

Chapter-8

Ministry of Industries and Production

Overview

Ministry of Industries & Production (MOI&P)'s role is that of a facilitator in creating an enabling environment for industrial growth in the country.

Aims & Objectives

The objectives of MOI&P are to achieve efficient, sustainable and inclusive Industrial Development and to play the role of facilitator in industrial development and entrepreneurship through policy intervention, setting up Industrial Parks and Export Processing Zones for investors, skill development of human resource for industrial sector and socio-economic development of country with particular focus on SME development and promotion of traditional crafts of Pakistan.

Governing Laws and Policies

- Rule of Business 1973
- SME Policy, 2007
- Auto Development Policy 2016-21
- Fertilizer Policy, 2001
- Auto Industry Development Programme

(Rs. in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2019-20	Revenue /Receipts audited FY 2019-20
1	Formations	27	11	11,450.121	59,374.899
2	Assignment Accounts (excluding FAP)	-	-	-	-
3	Authorities /Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs. 370,816.707 million were raised as a result of this audit. This amount also includes recoverable of Rs. 4,688.149 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Sr. No.	Classification	Amount (Rs. in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	155.242
3	Irregularities:	
A	HR/Employees related irregularities	912.960
B	Procurement related irregularities	290.488
C	Management of accounts with Commercial Banks	332.000
4	Value for money and services delivery issues	1,837.476
5	Others	367,288.541

8.1 Export Processing Zones Authority

8.1.1 Introduction

The Export Processing Zones Authority (hereinafter referred to as “EPZA / the Authority”) was established by the Government of Pakistan on Feb 06, 1980 through Export Processing Zones Authority Ordinance, 1980. The main objective of the Authority is to plan, develop, manage and operate Export Processing Zones (EPZs) in Pakistan in order to invite / help foreign investors.

8.1.2 Comments on Audited Accounts

8.1.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2010-11 to 2019-20 despite a number of reminders.

Audit requires that the annual audited accounts of the years 2010-11 to 2019-20 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*refer Annex-2*).

8.1.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
2010-11	8	4	4	11.1.4.1, 11.1.4.2, 11.1.4.3, 11.1.4.5	50
2014-15	22	1	21	9.1.4.2, 9.1.4.8, 9.1.4.11, 9.1.2.1, 9.1.2.2, 9.1.2.3, 9.1.3, 9.1.4.3, 9.1.4.4, 9.1.4.5, 9.1.4.6, 9.1.4.7, 9.1.4.9, 9.1.4.10, 9.1.4.12, 9.1.4.13, 9.1.4.14	5
2015-16	3	1	2	8.1.2.1, 8.1.3	33
Total	33	6	27		18%

The overall compliance of PAC directives needs improvement.

8.1.4 Audit Paras

8.1.4.1 Loss of export due to sick / closed units US \$ 15.000 million equivalent to Rs. 2,370.000 million

As per part H of Export Projections for five years of Application form for setting up an industrial/ trading unit an investor is required to mention committed annual export which must be maintained. The investors are bound to follow their commitments in case they retain the allocated land.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2019-20, it was observed that twelve sick/closed units with committed exports of US \$15.00 million per year and achievement remained zero because of being non-functional, which resulted into loss of export of US \$15.00 million. The details are given below:

S#	Name of Unit	Committed Export in US\$ (million)
1	Arsei Paper Converting	1.00
2	A.K Lubricant	1.00
3	American Gold	3.00
4	Premier Stitching	4.00
5	Alpha Industries	1.00
6	Pearl Lubricants	1.00
7	Sun Gravure	1.00
8	Arsei Trading Corporation	1.00
9	World Wide Traders	0.5
10	Conver Pak International	0.5
11	Indus Traders Group	0.5
12	Zaf Polymers (Trading Unit)	0.5
Total		15.00

Management should have canceled/auctioned the closed/sick units and invited other investors for business which would have resulted into employment opportunity as well as the revenue in terms of AGR, Service Charges and Presumptive Tax to EPZA.

Audit is of the view that the management did not scrutinize the business and financial feasibilities of these units and expensive land was allotted, which resulted into loss of export earning as well as depriving the rights of potential investors.

The matter was reported to the management in October, 2020. The irregularity was discussed in DAC meeting held 15th & 16th January, 2021. DAC directed the management to: (i) expedite the process of cancellation/recovery. (ii) Present management to examine/scrutinize why timely actions of cancellation were not taken. However, no action has been taken by the management till finalization of the Audit Report.

Audit recommends implementation of DAC directives.

8.1.4.2 Non-recovery of receivables from sick / closed / functional units – US \$10.248 million equivalent to Rs. 1,618.464 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

As per EPZA rules, “the utilities bills were also to be recovered on dates and in case of non-payment two or three consecutive bills, the utility services should have been suspended in order to recover the outstanding balances and to avoid their heavy accumulation.”

During audit of Export Processing Zones Authority (EPZA) for the year 2019- 20, following irregularities were observed:

- (a) An amount of US \$336,431.87 equivalent to Rs. 50.464 million was lying outstanding against sick/inactive units on account of Annual Ground Rent (AGR), Electric and Water charges as on 30.06.2020.

AGR	Electricity	Water	Total (US\$)
326,208.72	9,962.16	260.99	336,431.87

- (b) Further, an amount of US \$9,913,829 equivalent to Rs. 1,568 million was lying outstanding against various parties on account of AGR, Electric, water and Others.

S#	Description	Receivable in US \$	Receivable in Rs.
1.	Sundry Debtors- AGR	2,742,591	436,870,328
2.	Sundry Debtors- Electric	6,707,456	1,057,646,954
3.	Sundry Debtors- Water	300,857	47,467,614

4.	Sundry Debtors- Others	162,925	26,044,870
Total		9,913,829	1,568,029,766

Audit is of the view that the management did not affect recoveries of its dues due to inefficiency and negligence which resulted into blockage of funds and chances of converting the receivables into the bad debts cannot be ruled out. Besides, non- cancellation / auction / recovery of the closed / sick units and non-replacement with fresh / new investors for business compromised potential export receipts for the country.

The matter was reported to the management in October, 2020. The irregularity was discussed in DAC meeting held 15th& 16th January, 2021 and the decisions are as under:

- a. Management informed that non-recovery from inactive / sick units that most of the recovery cases are in litigation. DAC directed to (i) Expedite the recovery and take action against the officers of EPZA who did not take any effective steps in the past for timely recovery, (ii) Pursue the court case vigorously, (iii) Recoveries materialized should be verified from audit, (iv) Status of litigations case be provided to Audit, and (v) Amounts to be received from other units may also be provided to audit.
- b. DAC directed to expedite the recovery and submit progress report on monthly basis to Audit and Ministry of I&P.

However, no action has been taken by the management till finalization of the Audit Report.

Audit recommends implementation of DAC directives.

8.1.4.3 Loss of remittance due to zero export against import – US \$4,918,442.632 equivalent to Rs. 737.766 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

As per part H of Export Projections for five years of application form for setting up an industrial/ trading unit an investor is required to mention committed annual export which must be maintained. The investors are bound to follow their commitments in case they retain the allocated land.

During audit of Export Processing Zones Authority (EPZA) for the year 2019-20, it was observed that following units made no exports during last five years against imported items value of \$4,918,442.632 equivalent to Rs. 737.766 million in the same period. The detail is as under:

S#	Name of Unit	Value	S#	Name of Unit	Value (US \$)
1.	Bennatex Exports M.Y.U (T/U)	543,760	6.	Fujiwara Pakistan Pvt. Ltd.	345.22
2.	Bin Ahmed Engineering Ind.	238.752	7.	Multi garment & Print International	343,496.60
3.	Blue Moon Pvt. Ltd.	84,908	8.	Resale Int. Pvt. Ltd.	2,454,526.58
4.	Combine Holdings	575,377.48	9.	White Star Int.	90,024
5.	Cyma Enterprises Inc (T/U)	825,766			
Total			4,918,442.63		

Further, the management did not impose any penalty nor took any legal action against the investors having zero export. This resulted into loss of revenue on account of presumptive tax, service charges and penalty as well.

Audit is of the view that units importing goods against zero export needs thorough investigation regarding probable smuggling of goods in tariff area or to other sister units of EPZA.

The matter was reported to the management in October, 2020. The irregularity was discussed in DAC meeting held on 15th & 16th January, 2021. DAC directed the current management to review the status of export of each unit pointed out by the Audit and submit a detailed report to Audit /Ministry so that necessary action may be taken against units showing nil Exports. However, no relevant record was provided to Audit by the management.

Audit recommends implementation of DAC directives.

8.1.4.4 Irregular appointment of 194 staff in liaison offices in North & South regions –Rs. 494.250 million

As per Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013, 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.

Board approved the liaison offices at different chambers for North and South regions for establishing EPZs at different locations alongwith staff requirements. However these appointments may be made on project basis and would continue as long as the project exists. EPZA will get financial support of Federal Government for each project in order to keep it sustainable.

During audit of Export Processing Zones Authority (EPZA) for the year 2019-2020, it was observed that the management appointed 194 employees as per BoD directives on project basis till the project is in existence (South Zone: 40 and North Zone: 154), but employees were regularized and made permanent despite the fact that projects were not continued, thus an expenditure of Rs. 494.25 million (approx.) during the year 2012-13 to 2019-20 on account of salaries and other allied benefits (**Annex-45**) was wasteful and unnecessary burden on the organization as no any financial support was given by the Federal Government.

Audit is of the view that the appointment of aforementioned employees on permanent basis rather than on project basis was in violation of standing orders. Thus, an amount of Rs. 494.25 million (approx.) on salary & other allied benefits from July, 2013 to June, 2020 is also un-justified and un-authorized.

The matter was reported to the management in October, 2020. The irregularity was discussed in DAC meeting held 15th & 16th January, 2021. DAC directed to inquire the matter at ministry level within 60 days. However, no relevant record was provided to Audit by the management.

Audit recommends implementation of DAC directives.

8.1.4.5 Loss of revenue due to non-imposition of penalty - Rs. 337.105 million

As per para 16 of EPZA Rules, 1981, service charges of 0.5% on F.O.B value of all goods exported from any Zone shall be payable to the Authority.

As per item No.2 (3) of 122nd Board meeting of EPZA dated 15.02.2019 “in the event such units fail in their committed export figure as undertaken by them during a particular fiscal year, they shall be liable to pay a penalty equal to 1% of the shortfall from the committed export performance for a particular year”.

During audit of Export Processing Zones Authority (EPZA) for the year 2019-20, it was observed that management did not collect an amount of Rs. 337.105 million from the units which ran into shortfall against their committed exports. The details are as under:

No. of Units	Committed Export	Actual Export	Shortfall	1% Penalty (P) 337.105 million
127	\$412,500,000.0	\$168,220,755.5	\$244,279,244.5	
(Penalty = \$244,279,244.5 @1% @ Rs. 138 = Rs. 337.105 million)				

Audit is of the view that management should ascertain capability of the units with respect to their performance against their committed export figure and examine the circumstances leading to the shortfall.

The matter was reported to the management in October, 2020. The irregularity was discussed in DAC meeting held on 15th & 16th January, 2021. DAC directed the management to

conduct fact-finding inquiry within 30 days and share the same with Audit and Ministry. However, no action has been intimated by the management till finalization of the Audit Report.

Audit recommends implementation of DAC directives.

