based on single stage –two envelope procedure as required under

PPRA Rules. The evaluation criteria was discussed in 16th meeting of the Infrastructure Sub - Committee of Textile City held on 30th July 2007 and technical weight age for the package was fixed at 70%. In 18th meeting held on October 4, 2007, the Infrastructure Sub - Committee recommended M/s EMC for approval as per criteria. Subsequently, the Board in its 24th meeting held on 7th October 2007 approved the appointment of M/s EMC as a consultant for EIA study.

There was no irregularity in award of contract for Environmental Impact Assessment study to M/s EMC who was 2nd lowest in financial bid whereas its rank was first after applying approved weightages to technical & financial bids.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.6 Asset Management

4.6.1 Non-disposal of vehicles-Rs.4.589 million

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company. The Board shall also formulate policy of the Public Sector Company for disposal of fixed Assets.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17, it was observed that three vehicles valuing Rs.4,589,700 were lying idle at Korangi temporary office since long due to non-operation of the project. Detail is give as under:

S#	Make	Model	Reg. No.	Book value (Rs)
1	Suzuki Cultus	2006	AMP-995	560,000
2	Mitsubishi Double Cabin	2007	CR-0004	2,364,000
3	Honda Civic	2008	ARD-516	1,576,000
Total				**4,589,000**

Audit was of the view that vehicles, lying at open yard of Korangi temporary office, were not safe-guarded properly due to which the same deteriorated with the passage of time. Thus, the Company sustained a loss of Rs.4,589,000 due to non-disposal of vehicles.

The Management vide its reply dated 15.05.2019 stated that vehicles were required for transportation of staff as well as movement of record to and from Port Qasim Office in order to report to the regulatory authorities as well as Ministry and other authorities. Due to non-availability of financial resources for maintenance of these more than ten years' old assets as well as high fuel cost these were parked in SFDAC Building where normally other Companies' vehicles were also parked. This was the safest place the Company had. The decision to retain the same was in the interest of the Company as the Company would need these assets in future. This could not be considered as loss to the Company. These were more than ten years' old assets and fully depreciated. Further, they could be disposed of any time.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.6.2 Non-disposal of fixed assets – Rs 8.596 million

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company. The Board shall also formulate policy of the Public Sector Company for disposal of fixed Assets.

During Special Audit of Pakistan Textile City Limited for the years 2015-16 and 2016-17, it was observed that the management purchased fixed assets i.e. computers, office equipment and furniture amounting to Rs.8.596 million from 2005 to 2010, which remained unutilized since 28-02-2012 due to closure of office. Details are as under:

S#	Items	Cost in Rs.
1	Computers, laptops, computer accessories, printers, wi-fi devices, etc.	2,036,616
2	Office Equipment	4,112,980
3	Furniture	4,246,469
Total		**8,596,065**

Due to closure of office in 2012, these assets outlived their useful life and had become outdated. They were of no practical use and hence had caused loss of Rs8,596,065 to the Company.

The Management vide its reply dated 15.05.2019 stated that assets mentioned in the paragraph were mostly in use-able condition including office furniture and equipment and used whenever any meeting at site was conducted. Although the site office was closed for routine office work purposes and necessary staff was moved to Head office as per the decision of the Board in its meeting held in 2011. Later on a series of activities were conducted at site office. These activities included visits of Chinese delegations, K-Electric representatives to name a few. Disposing off these assets was not possible in any way.

As mentioned in accepted accounting principles as well as prevailing rules of depreciation, these were fully depreciated, so there was no loss to the Company. These were still in very good conditions except old computers and readily available for use and were completely safe in the site office of the Company. The Company put extremely high efforts to safeguard these assets from any probable loss. The decision to retain the same was in the interest of the Company as the Company was using the same and would need these assets in future.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

4.6.3 Loss due to non-allowing land on lease to K-Electric-Rs 2.60 billion

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company. The Board shall also formulate policy of the Public Sector Company for disposal of fixed Assets.

During Special Audit of Pakistan Textile City Limited (PTCL), it was observed that the management did not lease out 200 acres of land to K-Electric for establishing coal based fired power project, which was offered by the K-Electric at Rs 2.6 billion approximately. The lease of land to K-Electric could not be materialized because the land was mortgaged with National Bank of Pakistan against the loan and NBP did not give any concession to the PTCL for lease of the land to any other party before payment of loan availed from NBP. Further, the amendment of Memorandum and Articles of Association of the Company was made and a notice of Extraordinary General Meeting (EOGM) was issued on December 09, 2014. However, Federal Government, which was directly 40% shareholder of the Company, through Ministry of Textile Industry, advised to postpone the said EOGM vide its letter No. F.8(2)/TID/11/TD-II dated December 10, 2014. After postponement of this EOGM on the orders of Ministry of Textile Industry, the initiative to sub-lease land could not be achieved and the matter delayed due to which K-Electric Limited purchased land from PQA.

Audit was of the view that due to poor planning of the management, the lease could not be materialized and the facility of Electricity could also not be availed at the site. Thus, PTCL sustained a loss of Rs 2.60 billion due to non-leasing of land to K-Electric for establishing power plant.