8.1.4.6 Loss due to irregular investment / non-investment of funds – Rs. 322.000 million

As per Sr. No. 3(b) of Memorandum issued by Finance Division dated 02 July 2003, Prior to placing deposits with a bank ..., and in case the total working balances exceed Rs. 10.000 million, the selection of the bank (s) as well as the terms of deposits will be approved by the concerned Board of Directors /Governing Body on the basis of competitive bids from at least three independent banks. Para 6 states that before making any investment under this policy, it would be necessary for public sector entities to set up in-house professional treasury management functions. Specifically, they would need to have an Investment Committee (IC) with defined investment approval authority. Transactions above the limit of the approving authority of the IC will be subject to approval of the Board of Directors or an equivalent forum. ... However, it will be necessary for public sector enterprises to use the services of professional fund managers approved by SECP.

During audit of Export Processing Zone Authority (EPZA) for the year 2019-20, audit observed following investment related irregularities:

- a) Management did not invest funds of Rs. 150.00 million which were lying idle in Silk Bank from 05.05.2018 to 05.05.2019. Had the management invested the funds @ 13% (approx.), EPZA could have earned a profit of Rs. 19.500 million.
- b) Management did not invest funds of US \$1,026,000 equivalent to Rs. 172,368,000 (\$ @ 168) which were lying idle with National Bank of Pakistan. Thus, it resulted into the loss to the Authority of \$67,032 equivalent to Rs. 11.261 million due to non-investment. The details are as under:

Principal amount as on 18.2.2019 (US \$)	Rate	Loss from 13.06.2019 to 30.06.2020 (US \$)	Loss in Rs. @ 168
1,026,000	4.9%	67,032	11,261,376

Audit is of the view that keeping surplus investible amount of funds idle, investments at lower rates, lack of Investment Committee (IC) and non-utilization of services of professional fund manager approved by SECP reflected undue favour to the banks at the cost of Authority's interest & non-adherence to the standing orders of the government on investment of surplus funds.

The matter was reported to the management in September, 2020. The irregularity was discussed in DAC meeting held 15th& 16th January, 2021 and following decisions were made:

- a) DAC directed Chairman EPZA to look in to the matter personally and submit report to audit and ministry within 15 days.
- b) DAC directed the management to conduct fact-finding Inquiry within 15 days. However, no relevant record was provided to audit by the management.

Audit recommends implementation of DAC directives.

8.1.4.7 Unauthorized execution of work on expansion of distribution network – Rs. 225.000 million

Para No.2.11 of Manual for Developmental Projects entails that the autonomous organizations, having a Board are competent to sanction their development schemes with 100per cent self-financing ... subject to following: i) The DWP should be constituted by each organization and notified to consider and approve their self-financed projects, ii) The decision of the DWP will be subject to the endorsement of the Board of the organization.

During audit of Export processing Zones Authority (EPZA) for the year 2019-20, it was observed that pursuant to BoD decision dated August 29, 2019 on enhancement of electric load from 11.02 to 27.00, to be financed through bridge financing and subsequent recovery from EPZA investors against security charges & development charges, management awarded the contract to M/s. Barqtron Engineering Solutions at a cost of Rs. 159.30 million. However, it was observed that the approval for execution of work of Rs. 225.000 million was accorded by Chairman on 26.02.2020 and the execution of work was carried out without concurrence of investors & approval of BoD, which is the competent authority. Further, the development scheme was executed without approved PC-I from the competent forum i.e. Development Working Party (DWP) and its subsequent endorsement by the Board.

The matter was reported to the management in October, 2020. The irregularity was discussed in DAC meeting held on 15th& 16th January, 2021. DAC directed the management to verify the following to Audit within 30 days:

- i) The approval of PC-I by the Competent Authority and concurrence of the investors regarding bridge financing.
- ii) Verification of recovered / to be recovered amount from the investors. However, no relevant record was provided to audit by the management.

Audit recommends implementation of DAC directives.

8.1.4.8 Irregular award of contract & payment against defective work& non-imposition of liquidated damages – Rs.79.202 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

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

During audit of Export processing Zones Authority (EPZA) for the year 2019-2020, audit observed following irregularities in the award of following works contracts:

(a) Management awarded works contract of following works to M/s. Transfo Tech Engineering (SMC-Pvt.) Ltd., a contractor of C-3 instead C-10 category of Pakistan Engineering Council, at a cost of Rs.57.456 million. Moreover, the contract was initiated without PC-I and awarded to the contractor without technical evaluation.

Construction of sub-station	Re-furbishment of MDS	Extension of MDS	Total (Rs.)
5,086,793.66	4,312,951	48,057,222	57,456,966.66

Further, the management did not impose the liquidated damages of 10 % value of the contract amount in terms of para (vi) of the work award in the preceding case nor did it encash the performance / bank guarantee of Rs. 5.746 million as the contract was not completed on time. The details are as under:

Work Order	Start Date	To be completed	Actual completion	Excess days
02.12.2019	23.12.2019	180 days (21.04.2020)	270 days	90

(b) The management made payment of Rs. 3.200 million to the contractor, Muhammad Siddique & Brothers, for infrastructure development work in B-I Sector awarded vide work order dated 25.06.2016. However, the record reflected that the contractor had laid power cable of aluminum instead of copper cable. Despite EPZA correspondence vide letters dated June 08, 2017, June 13, 2017 & July 04, 2017, sub-standard electric cable was not replaced in accordance with terms & conditions of contract, tender documents, and BOQ specification.

(c) The management awarded another contract for infrastructure development works of leveling, gardening & allied work to M/s. Muhammad Siddique & Brothers who failed to complete the work of Rs. 124.830 million till-date. However, the management did not impose the liquidated damages of 10 % value of the contract nor did it encash the performance / bank guarantee of Rs. 12.480 million as the contract was not completed on time. The details are as under:

Start Date	To be completed	Status
03.03.2017	150 days (02.08.2017)	Incomplete

Audit is of the view that management extended undue favor to the contractors as contracts were awarded without PC-I, technical evaluation, disregarding the categories of the contractors, approval of competent forum, payment made for sub-standard material and non-imposition of liquidated damages. Hence, the contract management in the organization is poor, causing loss to the organization.

The matter was reported to the management in October, 2020. The irregularity was discussed in DAC meeting held on 15th & 16th January, 2021 and the following decisions were made:

- DAC directed the management to conduct fact-finding inquiry and submit the same within 30 days.
- DAC directed the management to conduct fact-finding Inquiry by including one member from ministry within 15 days.
- DAC directed the current management to investigate the matter and fix responsibility on person (s) at fault.

Audit recommends implementation of DAC directives.

8.1.4.9 Award of the contracts without standard documents & approvals – Rs. 72.910 million

According to planning & development Division Government of Pakistan letter No.8 (60) WR/PC/2008 dated February 12, 2008 ECNEC directed to implement the revised standard form

of bidding documents prepared by PEC on June 11, 2017 for procurement of all engineering goods, works & services. The Federal, Provincial Department's organization and district government responsible to implement the decision of ECNEC.

Moreover, according to standard form of bidding documents for procurement of work issued by PEC on June 11, 2007, the bidding documents shall include instruction to bidder, bidding data, general conditions of contract, particular condition of contracts, special provision, technical provision, form of bid & appendices of bid, bill of quantity (BOQ) form of bid security, form of agreement, form of PBG and mobilization guarantee, drawings.

During audit of Export Processing Zones Authority (EPZA) for the year 2019-2020, it was observed that the management awarded two contracts valuing Rs. 57.460 million to M/s. Info Tech Engineering and M/s. Hassan Engineering Rs. 15.450 million for expansion of sub-station building & existing MDS without the standard bidding documents reflecting basis of determination of BOQ items. Instead, the works were awarded only against TORs. (Term of Reference) and the same without PC-Is & due approvals.

Audit is of the view that award of the contracts without standard documents & approvals reflected poor functioning and weak internal controls within the organization.

The matter was reported to the management in September, 2020. The irregularity was discussed in DAC meeting held on 15th & 16th January, 2021. DAC directed the management to justify that whole process of awarding the contract was made as per ECNEC directives in transparent manner. DAC further directed the management to get their contention verified from Audit within 15 days. However, no relevant record was provided to Audit by the management.

Audit recommends implementation of DAC directives.

Muhammad Imran Shahid
Asstt Programmer
Monday, 24 February, 2025, 3:24:44 PM

8.1.4.10 Loss due to non-observance of guidelines / building bylaws during construction phase - Rs. 18.646 million

As per para 4 (3) of Corporate Governance Rules,2013 the Chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters , subject to the oversight and directions of the Board , in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

Rule C-1, C-2 & C-3 of Guidelines/ Building laws for the construction of building in EPZA that the built up area shall not exceed 72% of the total area of a plot. It is in the interest of investors to have adequate foundations to cater for expansion in the vertical direction from basement to upper three floors. All buildings, except those allowed within the compulsory vacant strips, should have permanent open spaces, 04 meters from road side i.e. front, 1.5 meter from near and any one side and 3 meters from other side.

During audit of Export Processing Zones Authority (EPZA) for the year 2019-2020, it was observed that the management incurred expenditure of Rs. 18.650 million on fire-extinguishers at three factories on plot Nos.1,2&8 in Sector-A of Phase-II on December 16,2019.The details of expenditure are as under:

(Rs. in million)

AFF Foam	Water	Labour Charges	Total
1500 liters *1200 = Rs. 1.8	355,318 *45 Gallons = Rs. 15.98	0.866	18.65

Audit is of the view that fire incidents indicated non-observance of Guidelines/ Building laws during construction phase and negligence of the management in enforcement of laws providing for ample space between the factories. Thus, EPZA sustained the loss of Rs. 18.656 million.

The matter was reported to the management in September, 2020. The irregularity was discussed in DAC meeting held on 15th& 16th January, 2021. DAC directed that Chairman EPZA conduct a detailed inquiry covering all industrial units at EPZA and point out deviations/ irregularities in Building by laws within EPZA premises within 03 months. However, no progress was reported to Audit by the management till finalization of the Audit Report.

Audit recommends implementation of DAC directives.

8.1.4.11 Irregular / unjustified posting of Deputy Manager on deputation and absorption as Manager – Rs. 14.233 million

ESTA Code Sl. No.28 read with para 04, states In case a deputation is proposed to be absorbed permanently in the borrowing office (either a government or a corporation etc.) such a proposal shall be initiated by the borrowing office at least six months before the expiry of the deputation period of the deputation concerned. Such a proposal with written consent or request of the deputationist, shall be made by the borrowing office to the lending office (or parent office of the deputationist) which shall convey its decision (if necessary, in consultation with the Establishment Division) to the borrowing office as well as the deputationist by the expiry of the term of his deputation. In the event of non-acceptance of the proposal, the individual shall revert back to his parent office.

During audit of Export Processing Zones Authority (EPZA) for the year 2019-20, it was observed that Ministry of Industries (MoI&P) posted Deputy Manager (BS-18) of Pakistan Machine Tool Factory, Mr. Sarfaraz Khan Leghari, as Manager (Electric-III) on deputation in EPZA on November 23rd, 2011 for a period of three years. He was posted against non-existing post and the same without any requisition from EPZA management. Thereafter, he was absorbed in EPZA vide BoD decision dated November 26th, 2012 and office order dated February 15th, 2013, subject to condition that his seniority in the service of EPZA shall be determined from the date of his joining (not absorption).

Audit is of the view that deputation, absorption, and seniority of the officer is not as per rules & regulations. Thus, payment of Rs. 14.233 million on account of salaries and other allied benefits was irregular and un-justified.

The matter was reported to the management in September, 2020. The irregularity was discussed in DAC meeting held on 15th & 16th January, 2021. DAC directed the management to hold an inquiry to ascertain violations, fulfillment of codal formalities in deputation followed by absorption in EPZA without any vacancy along with promotion right of any other employee was violated or otherwise in 60 days to Audit for further comments. However, no relevant record was provided to Audit by the management till finalization of the Audit Report.

Audit recommends implementation of DAC directives.

8.1.4.12 Loss of revenue due to auction below reserve price and payment of excessive sale proceeds to Pakistan Customs - Rs. 11.556 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

As per letter of Collectorate of Customs (Exports) dated 16.06.2002, the Principal Appraiser posted in EPZA shall fix the Reserve Price of garbage/waste ... the duty and taxes

shall be calculated and such amount shall be deposited by the EPZA into the relevant head of accounts.

During audit of Export Processing Zones Authority (EPZA) for the year 2019-20, the following action - related irregularities were observed:

- a) The management allowed disposal of the industrial waste at lower rates than the reserve price. Further, the process of auction of the waste in EPZA is not transparent and record revealed that management made payment of sale proceeds of auction of industrial waste of Rs. 14,904,607 to Pakistan Customs instead of paying only duties & taxes of Rs. 7,188,887

(Annex-46). The summary is as under:

Loss of revenue from sale proceeds of auction of industrial waste				Amount (Rs.)		
Value of waste	Taxes	Reserve price	Deposit in Custom Treasury	Bid amount	Reserve price – Bid Amount	Difference in taxes and duties
11,976,758	7,188,887	19,165,375	14,904,607	17,125,000	2,040,375	7,715,720
Total Loss of Revenue 2,040,375 + 7,715,720 = 9,756,095						

- b) M/s. Fida Muhammad was awarded the auction of yard # 6 but he failed to lift the entire volume of industrial waste within ten working days from the clearance of custom, ending on December 01st, 2019 whereas fire incident occurred on December 26, 2019. However, the management allowed to lift the waste of equivalent value of Rs. 1.800 million to the contractor from yard No.05 as a compensation.

Audit is of the view that value of the waste realized is the income of EPZA and the same should be deposited in relevant account of the Authority after due payment of amount of duty & taxes. Furthermore, EPZA's allowing lifting of another yard's waste to M/s. Fida Muhammad without assessment of its volume and valuation (reserved value) indicates that EPZA management decision lacked in prudence and propriety in subject case as the contractor had failed to lift the agreed quantity in time due to his own fault/slackness, therefore, he didn't deserve any compensation.

The matter was reported to the management in September, 2020. The irregularity was discussed in DAC meeting held 15th & 16th January, 2021 and following decisions were made:

- a) DAC was not satisfied with the present mechanism for disposal of industrial waste and directed that the whole process be reviewed and place the same before BoD so that transparency in the process may be maintained and financial management in the whole system may be strengthened. DAC further directed that matter may also be taken with Custom Authorities in light of Audit observation regarding fixing of reserve price.

Additionally, all receipts on this account in the current audit year be provided to Audit for verification to ascertain whether the amount due to EPZA has been credited in the receipt account of EPZA.

- b) It was apprised by the management that the window of 10 days for lifting the waste starts from clearance letter which was issued on 26.12.2019 by customs authorities. DAC directed to submit revised reply covering all the aspect of the incident and management action thereof.

However, no relevant record was provided to audit by the management.

Audit recommends implementation of DAC directives.

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8.1.4.13 Irregular promotions from Deputy Manager to Manager (E-III) – Rs. 7.980 million

According to EPZA’s Employee Service Rules, the promotion criteria for next post is as under:

Grade	Duration of Service
From S-V to E-I (Assistant Manager)	04 years’ service in S-V cadre
From Deputy Manager to Manager	05 years’ service as Deputy Manager

During audit of Export Processing Zones Authority (EPZA) for the year 2019-20, it was observed that following officers were promoted in violation of EPZA’s Service Rules. The details are as under:

Name of Officer	Promoted		Relaxed Period	(Rs. in million)
	From	To		
Mr. Muhammad Siddique	Stenographer	Assistant Manager	04 months	4.200
	Deputy Manager(E-II)	Manager (E-III)	02 years	
Mr. Muhammad Yousaf	Deputy Manager(E-II)	Manager (E-III)	03 years	3.780
Total				7.980

Audit is of the view that undue favor was extended to the officers on account of irregular promotions. Thus, the payment of Rs. 7.980 million made to officers is irregular.

The matter was reported to the management in September, 2020. The irregularity was discussed in DAC meeting held on 15th& 16th January, 2021. The management informed that favour in terms of relaxation of required service length for promotion to the post of Managers E-III was extended to M/s. Muhammad Siddique and Muhammad Yousaf without approval of the Board. DAC directed the management to ascertain violations and to verify whether promotion right of any other employee was violated or otherwise and inform the Audit accordingly. However, no relevant record was provided to Audit by the management.

Audit recommends implementation of DAC directives.

8.1.4.14 Irregular appointment, promotion and award of additional charges - Rs. 6.840 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its

procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

According to EPZA's Employee Service Rules, the promotion criteria for next post is as under:

Grade	Duration of Service
From Deputy Manager to Manager	05 years' service as Deputy Manager

During audit of Export Processing Zones Authority (EPZA) for the year 2019-20, it was observed that Mr. Junaid Ahmed Alvi was working as Assistant Manager at Pakistan Automobile Corporation Limited (PACO), M/o Industries & Production. The PACO management terminated his services w.e.f. 15.02.2001. He made an appeal against termination of his services vide request dated 14.05.2001 to the then Secretary (I&P). However, EPZA management appointed him afresh as Assistant Manager on 02.11.2001 on the recommendation of M/o I&P vide letter dated 24.10.2001 without advertisement /written test/interview and approval of the Board.

Further, contrary to EPZA rules, he was promoted from Deputy Manager (E-II) to Manager (Security) on 15.02.2013 by relaxing two years' service length. The details below reflect unjustified multiple charges held by him.

1	02.11.2001	Appointed as Assistant Manager Security	7	24.05.2017	Assigned the look-after work of Manager (S)
2	16.03.2010	Promoted as Deputy Manager	8	08.08.2018 to 05.12.2018	Additional charge of DGM (S)
3	10.03.2011 to 14.02.2013	Additional charge of Manager (Security)	9	05.12.2018 to 02.01.2019	Additional charge of Manager Security
4	15.02.2013	Promoted as Manager (Security)	10	04.01.2019 to 20.11.2019	Additional charge of DGM (Finance) on OPS
5	24.10.2013	Re-designated as Manager Accounts	11	26.11.2019 to 26.09.2020	Additional charge of DGM (Finance) on OPS
6	26.08.2016	Additional charge of DGM (Finance)	12	-	-

Audit is of the view that undue favour has been extended to Mr. Junaid Alvi from his irregular appointment, promotion to assigning of different additional charges beyond period of 3

months by the same authority. Thus, expenditure of Rs. 6.840 million on account of his salary and other benefits is irregular.

The matter was reported to the management in September, 2020. The irregularity was discussed in DAC meeting held 15th& 16th January, 2021. Management informed that Mr. Junaid was terminated by PACO and was reappointed into EPZA on the directions of Mo I&P and favour in terms of relaxation of required service length for promotion to the post of Manager was extended to Mr. Junaid Alvi without approval of the Board. DAC directed the management to ascertain genuineness of appointment besides verifying whether promotion right of any other employee was violated or otherwise and inform the Audit accordingly within 15 days. However, no relevant record was provided to Audit by the management.

Audit recommends implementation of DAC directives.

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Asstt Programmer
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8.2 ENAR Petrotech Services (Pvt.) Limited

8.2.1 Introduction

The Company was incorporated in July, 1974 as a private limited company and is working under the Ministry of Industries and Production. The Company provides complete range of services including design engineering project management, construction supervision, operational and management services for executing projects in oil and gas sector. The Company also offers project development / planning services and undertakes sectoral / feasibility studies, technology evaluations and environmental impact assessments.

8.2.2 Comments on Audited Accounts

8.2.2.1 The working results of the Company for the year 2018-19 as compared to previous years are as under:

(Rs. in million)

	2018-19	% Inc / (Dec)	2017-18	% Inc / (Dec)	2016-17(Restated)	% Inc / (Dec)	2015-16
Income from Services	141.559	41.76	99.86	(18.43)	122.41	(18.47)	150.15
Cost of Services	111.545	1.38	110.03	1.79	108.09	(9.81)	119.85
Gross Profit / loss	30.013		(10.17)	-	14.32	(52.71)	30.29
Administrative and general expenses	27.323	0.82	27.10	12.30	24.13	0.37	24.04
Other income	3.208	32.56	2.42	(50.12)	4.85	6.59	4.55
Profit/ Loss before taxation	2.515		(35.24)	570.07	(5.26)	-	10.80
Taxation	12.464	(33.42)	18.72	74.62	10.72	223.87	3.31
Loss after taxation	9.080	(83.17)	(53.96)	237.68	(15.98)	0.00	7.49

(Source: Annual Audited Accounts)

8.2.2.2 Administrative and general expenses increased by 0.82%, from Rs.27.100 million in 2017-18 to Rs.27.323 million in 2018-19, which need justification.

8.2.2.3 Other income decreased by 32.56% from Rs.2.420 million in 2017-18 to Rs.3.208 million in 2018-19, which need justification.

8.2.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
1996-97	5	4	1	163	80
1999-00	6	-	6	319.320,321,322,323,324	-
2000-01	5	4	1	296	80
2004-05	1	-	1	72	-
2005-06	6	2	4	129.1, 129.2, 129.4, 130	33
2008-09	22	21	1	120.1	95
2013-14	18	2	16	8.18.2.1, 8.18.2.2, 8.18.2.3, 8.18.2.4, 8.18.2.5, 8.18.2.6, 8.18.2.7, 8.18.3, 8.18.4.1, 8.18.4.2, 8.18.4.3, 8.18.4.4, 8.18.4.5, 8.18.4.6, 8.18.4.7, 8.18.4.8	11
2015-16	14	1	13	8.12.4.7, 8.12.2.1, 8.12.2.2, 8.12.2.3, 8.12.2.4, 8.12.3, 8.12.4.1, 8.12.4.2, 8.12.4.3, 8.12.4.4, 8.12.4.5, 8.12.4.6, 8.12.4.8	7
Total	77	34	51	-	44%

The overall compliance of PAC directives needs improvement.

8.2.4 Audit Paras

8.2.4.1 Non-recovery of receivables and service charges - Rs. 42.312 million

Rule-26 of GFR provides that it is the primary responsibility of the departmental authorities to see that all revenues or debts due to governments which have to be brought to account are correctly and promptly assessed, realized and credited to the public account.

During audit of ENAR Petrotech Services (Private) Limited for the year 2018 – 19, it was observed that the management did not conduct the recovery of service charges of Rs. 38,965,864 and receivables from various clients of Rs. 3,346,188 for its rendered consultancy services for the period of 2018-19 (**Annex-47**).

Audit is of the view that ENAR Petrotech Services (Private) Limited is a service providing company and its main sources of income are service charges for meeting its operating

expenses. Therefore, non-recovery of receivables and service charges may lead the Company to financial crisis.

The matter was reported to the management in June 2020, but no reply was received. DAC meeting was also not convened despite requests by Audit.

Audit recommends that the management should take concrete efforts to recover outstanding dues and responsibility may be fixed on the person (s) at fault.

8.2.4.2 Irregular appointment & promotions - Rs.35.532 million

As per decision in Case Nos.104 (i), (ii), (iii) & (iv) of 1992 of honorable Supreme Court of Pakistan , it has been found that ... statutory bodies and the public authorities have been making initial recruitments, both ad hoc and regular to posts without publically and properly advertising the vacancies and at times by converting ad hoc appointments into regular appointments. This practice is prima facie violation of fundamental rights (Article-18 of the Constitution) guaranteeing every citizen "freedom of profession". Steps shall immediately be taken to rectify, so as to bring the practice in accordance with the constitutional requirements.