The Management vide its reply dated 15.05.2019 stated that company managed to receive an offer from K-Electric Limited for 200 acres of land at Rs.13.0 million per acre to establish two 350 MW coal fired power projects with Chinese Collaboration valuing US$ 1.0 billion in late 2014. This was approved by the Board of Directors in its meeting held on October 13, 2014 and was forwarded to the Ministry of Textile.

The proceeding of this deal would have fetched an amount of Rs.2.6 billion (200 x Rs.13.m), which was enough to settle all outstanding loans and mark-up of NBP and for successful conversion to a non-leveraged company. This deal necessitated amendment of Memorandum and Articles of Association of the Company as advised by the legal advisor. The Board of Directors in its meeting held on December 03, 2014 discussed the same in detail. The Board after detailed deliberation approved the same and decided to call an Extraordinary General Meeting (EOGM) on December 09, 2014. However, Federal Government, which was directly 40% shareholder of the Company, through Ministry of Textile Industry, advised to postpone the said EOGM vide its letter No. F.8(2)/TID/11/TD-II dated December 10, 2014.

The Board in its meeting held on January 10, 2015 discussed the same. Secretary Textile, Mr. Amir Muhammad Khan Marwat informed that proposal of sub-lease of land to K-Electric was under consideration in the Ministry of Textile and Ministry of Law, Justice and Human Right and would further be discussed in subsequent Board meeting. This needed to be examined in detail and at this stage could not be approved. Later on, K-Electric submitted proposal documents to Ministry of Finance and Ministry of Textile Industry. In the meantime, on June 10, 2015, a committee to evaluate the proposal was formed by the Ministry of Textile to be chaired by Mr. Arshad Farooq Faheem, Senior Joint Secretary, Ministry of Textile Industry. Later on the Committee was reconstituted on July 23, 2015 and other Deputy Sectary Ministry of Textile Industry was made chairman of the committee due to transfer of Mr. Farooqui.

In the Board meeting held on July 24, 2015, the matter was again discussed in detail and postponed. In the Board of the directors' meeting held on October 06, the representative of Ministry of Textile informed that the ministry had asked all the shareholders to provide their views/comments on the K-Electric deal and majority of the shareholders had already replied while the remaining were being followed up. He informed that after the receipt of the comments, the matter would be referred to ECC for further approvals.

DAC in its meeting held on 16th March, 2020, decided that a self-contained, all-encompassing fact-finding inquiry, with TORs finalized in light of Audit findings in the Report, may be conducted by an appropriate committee under Senior Joint Secretary (Textile) and comprehensive report thereof may be submitted to the Ministry and Audit for further discussion at DAC level. However, no progress on the subject matter was shared till finalization of this report.

Audit recommends that directives of DAC be implemented in letter and spirit and responsibility be fixed on person (s) at fault.

5. CONCLUSION

In view of the audit findings given in the preceding section, it is hereby concluded that the management failed to operate the Company due to poor planning and inefficiency. Appraisal of properties and feasibility for its development through in-house as well as by outsourcing assignments were not carried out by the management. The land purchased for the textile industries could also not be leased out as the management mortgaged the land with National Bank for availing loan for running day-to-day business. The management failed to arrange basic facilitates at the site due to which the investors did not show their interest for establishing industries. The projects / construction works were delayed and awarded in a non-transparent way. Lack of sufficient funds and frequent changes made in the designs resulted in frequent Extension of Time (EOT) to the contractors. Appointments of employees including Chief Executive Officers were made in violation of rules & regulations and at higher salaries.

ACKNOWLEDGMENT

We wish to express our appreciation to the Management and Staff of Pakistan Textile City Limited, Ministry of Commerce & Textile Government of Pakistan for the assistance and cooperation extended to the auditors during this assignment.

Annex-A

Para# 4.3.7: Loss due to conducting design work for several works by Nespak without tender-Rs.20.809 million

(Amount in Rupees)

S#	Description of works	Estimated cost	Consultancy Fee @ 1.5%	% payable	Amount payable (Tendered works)	Amount payable (Not tendered works)
1	Water supply networks	910,000,000	13,650,000	90	-	12,285,000
2	Firefighting network	295,000,000	4,425,000	90	-	3,982,500
3	Sanitary & industrial waste water networks	480,000,000	7,200,000	90	-	6,480,000
4	Roads & storm water drainage works	1,147,823,997	17,217,360	60	-	10,330,416
5	Construction of boundary wall	134,571,500	2,018,573	60	-	1,211,144
6	Construction of gate house and watch tower	79,544,404	1,193,166	60	-	715,900
7	Landscaping works	11,260,600	168,909	60	-	101,345
8	Leveling grading	558,883,962	8,383,259	95	7,964,096	-
9	Construction of water works	693,715381	10,405,731	95	9,885,444	-
10	Construction of Administration block	31,705,829	475,587	95	451,808	-
11	Road works	175,979,701	2,639,696	95	2,507,711	-
	Total				**35,106,305**	**20,809,059**
	Total tendered/ not tendered works Rs. 35,106,305 + Rs. 20,809,059 = Rs.55,915,364					