During audit of ENARPetrotech Services (Pvt.) Limited for the year 2018-19, audit observed following irregularities in HR management:

- a) The management appointed 22 mechanical and civil engineers on contract basis without advertising the vacancies and despite of the fact that there is an excess in the available strength against the sanctioned strength of officers / officials, which resulted into irregular payment of Rs.31,932,000 (**Annex-48**).
- b) The management made irregular promotion of Mr. Khalid Mohiuddin as General Manager and allowed him additional charge of Managing Director without due approval from concerned Ministry & Establishment Division, thus paid irregularly an amount of Rs. 3,600,500.

Audit is of the view that the above irregularities reflect poor human resource management.

The matter was reported to the management in June 2020, but no reply was received. DAC meeting was also not convened despite requests by Audit.

Audit recommends that the management may conduct a fact-finding inquiry and fix the responsibility accordingly.

8.2.4.3 Irregular withdrawal from pension fund – Rs. 23.171 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of ENARPetrotech Services (Private) Limited for the year 2018-19, it was observed that the management irregularly withdrew an amount of Rs. 15.000 million 2017-18 and Rs. 12.700 million in year 2018-19 as loan from employee Pension Fund. The detail of withdrawal from pension fund is as under:

Description	Rs. in million)
Opening Balance	15.000
Loan from Staff Pension Fund (2018-19)	12.700
Less : Repayment	(6.000)
Closing Balance	21.700
Add : Interest Payable	1.471
Total	23.171

Further, the management has not carried out any exercise on actual valuation of the staff pension fund since December 2011.

Audit is of the view that withdrawal of pension fund of Rs. 23.171 million was not in order. Thus, such withdrawals without due approvals and non-valuation of staff pension fund reflected poor management & weak internal controls.

The matter was reported to the management on June 2020, but no reply was received nor was DAC meeting convened despite requests by Audit.

The audit recommends that the funds of Rs. 23.171 million may be deposited into the employees' pension fund on priority and responsibility may be fixed on the person (s) at fault.

8.3 Karachi Tools, Dies and Moulds Centre

8.3.1 Introduction

Karachi Tools, Dies and Moulds Centre (KTDMC) was incorporated in 2006 as a company limited by guarantee having share capital under Section 42 of the Companies Ordinance, 1984. The primary objective of the Company is to establish and run an Information Technology (IT) based common facility center primarily for improving the skills of engineers and designers, enhancing the quality of designing, engineering and manufacturing of local tools, dies and moulds. The Company is a wholly owned subsidiary of Pakistan Industrial Development Corporation (Private) Limited (PIDC).

8.3.2 Comments on Audited Accounts

8.3.2.1 The working results of company for the year ended June 30, 2019 as compared to previous years are given below:

(Rs. in million)

	2018-19	%Inc/Dec	2017-18	%Inc/Dec	2016-17	%Inc/Dec	2015-16
Income	200.67	14.59	175.12	20.36	139.47	0.67	138.536
Other Income	8.93	51.35	5.90	(14.34)	6.75	4.09	6.48
Total Income	209.60	15.78	181.02	19.23	146.22	0.83	145.02
Direct Cost	(149.14)	(20.33)	(123.94)	(18.55)	(100.95)	(14.44)	(117.99)
Admin Expense	(30.29)	(24.44)	(24.34)	(6.84)	(22.68)	(14.89)	(19.74)
Total Expenses	(179.43)	(21.00)	(148.28)	(16.63)	(123.63)	(10.24)	(137.73)
Surplus/Deficit	30.16	(7.85)	32.73	31.00	22.58	209.82	7.29

(Source: Annual Audited Accounts)

8.3.2.2 Other income of the company increased from Rs. 5.900 million in 2017-18 to Rs. 8.930 million in 2018-19, registering an increase of 51.35%, which should be enhanced in forthcoming years.

8.3.2.3 Total expenses increased by 21.00%. Direct cost also increased by 20.33% from Rs. 123.940 million in 2017-18 to Rs. 149.140 million in 2018-19, which needed justification.

8.3.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
2013-14	5	1	4	8.2.4.1, 8.2.2.1, 8.2.2.2&8.2.3	20
2015-16	7	3	4	8.4.2.2, 8.4.4.1, 8.4.4.2, 8.4.4.3,	43
Total	12	4	8	-	33%

The overall compliance of PAC directives needed to be improved.

8.3.4 Audit Paras

8.3.4.1 Non-recovery of tax refunds from government - Rs. 59.756 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

As per Section 100 C (1) & (2) of the Income Tax Ordinance, 2001, (1) the income of non-profit organizations, trust or welfare institutions, as mentioned in sub-section (2) shall be allowed a tax credit equal to one hundred percent of the tax payable, including minimum tax and final taxes payable under any of the provision of this Ordinance.

During audit of Karachi Tools, Dies & Moulds Centre (KTDMC) Karachi for the year 2018-19, it was observed that KTDMC is incorporated under section 42 of the company's ordinance 1984 as a non-profit organization. Thus, the Company is exempt from payment of withholding tax (WHT). However, being a non-profit organization, the Company is entitled to claim hundred percent tax refunds of those deducted tax amounts. The detail thereof as under:

S#	Description	Amount (Rs)	S#	Description	Amount (Rs)
1.	WHT U/s 231 Deduction from Bank.	76,659	5.	WHT U/s 153-1B Services	10,956,986
2.	WHT U/s 236 Telephone	289,176	6.	WHT U/s 234 Motor Vehicles	90,052
3.	WHT U/s 148 Import of Goods	8,784,504	7.	WHT U/s 235 Electricity	2,150,457
4.	WHT U/s 153-1A Sales of Goods	34,694,980	8.	WHT on PLS profit U/s 151	2,713,094
Total					59,755,908

Audit is of the view that due to slackness of management, the Company was deprived of its legitimate dues. If the matter is left unattended, this would cause the Company problems in its cash flow. Furthermore, had the management recovered its outstanding tax refunds and invested in TDR/other securities, it would have earned reasonable profit.

The matter was reported to the management vide Memo dated 03.07.2020. The irregularity was discussed in DAC meeting held on 15&16 January, 2021. The management informed that an amount of Rs. 7.500 million had already been refunded by Tax authorities and the management is pursuing the recovery of the remaining amount. DAC reduced the para extent to the recovered amount of Rs. 7.5 million and directed the management to vigorously pursue the matter with FBR through Ministry for early dissolution of the instant issue. However, no supporting documents in favour of stated refunds were provided to audit by the management.

Audit recommends implementation of DAC directives.

8.3.4.2 Non-resolution of cantonment tax dispute - Rs. 5.874 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Karachi Tools, Dies & Moulds Centre (KTDMC) Karachi for the year 2018-19, it was observed that Cantonment Board Korangi Creek has served a notice to the KTDMC for the payment of Rs. 5.870 million to the Cantonment Board in respect of following taxes. The detailed breakup is as follows:

S#	Description	Arrears (Rs.)	Current (Rs.)	Total (Rs.)
1.	House Tax	3,586,905	751,905	4,338,810
2.	Conservancy Tax	1,062,787	222,787	1,285,573
3.	Demand Notice Fee	200	100	300
4.	5% Surcharge	-	233,245	233,245
5.	T.P.T	10,000	1,000	11,000
6.	License Fee	5,000	500	5,500
Total		4,664,892	1,209,537	5,874,428

Audit is of the view that the issue is lagging for last 05 years. If the management did not take concrete efforts to resolve the issue, it may cause the loss of Rs.5,874,428.

The matter was reported to the management in July 2020. The irregularity was discussed in DAC meeting held on 15 & 16 January, 2021. Management informed that the subject tax as mentioned in Audit Para is not applicable on following grounds:

- i. After 18th amendment, Cantonment Board is not empowered to levy such taxes.
- ii. The management had already filed an appeal in this regard Sindh High Court Karachi bench.

DAC directed the management to take up the matter with Law Division through MoI&P regarding the applicability of cantonment taxes on KTDMC being the Government entity. However, no further progress was intimated to the audit by management.

Audit recommends implementation of DAC directives.

8.4 National Industrial Parks Development and Management Company

8.4.1 Introduction

The National Industrial Parks Development and Management Company (NIPD&MC) was incorporated as a public company with a share capital limited by guarantee on March 07, 2005 under Section 42 of the Companies Ordinance, 1984. Government of Pakistan (GOP) holds 58.31% shares and Pakistan Industrial Development Corporation (Private) Limited (PIDC) holds 41.69 % shares in the Company. The principal activity of the Company is establishing, developing and managing industrial estates of parks and upgrading existing estates and undertaking related activities.

The Company has entered into agreements with PIDC for establishment of Korangi Creek Industrial Park (KCIP) and Pakistan Steel Mills (PSM) in respect of Bin Qasim Industrial Park (BQIP) Project as a consequence of which the Company incurs expenditure on development of industrial parks on land owned by PIDC and PSM respectively.

8.4.2 Comments on Audited Accounts

8.4.2.1 The working results of the Company for the year 2019-20 as compared to previous years are given below:

(Rs. in million)

	2019-20	%Inc / (Dec)	2018-19	%Inc / (Dec)	2017-18
Revenue	41.916	(3.10)	43.259	(66.70)	129.905
Administrative Expenses	(117.44)	3.55	(113.416)	1.11	(112.170)
Reversal of management fees	(194.893)	100.00	-	-	-
Operating profit/(loss) for the year	(270.417)	285.45	(70.156)	1161.57	5.561
Other Income	292.162	35.11	216.238	45.62	148.490
Financial Charges	(0.062)	100.00	(0.031)	(31.11)	(0.045)
Profit/(loss) before taxation	21.682	(85.15)	146.049	(5.10)	154.006
Taxation	-	-	-	-	-
Profit/(Loss) after taxation	21.682	(85.15)	146.049	(5.10)	154.006

(Source: Annual audited accounts)

8.4.2.2 Revenue of the company decreased to Rs.41.916 million from previous year's revenue of Rs.43.259 million, registering decrease of 3.10% whereas, administrative expenses

increased from Rs.113.416 million in 2018-19 to Rs.117.440 million in 2019-20.

8.4.2.3 Reversal of management fees of Rs.194.893 million during the year 2019-20 was made, which needs justification.

8.4.2.4 Operating loss increased upto Rs.270.417 million in 2019-20, by 285%, from Rs.70.156 million in 2018-19. The same needs justification.

8.4.2.5 Profit before taxation decreased to Rs. 21.682 million in 2019-20, by 85.15%, from Rs.146.049 million in 2018-19, which needs justification.

8.4.2.6 Other receivables increased to Rs. 164.854 million, by 34%, during the year under review from Rs.122.960 million in 2018-19. It needs justification.

8.4.2.7 Current liabilities of the company increased from Rs.4,737.000 million in 2018-2019 to Rs.5,180 million in 2019-20, registering an increase of 9.35% which required justification.

8.4.2.8 Development expenditure of the company increased from Rs.3,475.000 million in 2018-2019 to Rs.4,269.000 million in 2019-20, registering an increase of 22.85% which required justification.

8.4.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
2013-14	9	3	6	8.4.4, 8.4.3, 8.4.2.4,8.4.2.1, 8.4.2.2, 8.4.4.1	33
2015-16	9	2	7	8.6.2.1, 8.6.4.3, 8.6.4.2, 8.6.4.4, 8.6.2.2, 8.6.4.1, 8.6.4.5	22
Total	18	5	13		28%

The overall compliance of PAC directives needs to be improved.

8.4.4 Audit Paras

8.4.4.1 Loss on account of sale of 461.925 acres of land below the determined sale value based on the cost of land and infrastructure development costs –Rs.1,992.520 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of National Industrial Parks Development & Management Company (NIP) for the year 2018-19, it was observed that management incurred loss of Rs.1,992.52 million on account of sale of 461.925 acres of land at Bin Qasim Industrial Parks below the determined sale value (**Annex-49**). The summary of loss is as under:

Loss on account of sale of 461.925 acre land		Rs. in million
Total Cost (Purchase Value + Development)	Cost Charged to the Customer	Loss
9,735.267	7,742.749	1,992.52

Audit is of the view that cost of sale of land is not being managed with objectivity, due diligence and proper planning which indicated lack of sound business principles and commercial practice for allotment of lands and it has resulted into total loss of Rs.1,992.520 million.

The matter was reported to the management in July, 2020. The Management confirmed that the matter had been enquired into. The irregularity was discussed in DAC meeting held on 15 & 16 January, 2021. DAC directed that inquiry already conducted may be reviewed by the PIDC being the holding company and submit a comprehensive report to audit and Ministry within 30 days.

Audit recommends implementation of DAC directives.

8.4.4.2 Loss to government by virtue of non-issuance of sub-lease deed to allottees – Rs.1,935.280 million

Clause-3 of Memorandum of Understanding dated March 19, 2009 states that upon issuance of sub-lease deed by PIDC to the allottees, NIP shall transfer the amounts received from allottees / sub-lease holders after deducting its development cost and service charges, on a periodical basis to PIDC who shall share the same with Government of Sindh on agreed 50:50 basis.

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of National Industrial Parks Development & Management Company (NIP) for the year 2018-19, it was observed that as on 30.06.2019, sixty two (62) license agreements pertaining to Korangi Creek Industrial Park (KCIP), entitling allottees access to the premises for commencement of construction work, had been executed measuring 61.303 acres with an aggregate sale price of Rs.1,935.280 million. The company was required to transfer the amount received from the allottees to PIDC upon issuance of sub-lease deed by PIDC to the allottees till year end, which has not been done since the commencement of the project in 2009. MoU had expired in March 2014 and had not been extended till-date. Consequently, due to expiry and non-extension of MoU, PIDC was no more liable to issue sub-lease deed to allottees.

Audit is of the view that sub-lease deed was not executed periodically as per terms of MoU during its validity or afterwards. This resulted into loss of Rs. 1,935.280 million as sale revenue sharing of 50:50 in favour of Government of Sindh was kept pending due to non-issuance of sub-lease deed by PIDC to allottees.

The matter was reported to the management in July, 2020. The irregularity was discussed in DAC meeting held on 15 & 16 January, 2021. Management informed that the process of sub-lease and allotment is in process. DAC directed to get the facts verified regarding sub lease finalization and further directed the Management to expedite the same. Quarterly report in this regard may also be intimated to Ministry and Audit. However, no relevant record was provided to audit by the management.

Audit recommends implementation of DAC directives.

8.4.4.3 Non-extension of MoU on Industrial Park - Rs.1,004.072 million

Clause-7 of Memorandum of Understanding dated March 19, 2009 states that this MOU shall enter into force on the date of signing and shall remain in force for a period of 5 years and may be extended for another similar period by mutual consent of parties.

As per Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013, 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 audit of National Industrial Parks Development & Management Company (NIP) for the year 2018-19, audit observed following MoU – related irregularities:

- a) Management has failed to initiate the case of extension of MoU between the Company, PIDC, Government of Sindh and the Government of Pakistan on Korangi Creek Industrial Park (KCIP). Signed on March 19, 2009 with enforceability of five years & further extension for another similar period by mutual consent of parties, the MoU entailed role & responsibility of each signing party with respect to principal activity of the Company, recovery of development cost & service charges and most significantly the profit-distribution arrangement between Government of Sindh and PIDC. Further, the management has incurred development expenditure on plots of KCIP of Rs.1,004.072 million which may go into litigation & blockage of further activities of the Industrial park as the agreement has not been renewed.
- b) Management recognized revenue of Rs. 36.947 million and management fees of Rs. 1.022 million on account of execution of four license agreements relating to plots measuring 2.446 acres with an aggregate sale price of Rs. 69.687 million under Korangi Creek Industrial Park (KCIP). However, contrary to above, the MoU was not extended and the apportionment of revenue sharing was also not made accordingly. Thus, recognition of above mentioned revenue and management fees is irregular as the MoU had expired and not been extended.

Audit is of the view that the arrangement amongst the parties is not legally enforceable and its non-extension may result into litigation problems for the concerned parties.

The matter was reported to the management in July, 2020. The irregularity was discussed in DAC meeting held on 15 & 16 January, 2021, and following decisions were made:

- a) Management informed that land has been developed and sold to industrialists and 30 acres of land is presently under litigation in Courts. DAC directed the management to take up the matter with Government of Sindh for extension in MoU to avoid any legal complications in future and remit share of Government of Sindh and pursue the case in court of law regarding 30 acres of land.
- b) Management informed that land has been developed and sold to industrialist and 30 acres of land is presently under litigation in Courts. DAC directed that to take up the matter

with Government of Sindh to avoid any legal consequences in future and pursue the case in Court of law.

However, no relevant record was provided to audit by the management.

Audit recommends implementation of DAC directives.

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8.4.4.4 Loss due to irregular allotment of 100 acres of land – Rs. 813.500 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of National Industrial Parks Development & Management Company (NIPD & MC) for the year 2018-19, it was observed that NIP BoD in the 59th meeting on January 04, 2018 expressed serious concern over the findings of initial enquiry report against the ex-CEO NIP, Mr. Mudassar Iqbal for allotment of 100 acres of land of BQIP to M/s. KIA Lucky Motors only on the recommendations of the Allotment & Procurement Committee which was contrary to the directives of the NIP BoD meeting on November 22nd, 2016, wherein only Board was authorized to accord the approval of allotment of plots.

It was further observed that as per NIP letter dated January 23, 2017, 100 acre plot was allotted to M/s. KIA lucky on the condition that KIA will deposit Rs.630.000 million as per pre-defined payment plan by Feb 04, 2017. However, NIP received the first installment of Rs.50.000 million only, leaving a balance payment of Rs.580.000 million stating that the remaining amount will be paid by the allottee by February 19, 2017. However, balance amount was received by June 29, 2017 after a delay of 5 months.

Moreover, plot was allotted at price of Rs. 18.000 million per acre to M/s. KIA Lucky Motors in Bin Qasim Industrial Park without the approval from Board. Further, M/s. KIA Lucky Motors failed to deposit the payment as per pre-defined payment plan thus, a new price i.e. Rs. 26.000 million per acre was required to be charged. However, the then CEO NIP assured M/s. KIA Lucky Motors that they will not be charged more than Rs. 18.000 million per acre (the old price).

Audit is of the view that undue favor was extended to M/s. KIA Lucky Motors by not charging the new price i.e. Rs. 26 per acre. This resulted into loss of Rs. 813.000 million (Rs. 26.000 million per acres less Rs. 18 per acre = Rs. 8.000 million per acre @ 100 acres + interest loss of Rs. 13.050 million).

The matter was reported to the management in July, 2020. The irregularity was discussed in DAC meeting held on 15 & 16 January, 2021. DAC directed that inquiry report already conducted into the matter may be reviewed by PIDC being the holding company and submit a comprehensive report to audit and Ministry within 02 months for further comments/action. However, no relevant record was provided to audit by the management.

Audit recommends implementation of DAC directives.

8.4.4.5 Loss due to sale of land at lower rates - Rs. 488.000 million

As per Article-5 of the Agreement for Development and Management of Industrial Park dated 13th July 2007 between Pakistan Steel Mills Corporation (Pvt.) Ltd. and National Industrial Parks Development & Management Company, NIP and PSM agree that the price of each plot of the land mentioned in the GOP letter shall be mutually reviewed by NIP and PSM after a period of five years from the date of Agreement and thereafter, on an annual basis where after any increase in the amount shall be determined by PSM and NIP on the basis of the situation existing at the time of the said revision.

During audit of National Industrial Parks Development & Management Company (NIP) for the year 2018-19, it was observed that NIP allotted 5.027 acres of land to M/s. Mid Pakistan Coil Center at the rate of Rs. 6.000 million per acre, 50.275 acres to M/s. Yamaha at Rs. 6.000 million acre and 16.93 acres to five additional companies (including Horizon Steel) at the rate of Rs. 7.000 million per acre. NIP was required to discuss and agree upon a revised price of land, this was reiterated by PSM in its letter reference No.Sec-NIP/324/2017/1405 dated September 06, 2017. Meeting of Minutes of Ministry to resolve the price dispute of the land between PSM and NIP indicates that PSM Board had approved a price of Rs. 13.000 million/acre.

The company incurred a loss of Rs. 488.000 million because it did not pass on the increase in the cost of land to the customers as per price determined by PSM Board. The details are as under:

(Rs. in million)			
Land	Old rates (a)	Revised Rates (b)	Difference (loss) (a-b)
5.027 acres	6	13	$5.027 * 7 = 35$
16.93 acres	7	13	$16.93 * 6=101.58$
50.275	6	13	$50.275* 7= 351.93$
Total			488

Audit is of the view that the management should have revised the cost of land as per Article-5 of contractual agreement wherein, it was clearly mentioned that fixation of price of plot shall be revised annually after first 05 years of agreement in consultation with PSM. Subsequently, it should have collected the differential from customers. This could have prevented a loss of Rs. 488.000 million.

The matter was reported to the management in July 2020. The irregularity was discussed in DAC meeting held on 15 & 16 January, 2021. DAC directed the incumbent CEO, PIDC to hold fact-finding inquiry for onward submission to ministry for further action thereof and share the same with Audit within 60 days. However, no relevant record was provided to audit by the management.

Audit recommends implementation of DAC directives.

8.4.4.6 Wasteful expenditure on account of development of Sargodha Industrial Park - Rs. 95.130 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

As per Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013, 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 audit of National Industrial Parks Development & Management Company (NIP) for the year 2018-19, it was observed that management incurred expenditure of Rs. 95,130,218 on account of development expenditure, bonus to employees, inauguration of the project for the development of Sargodha Industrial Park, but project remained un-operational till August, 2020. The expenditure was incurred without due diligence and proper planning as not a single plot was sold.

Audit is of the view that the management failed to exercise control over the spending / releasing of funds, which resulted into wasteful expenditure of Rs. 95.130 million. This showed poor financial management & improper planning.

The matter was reported to the management in July, 2020. The irregularity was discussed in DAC meeting held on 15 & 16 January, 2021. The management informed that subject matter is under investigation in NAB. DAC directed the management to pursue the case in NAB and a report on quarterly basis be shared with Audit and Ministry. However, no relevant record was provided to audit by the management.

Audit recommends implementation of DAC directives.

8.4.4.7 Poor performance of the company resulting in operational loss - Rs. 70.156 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that

funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of National Industrial Parks Development & Management Company (NIP) for the year 2018-19, it was observed that revenue of the company had decreased by more than 5 times compared with previous year's revenue whereas, administrative expenses had increased during the year, resulting in operating loss of Rs. 70.156 million. The details are as under:

Description	(Rs. in million)	
	2018	2019
Revenue	568.986	89.830
Cost of services	439.080	46.571
Gross Profit	129.905	43.259
Administrative Expenses	(112.170)	(113.416)
Provision for expected loss	(12.174)	-
Operating profit/loss	5.560	(70.1)

It was further observed that development expenditure during the year also decreased to Rs. 46.571 million in year 2019 from Rs. 439.080 million in 2018.

Audit is of the view that there is significant decrease in revenue compared to previous year's and increase in expenses which resulted in operational loss of Rs. 70.156 million. This indicates inefficiency of the management.

The matter was reported to the management in July, 2020. The irregularity was discussed in DAC meeting held on 15 & 16 January, 2021. DAC showed serious concern on the performance of the company and directed the management to place the matter before BoD to have a strategic plan for the company so that its performance can be improved. Quarterly report on the actions taken by BoD and management for improving performance of the company may be provided to the Ministry and Audit. However, no relevant record was provided to audit by the management.

Audit recommends implementation of DAC directives.

8.4.4.8 Non-recovery from others - Rs. 12.583 million

Rule-26 of GFR provides that it is the duty of the departmental controlling officer to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

During audit of National Industrial Parks Development & Management Company (NIP) for the year 2018-19, it was observed that management had failed to effect recovery of outstanding receivables against others of Rs. 12.583 million as on June 30, 2019.

Audit is of the view that delay in recovery of the outstanding amount reflect inefficiency of the management& weak internal controls.

The matter was reported to the management in July, 2020. The irregularity was discussed in DAC meeting held on 15 & 16 January, 2021. The management informed that recently a meeting with M/s. Yamaha in which an amount of Rs. 4.000 million has been received against a total payment of Rs. 15.000 million. DAC directed to verify the recovered amount from Audit and pursue the recovery of remaining amount. However, no relevant record was provided to audit by the management.

Audit recommends implementation of DAC directives.

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8.5 Pakistan Industrial Development Corporation

8.5.1 Introduction

Pakistan Industrial Development Corporation (Private) Limited (PIDC) was incorporated on January 01, 1985 under the Companies Ordinance 1984, now the Company's Act 2017. Pursuant to an order of Federal Government, the business, project properties and all the shares held by ex-Pakistan Industrial Development Corporation in the capital of the managed companies and subsidiaries were transferred from April 01, 1985. The primary aim of establishment of PIDC was to set up industries in such fields where the private sector was shy and where large amount of capital outlay with long gestation period was required. Secondly, the object was to set up industries in such areas, which were backward with a view to creating employment opportunities and removal of regional disparities.

8.5.2 Comments on Audited Accounts

8.5.2.1 The working results of the Corporation for the year ended June 30, 2020 as compared to the previous years are given as follows:

(Rs. in millions)

	2019-20	%Inc/(Dec)	2018-19	%Inc/(Dec)	2017-18
Interest income	715.633	75	409.318	16	354.376
Property income	235.181	9	216.566	10	196.042
Dividend income	126.938	(53)	269.181	(10)	299.068
Total income	1,077.752	20.41	895.065	5.37	849.486
Expenses	(258.681)	(13.17)	(297.929)	7.47	(277.212)
Operating profit/(loss)	819.071	37.17	597.136	4.34	572.274
Other charges	(8.364)	(97.79)	(378.559)	16.11	(326.026)
Profit/(loss) before taxation	819.666	274.73	218.735	(13.83)	253.841
Taxation	(210.828)	(16.72)	(253.158)	167.14	(94.766)
Profit/(loss) after taxation	608.838	-	(34.423)	(121.64)	159.075

(Source: Annual Audited Accounts)

8.5.2.2 Total income increased by 20.41% from Rs.895.065 million in the year 2018-19 to Rs.1,077.752 million in the year 2019-20.

8.5.2.3 Out of total income, Dividend income decreased by 53% from Rs.269.181 million in the year 2018-19 to Rs. 126.938 million in the year 2019-20. This is a sharp decline which requires explanation.

8.5.2.4 Loans & Advances increased by 37% from Rs.15.548 million of 2018-19 to Rs.21,343 million in the year 2019-20 which requires justification.

8.5.2.5 Unearned rent increased by 189.89% from Rs.11.132 million in 2018-19 to Rs.30.118 million in 2019-20, which requires justifications.

8.5.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
1994-95	74	71	3	67, 69, 70	96
1997-98	74	73	1	180	99
1998-99	20	17	3	137,138,141	85
2005-06	8	7	1	108	88
2006-07	5	4	1	94	80
2008-09	4	3	1	104	75
2009-10	3	2	1	197.1	67
2013-14	4	1	3	8.1.2.1, 8.1.2.2, 8.1.3	25
2015-16	8	1	7	8.2.4.1, 8.2.2.1, 8.2.2.2, 8.2.2.3, 8.2.2.4, 8.2.3, 8.2.4.2	13
Total	200	179	21	-	89%

The overall compliance of PAC directives is satisfactory which needed to be maintained.

8.5.4 Audit Paras

8.5.4.1 Non-sharing of cost of land against the 250-acre plot - Rs.2,456.500 million

As per Memorandum of Understanding (MoU) signed between Government of Sindh (GoS) PIDC and NIP dated 19th March, 2009, the Government of Sindh shall facilitate NIP/PIDC to establish the Industrial Park in order to expand industrialization and create job opportunities in Sindh province. PIDC and the GOS shall share the value of land in the ratio of 50:50 after recovery of total development cost and service charges by NIP following the sale of plot (s).

As per Clause-3, upon issuance of sub-lease deed by PIDC to the allottees, NIP shall transfer the amounts received from the allottees / sub-lease holders after deducting its development cost and service charges, on a periodical basis to PIDC who shall share the same with GOS on agreed 50:50 basis.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2019-20, it was observed that the management of National Industrial Park did not pay share of sold plots to the PIDC / Government of Sindh (GoS) against the 250-acre land handed over by GoS to PIDC / NIP. As per MoU, the NIP after recovery of total development cost and services charges, was required to share the cost of land to PIDC for further sharing the same with GoS at 50:50 ratio of sale value of plots but the same was not done.

Further, as per Note-1.2 to annual accounts of 2019-20, 70 license agreements entitling allottees access to the premises for commencement of construction work, had been executed on 68 acres with an aggregate sale price of Rs.2,456.5 million. The management of NIP developed and sold plots, but the amount recovered on behalf of GoS/PIDC was not transferred to PIDC and GoS.

Audit is of the view that the management should have recovered the amount from NIP in lieu of the sold plots, but the same was not done. Besides, the management should have taken action against the NIP for violating the agreement on account of non-payment of the share of the sold land.

The matter was reported to the management in November, 2020. The irregularity was discussed in the DAC meeting held on 15 & 16 January, 2021. The management informed that recovery process has been initiated and an amount of Rs.646.000 million has so far been recovered from NIP. DAC directed to expedite the recovery of remaining amount if any under intimation of Audit and Ministry and to the share details of total reconciled amount to be recovered from NIP with Audit. Amount so far recovered may be verified from Audit within one month. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.5.4.2 Loss due to imprudent investment in loss making PIDC subsidiaries – Rs.1,254.510 million

As per Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013, 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.

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit the of Pakistan Industrial Development Corporation (PIDC) for the year 2019-20, it was observed that the management made irregular investment of Rs. 1,254.510 million into five (5) of its subsidiary companies and created provision for decline in the value of investments in the accounts of 2019-20. It was further observed that PIDC subsidiary companies had accumulated losses of Rs.1,829.430 million. The details are as under:

				Rs. in million
S#	Company	Share of PIDC	Investment amount	Accumulated losses
1.	Technology Up-gradation and Skill Development Co. (TUSDEC)	100%	238.830	(575.411)
2.	Pakistan Automobile Corporation Ltd. (PACO)	100%	22.375	(1.238)
3.	Pakistan Hunting & sports arms development Co.	100%	241.680	(195.908)
4.	AikHunarAik Nagar (AHAN)	100%	523.177	(552.216)
5.	Furniture Pakistan	100%	250.823	(504.656)
Net total investments under Section 42 as on 30.06.2020			1,254.510	(1,829.430)
Provision for Decline in value of Investment			(1,254.510)	

Audit is of view that the management made investment into its subsidiary companies which were having increasing trend of accumulating losses every year. Thus, such investments for Rs.1,254.510 million were imprudent.

The matter was reported to the management in October, 2020. The management replied on 22.12.2020 that the payments were made on the instructions of the Ministry and by approval by the BoD after receiving sustainability plan from the subsidiaries.

DAC was convened on 15 & 16 January, 2021. However, matter could not be discussed due to non-furnishing of working papers by the management.

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

8.5.4.3 Non-recovery of shares for the advances against equity – Rs. 967.472 million

Rule 26 of GFR provides that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

During audit of Pakistan Industrial Development Corporation, Karachi, for the year 2019-20, it was observed that the management paid advances against equity to its subsidiaries worth Rs. 967.472 million, but the same were not recovered / adjusted despite lapse of significant time. The details are as under:

(Rs. in million)

S#	Name of Subsidiary	2019-20	2018-19
1.	Southern Punjab Embroidery Industries	26.604	26.604
2.	Industrial Facilitation Centre	100.00	245.00
3.	Furniture Pakistan	479.641	420.376
4.	Pakistan Chemical and Energy	100.00	100.0 0
5.	Aik Hunar Aik Nagar (AHAN)	-	10.696
6.	Skilltech Centre, Karachi	5.00	5.00
7.	Furniture Pakistan (center of excellence)	216.305	216.305
8.	Pakistan Hunting and Sporting Arms	39.922	-
Total		967.472	1,023.981

The annual audit accounts of PIDC for the year 2019-20 reflected that these advances to its subsidiaries were not recovered. However, PIDC didn't receive shares against it in order to adjust them till close of the financial year 2019-20.

Audit is of the view that the recovery of shares against the equity could not be realized due to slackness and poor pursuance by the management.

The matter was reported to the management in October, 2020. The management replied on 22.12.2020 that they were pursuing the subsidiaries for issuance of shares against PIDC advances against equity shares and were devising mechanism for materializing the same. Reply of the management is not tenable as the management failed to recover the shares against equity.

DAC was convened on 15 & 16 January, 2021. However, matter could not be discussed due to non-furnishing of working papers by the management.

Audit recommends that the management may effect recovery / adjust without any delay.

8.5.4.4 Loss due to closure of operations of the project - Rs. 964.480 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters. He is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2019-20, it was observed that PIDC approved project of Furniture Pakistan on 17.12.2007 to be completed in 03 years. Despite extension of 10 years & expenditure of Rs. 964.48 million up to 30.06.2020, it has not yet been completed and the management stopped the operation of the project.

Audit is of the view that management failed in realizing the objectives of the project & its centers due to ill-planning, poor monitoring and negligence. This resulted into wasteful expenditure of Rs.964.48 million.

The matter was reported to the management in November, 2020. The irregularity was discussed in the DAC meeting held on 15-16 January, 2021. The management informed that the Furniture Pakistan is a subsidiary company of PIDC. It is under merger process with PIDC on the directives of Cabinet/Government. DAC directed that a cost benefit analysis should be carried out by PIDC being the holding company to ascertain whether this company achieved any of its objectives or otherwise. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.5.4.5 Non-transferring of title of the properties - Rs. 863.871 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in

accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Industrial Development Corporation (PIDC) Karachi for the year 2019-20, it was observed from independent valuator / surveyor's report dated 12.09.2020 that PIDC has made payment of an amount of the following three properties with the market value of Rs. 863.871 million as on 30.06.2020. However, the title has not been transferred in the name of PIDC. The detail is as under:

(Amount in Rs.)

S#	Name of property	Area (sq.ft)	Market value
1.	Finance & Trade Centre (FTC)	32,283.35	532,675,000
2.	Progressive plaza	6,324	75,888,000
3.	SCCP (Shanti Nagar)	7,170	255,308,000
Total			863,871,000

Audit is of the view that the management has not yet got transferred the title of the properties in the name of the Corporation despite the lapse of significant time. There are chances that these properties may end up in litigation and PIDC may suffer loss on this account.

The matter was reported to the management in October 2020. The management replied on 22.12.2020 that they are pursuing the said cases with the authorities concerned and in the court of law. Reply of the management is not tenable as it failed to reclaim its properties in its name even after a long time.

DAC was convened on 15 & 16 January, 2021. However, matter could not be discussed due to non-furnishing of working papers by the management.

Audit recommends that the management may take concrete efforts for early transfer of title of the properties in the name of PIDC and progress of the same may be intimated to Audit.

8.5.4.6 Loss of income due to non-investment of funds in PIBs - Rs. 700.000 million

Board of Directors decided on 29.05.2019 and allowed the CFO to invest an amount of Rs. 1.000 billion each in PIBs (for three years) and in T. Bills (in all categories) to secure maximum profit.

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of

strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Industrial Development Corporation for the year 2019-20, it was observed that contrary to above, the management invested an amount of Rs. 300 million in Pakistan Investment Bonds (PIBs) instead of Rs. 1,000 million. Further the management had invested its funds in TDRs. on lower market rates from April, 2020, causing loss to the company.

Audit is of the view that had the management made timely investment in PIBs, it could have avoided the loss on investment in TDRs. at lower rates.

The matter was reported to the management in October 2020. The management replied on 22.12.2020 that they could not invest in the PIBs due to delay in opening of an IPS account and non-availability of funds which were already invested in TDRs. Reply of the management is not tenable as the IPS account was opened in November, 2019 and after that the matured funds in the TDRs. could have been invested in the PIBs, but the same was not done. Despite request and reminders by the audit, the DAC was not convened.

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

8.5.4.7 Unjustified withdrawal of investment - Rs. 600.000 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Industrial Development Corporation for the year 2019-20, it was observed that the management called for quotations from different banks on 02.9.2019 for investment of funds in TDRs. for the period of three months, six months and one year. In response, nine banks participated in the bidding process and, UBL being one of them. The management decided to invest an amount of Rs. 600 million in UBL @13.75% for the period of one year. However, the management cancelled the investment in UBL without stating reasons and the said amount was kept in the daily product account in the National Bank account of PIDC, causing loss to the Corporation.

Audit is of the view that investment was irregular being in the violation of government rules and regulations.

The matter was reported to the management in October 2020. The management replied on 22.12.2020 that PIDC was required to open a checking bank account in UBL for investment

in TDRs. and failing to do so, the funds could not be invested. Reply of the management is not tenable as the management kept the funds idle, withdrew the investment from UBL, causing loss to the company.

DAC was convened on 15 & 16 January, 2021. However, matter could not be discussed due to non-furnishing of working papers by the management.

Audit recommends fixing of responsibility on person (s) at fault.

8.5.4.8 Loss due to pre-mature closure of the project - Rs. 499.870 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters. He is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2019-20, it was observed that the PIDC approved Aik Huner Aik Nagar (AHAN) project on 17.12.2007 with objectives to develop sustainable market-driven interventions in rural areas aimed at enhancing employment opportunities and increasing income in the informal rural markets. Management incurred cost of Rs. 499.870 million up to 2019 and subsequently closed the project.

Audit is of the view that the project was established without taking into account its viability and self-sustaining capacity.

The matter was reported to the management in November 2020. The irregularity was discussed in the DAC meeting held on 15-16 January, 2021. The management informed that the AHAN is a subsidiary company of PIDC. It is under liquidation process on the directive of Cabinet/Government. DAC directed that a cost benefit analysis should be carried out by the PIDC being the holding company to ascertain whether this company achieved any of its objectives or otherwise. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.5.4.9 Blockade of funds due to purchase of unviable land for industrial park - Rs. 132.500 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters. He is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2019-20, it was observed that the National Industrial Park (NIP), a subsidiary of PIDC, purchased a PIDC-financed 100-acre land at Sargodha against an amount of Rs. 132.500 million for setting up industrial park for small and medium industry at Sargodha with the condition that the land should be situated on the main road within 20 KMs of Sargodha city. Since its acquisition in 2012, the land is lying un-utilized.

Audit is of the view that due to ill-planning, the industrial park could not be developed and is found un-viable by the management. This resulted into blockage of funds of Rs. 132.500 million.

The matter was reported to the management in November 2020. The irregularity was discussed in the DAC meeting held on 15-16 January, 2020. The management informed that the matter is under investigation in NAB. DAC directed to pursue the case vigorously. However, no progress was intimated to audit by the management till finalization of Audit report.

8.5.4.10 Non-recovery of outstanding amount receivable from NIP against the cost of land - Rs. 96.660 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters. He is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During the audit of Pakistan Industrial Development Corporation, Karachi for the year 2018-19, it was observed from the annual accounts of PIDC for the year 2016-17 that company has not recorded the receivables of Rs. 96.660 million in contradiction of the record from annual accounts of National Industrial Parks and Development in its note 10 which states “payable against cost of land” which has recorded the cost of land payable to PIDC Rs. 96.660 million. Moreover, it was observed from scrutiny of National Industrial Park annual accounts of 2017-18, the said amount is not appearing in the accounts as payable to PIDC. On the other hand, PIDC account does not show the amount as received during the year under observation.

Audit is of the view that the management of NIP developed and sold plots but the amount recovered on behalf of PIDC was not disclosed in the audited accounts of both PIDC and NIP.

The matter was reported to the management in November 2020. The irregularity was discussed in the DAC meeting held on 15-16 January, 2020. The management informed that efforts are being made to renew MOU with Govt. of Sindh and amount already due is yet to be paid to GoS. DAC directed the management to expedite the process regarding renewal of MoU with Govt. of Sindh and remit the said amount to Govt. of Sindh in accordance with the terms and condition of the MoU. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.5.4.11 Non-recovery of outstanding amount of feasibility charges - Rs. 52.092 million

Rule 26 of GFR states that it is primarily the responsibility of the departmental authorities to see all revenues or other debts due to Government which have to be brought to account are correctly and promptly assessed, realized and credited to public account.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2019-20, it was observed that management has not recovered a long outstanding amount of feasibility charges of Rs. 52.092million from National Fertilizer Corporation. The Corporation approached the National Fertilizer vide a letter dated 25.04.2017 for recovery of the outstanding amount, but no progress was made.

Audit is of the view that the management has failed to recover the long outstanding amount which may result into bad debts.

The matter was reported to the management in November 2020. The irregularity was discussed in the DAC meeting held on 15-16January, 2021. The management informed that despite follow-ups, recovery from NFC has not been effected so far. DAC directed that the matter may be taken at Ministry level for early recovery. DAC further directed the management to send a self-contained summary to the ministry on the subject for further necessary action. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.5.4.12 Loss due to non-implementation of feasibility study on sports goods sector development–Rs. 42.582 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2019-20, it was observed that the PIDC Board approved feasibility study of Sports Goods Sector Development in July, 2008 and intimated the Ministry vide letter dated 20.10.2017. A finalized feasibility study from the funds of PIDC was to be executed by Small & Medium Enterprises Development Authority (SMEDA). However, SMEDA has failed to implement the said feasibility study.

Audit is of the view that due to non-monitoring by PIDC management, SMEDA could not achieve its objectives to reposition the sports goods sector on a more competitive basis in

domestic, regional & international market and to increase the exports of the sector upto Rs. 42.582 million.

The matter was reported to the management in November 2020. The irregularity was discussed in the DAC meeting held on 15-16 January, 2021. DAC directed that Ministry may refer the case to SMEDA asking for justification / reasons for not adopting the measures proposed in feasibility study funded by PIDC. Further any inquiry / responsibility fixed therein for not adopting the measures in the feasibility study may also be provided to Ministry and Audit. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.5.4.13 Loss of income on account of vacant space and rented out premises at lower rates - Rs. 40.212 million

Rule 4 (3) of the Public-Sector Companies (Corporate Governance) Rules, 2013, states that, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

Section 8 (1) (a) of the Sindh Rented Premises Ordinance, 1979 states that the Controller shall on application by the tenant or landlord determine fair rent of the premises after taking into consideration that the rent of similar premises situated in the similar circumstances, in the same or adjoining locality.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2019-20, it was observed that management incurred loss of Rs. 10.164 million due to non-renting-out of the vacant space and loss of Rs. 31.257 million on renting premises at lower rates. The details are as under:

Name of Tenant / M/s.	Place	Rate per sq. ft.	Difference in rates per sq. ft.	Area rented out (sq. ft.)	Loss in (Rs.)
1	2	3	4	5	(4 x 5) 6
Dewan Mushtaq Group	FTC, Karachi	64.45	(205.21- 64.45=140.76)	18,505	2,604,764
Japan External Trade Organization (JETRO)		205.21	-	-	-
Loss of rental income per annum (2,604,764*12)					31,257,168

Non-renting of vacant spaces	8,955,000
Total	40,212,168

Audit is of the view that loss of income on account of vacant space and rented out premises at lower rates indicated inefficiency of management and weak internal controls.

The irregularity was pointed out to the management in October 2020. The irregularity was discussed in the DAC meeting held on 15-16 January, 2021. With respect to non-renting of vacant spaces, DAC directed the management to expedite the matter, so that financial interest can be safeguarded. With respect to renting out premises at lower rates, DAC showed serious concern on abnormal difference in rentals of both the tenants. It further directed to hold fact-finding inquiry to ascertain reasons for having such a low rental ceiling. In addition, the DAC directed the management to take efforts for enhancing the rentals in the light of prevailing rates. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.5.4.14 Loss due to payment against un-utilized plots - Rs. 14.845 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

Clause (f) of agreement for allocation of land to PACO by PSM, stipulates, “in case dues are not paid in time, a late payment surcharge equal to 2% of the total dues outstanding per month will be recovered”.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2019-20, it was observed that management has paid total accumulated amount of Rs. 14.845 million on account of late payment charges of annual ground rent and maintenance charges to the Pakistan Steel against the two plots of 17.853 acre land, bearing Nos. DSU-27 & DSU-3, Pakistan Steel Downstream Estate, Bin Qasim. The plots were allocated to M/s. Pakistan Automobile Corporation Ltd. by Pakistan Steel in 1993 for setting up vendor industries for trucks / bus assembly plant. On 14.05.2009, PACO transferred the land to PIDC. However, PIDC has failed to execute the project since 2009.

Audit is of the view that the management has failed to make optimum utilization of the plots. This resulted into loss of Rs. 14.845 million to the Company.

The matter was reported to the management in October 2020. The irregularity was discussed in the DAC meeting held on 15-16 January, 2021. The management informed that the

subject property was inherited from M/s. PACO and current management of PIDC is taking efforts for change of title. DAC directed to place the matter before BoD to formulate a policy for early utilization of subject property. Further progress report may also share with MoI&P and Audit. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.5.4.15 Non-recovery of outstanding rent from tenants - Rs. 10.445 million

As per Clause (2) of tenancy agreement clause, the lessee shall pay the agreed rent to the lessor in advance on or before 10th day of each calendar month.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2019-20, it was observed that an amount of Rs. 10.445 million was lying outstanding on account of rent against the various tenants of the PIDC buildings as on 30th June 2020. The detail is as under:

S#	Name of Party/tenants	Amount (Rs)	S#	Name of party/tenants	Amount (Rs)
1.	National Management Co.	312,249	6.	Shoaib Associates	1,466,444
2.	Highland Tours	184,394	7.	Pakistan Dairy Development Co.	2,675,000
3.	Coastal Development Authority	254,798	8.	Gems and Jewellery	1,310,359
4.	Pakistan Stone Development Co.	231,166	9.	Mushtaq Group	3,577,941
5.	Shadab Goods and Transport	433,324			
Total				10,445,675	

Audit is of the view that non-recovery of the amount reflected inefficiency & weak internal controls.

The matter was reported to the management in October 2020. The irregularity was discussed in the DAC meeting held on 15-16 January, 2021. The management informed that Rs. 6.500 million has been recovered from the concerned organizations. DAC directed the management to get verified the recovery from Audit and pursue the remaining amount. However, no record was provided to audit by the management till finalization of Audit report

Audit recommends implementation of DAC directives.

8.5.4.16 Irregular appointment of Chief Financial Officer - Rs. 4.419 million

According to press advertisement published in daily "DAWN" dated 15.09.2019 for the vacancy / post of Chief Financial Officer (CFO):

- i. The applicant having maximum age limit of 50 years as on January 1st, 2020.

- ii. Only shortlisted candidates will be invited for interview / selection process.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2019-20, it was observed that contrary to the published criteria, the management appointed Mr. Saleem Ahmed as CFO, PIDC, on contract basis vide letter dated 15.01.2020 at a salary of Rs. 460,000 per month. He was above 50 years. Besides, his contract time-period was not specified.

Audit is of the view that appointment of CFO without matching eligibility criteria reflected favoritism and thereby the payment of Rs. 4.419 million is irregular.

The matter was reported to the management in October 2020. The irregularity was discussed in the DAC meeting held on 15-16 January, 2021. The management informed that appointing authority in case of appointment of CFO is BoD. DAC directed the management to place the matter before BoD regarding irregularity in the appointment of CFO as pointed out by Audit for further action in the light of rules and regulations. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.5.4.17 Irregular appointment of Manager (Monitoring) without advertisement

Establishment Division's O.M.No.6/4/96-R.3, dated 10.5.1997, Sl. No. 140 (ii)(c) states, the cases of appointment to various posts in autonomous / semi-autonomous bodies shall be processed through the Ministry / Division concerned for approval of Secretary of Ministry/Division concerned.

Establishment Division's O.M.No.3/1/92-R.2, dated 02.01.1992, Sl. No. 76 (1) (h) states, the vacancies in each Corporation, against the provincial/ regional quotas, shall be advertised.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2019-20, it was observed that the management appointed Ms. Samina Qasim Manager (Monitoring) in executive Grade, E-IV, on July 12, 2010 without advertisement.

Audit is of the view that the management appointed Ms. Samina Qasim as Manager (Monitoring) without advertisement. Her appointment was not routed through the concerned Ministry and the Secretary.

The matter was reported to the management in October 2020. The irregularity was discussed in the DAC meeting held on 15-16 January, 2021. The management accepted the contention of the Audit. DAC directed to conduct inquiry and responsibility may also be fixed on those who made irregular appointment. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.6 Pakistan Gems and Jewellery Development Company

8.6.1 Introduction

Pakistan Gems & Jewellery Development Company (PG&JDC) was incorporated in 2006 as a company limited by guarantee having share capital under Section 42 of the Companies Ordinance, 1984 (now Company's Act 2017). The registered office of the company is situated at PIDC House, Karachi. PG&JDC became operational in April 2007. The primary objective of the company is to promote and develop value added gems and Jewellery products and to enhance its competitiveness internationally by facilitation, technology up-gradation, skill development, marketing and branding and to support growth of Gems and Jewellery Industry by way of supporting and facilitating business development services for the enterprises across the Gems and Jewellery value chain.

8.6.2 Comments on Audited Accounts

8.6.2.1 The working results of the company for the year 2019-20 compared with the previous years are given below:

(Rs. in million)

	2019-20	% Inc/ (Dec)	2018-19	% Inc/ (Dec)	2017-18	% Inc/ (Dec)	2016-17
Income							
Training Fees	-	-	3.43	(59.65)	8.50	(0.47)	8.54
Income from Exhibitions	-	-	-	-	-	(100.00)	8.31
Grant related to Investment	-	-	-	(100)	50.00	25.01	40.00
Other Income	0.21	(83.44)	1.99	(0.85)	2.01	41.55	1.42
Expenditure							
Direct Costs	(32.01)	(68.40)	(101.30)	(17.22)	(122.37)	(21.43)	(155.75)
Administrative Expenses	(29.01)	(8.80)	(31.81)	(27.09)	(43.63)	(4.82)	(45.84)
Other expense	-	-	-	-	(2.46)	169.18	(0.92)
Excess of expenditure over income	(20.77)	(83.52)	(126.07)	19.94	(105.11)	(26.40)	(142.82)

(Source: Annual Audited Accounts)

8.6.2.2 Other income decreased from Rs. 1.99 million in the year 2018-19 to Rs. 0.21 million in the year 2019-20, which needed clarification.

8.6.2.3 The company's current assets as at June 30, 2020 stood at Rs. 25.192 million which are lower than its current liabilities of Rs120.170 million. The accrued and other liability of the company as at June 30, 2020 was Rs.41.853 million which is 9.31% higher than the previous year Rs. 38.287 million, which required elucidation.

8.6.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
2013-14	3	1	2	8.5.2.1, 8.5.3	33
2015-16	8	2	6	8.7.4.1, 8.7.2.1, 8.7.2.2, 8.7.2.3, 8.7.2.4, 8.7.2.5	25
Total	11	3	8	-	27.27%

The overall compliance of PAC directives needs improvement.

8.6.4 Audit Paras

8.6.4.1 Loss due to non-increase of exports target of \$1.5 billion equivalent to Rs.157,500.000 million & reduction in export of \$1,182 million equivalent to Rs.124,110.000 million annually – Rs. 281,610.000 million

As per Section-5 of PC-1 of 2007, project objectives were to establish Pakistan as a high value-added, international competitive, world class hub for precious stone cutting and Jewellery manufacturing. Further, As per Section-6 of PC-1, the Export of Gem & Jewellery was to be increased from \$29 million in 2004-05 to \$1.5 billion in 2017.

During audit of Gems and Jewellery Training and Manufacturing Center (GJTMC)- Assaying & Hallmarking Center (Lahore) for the years 2016-17 & 2017-18, it was observed that the management did not achieve the targets as it could only realize the amount of \$10.40 million in 2016-17 and \$9.8 million in 2017-18 as against target of increase from \$29 million in 2004-05 to \$1.5 billion in 2017 equivalent to Rs. 157,500 million (\$1.5 billion x Rs. 105). However, actual exports declined.

It was further observed that the management could not fulfill the objectives of establishing the Centre as there was reduction in export of gemstones and jewellery of Rs. 124,110 million annually (\$1,182 million) for past few years.

Audit is of the view that the management did not take measures towards development and proper operation of the projects. This organization failed in increasing the export target from \$29 million in 2004-05 to \$1.5 billion in 2017. Further, the company did not take any measure for

amendments in the said SRO as till 2012-13, export was increasing, but after issuance of the above SRO, export had been declining.

The matter was reported to the management in April 2019. The irregularity was discussed in the DAC meeting held on 15-16 January, 2021. The management informed that decline in the export of sector was due to issue of SRO by Ministry of Commerce. DAC directed MoI&P to take up the matter at appropriate forum so that performance of this section may be enhanced. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.6.4.2 Loss due to non-renewal of software - Rs. 5.616 million

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Gems and Jewellery Training and Manufacturing Center (GJTMC)- Assaying & Hallmarking Center (Lahore) for the years 2016-17 & 2017-18, it was observed that computer software of Rs. 5.616 million was purchased for training and hallmarking Centre Lahore. Out of total, an amount of Rs.4,248,933 was charged to GJTMC, Lahore and an amount of Rs.1,367,700 was charged to Assaying & Hallmarking Center, Lahore. However, the licenses of software were not renewed nor were the trained employees retained.

Audit is of the view that due to ill-planning and imprudent decisions of the management the software could not be utilized and the management could not achieve the desired objectives.

The matter was reported to the management in April 2019. The irregularity was discussed in the DAC meeting held on 15-16 January 2021. The management claimed that software's were being utilized during the Project period. DAC directed the management to provide evidence and justification of utilization of these software. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.6.4.3 Loss due to withdrawal of laboratory Accreditation Certificate for assaying and hallmarking - Rs. 0.925 million

Under Clauses 5 & 11 of Memorandum of Association of Pakistan Gems & Jewellery Development Company, objectives of the Company are to promote the establishment of Assaying and Hallmarking of precious metal in Pakistan by formulating/ drafting internationally acceptable quality (purity) standards and getting the same approved and notified by the competent authorities; and to provide inputs to the concerned ministries, institutions,

organizations, departments and authorities of the Government of Pakistan including the provincial and local governments, propose new rules, regulations, bye-laws and standards for providing a level playing field and conducive regulatory environment for the development of Industry and propose amendments thereof in any existing rules, regulations, bye-laws and standards.

During audit of Gems and Jewellery Training and Manufacturing Center (GJTMC)- Assaying & Hallmarking Center (Lahore) for the years 2016-17 & 2017-18, it was observed that Head Office initiated process for ISO/IEC 17025 laboratory accreditation for Assaying and Hallmarking Center. Application was forwarded to PNAC (Pakistan National Accreditation Council, Islamabad) by Assaying & Hallmarking Center, Lahore. An expenditure of Rs.924,800 was incurred for certification which was issued on 10.09.2018. The certificate was required to be renewed annually. However, the management failed to get the certificate renewed. Rather, it requested the PNAC to withdraw the certificate w.e.f 01.02.2019. Due to withdrawal of certification, Assaying and Hallmarking Center, Lahore has become an un-certified institution.

Audit is of the view that the management has no interest towards standardization of the assaying and hallmarking due to which certificate has been withdrawn.

The matter was reported to the management in April 2019. The irregularity was discussed in the DAC meeting held on 15-16 January, 2021. The management informed that due to financial constraints fee could not be paid for certification. DAC directed the management to justify and give facts of the issue within one month. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

Muhammad Imran Shahid
Asstt Programmer
Monday, 24 February, 2025, 3:24:44 PM

8.7 Pakistan Institute of Management

8.7.1 Introduction

Pakistan Institute of Management (PIM) was established in 1954 by Pakistan Industrial Development Corporation (PIDC) under the Ministry of Industries, Government of Pakistan. In December 1975, it was transferred to the Ministry of Industries and Production, Government of Pakistan and subsequently through SRO dated November 15th, 1976 an autonomous Board of Governances was constituted to promote management development in the country. Its primary mission is to serve the growing and complex need of organizational managers to achieve managerial excellence. Toward this end, PIM seeks to contribute to the enhancement of the managerial skills through training consultancy and research.

8.7.2 Comments on Audited Accounts

8.7.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2018-19 to 2019-20 despite a number of reminders.

Audit requires that the annual audited accounts of the years 2018-19 to 2019-20 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*refer Annex-2*).

8.7.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
2009-10	8	-	8	Annex-I 09,94,94.1,94.2,94.3,94.4, 95,96	-
2010-11	-	-	-	-	-
2013-14	7	4	3	8.6.2.1, 8.6.3, 8.6.4.1	57.14
2015-16	3	2	1	8.8.2.1	66.67
Total	18	06	12		33.33 %

The overall compliance of PAC directives needs to be improved.

8.7.4 Audit Paras

8.7.4.1 Irregular & ineffective working of the Institute due to non-existence of the Board since 2017 & non-formulation of standard procedure on core functions - Rs. 253.341 million

As per Section 2 of S.R.O 1113 (1)/76, the government constituted an autonomous Board of Governances to be responsible for administering the Pakistan Institute of Management. As per Section 6 (v) of the S.R.O, the Board shall approve the budget and receive the half-yearly statements of account and progress reports.

During audit of Pakistan Institute of Management (PIM) for the year 2019-20, it was observed that the Board of Governances (BoG) has not been appointed in the institute since 2017 by the Ministry. The management expensed the funds of Rs. 253.341 million against an unapproved budget. The Ministry approved grants only and the overall budget estimates were not duly approved by the relevant authority. Moreover, audit observed that departments of administration, accounts, internal audit, information technology, and directorate of financial reporting of the institute are administered without any approved standard procedure / SOP.

Audit is of the view that the working of the institute is ineffective due to non-existence of the Board since 2017 & non-formulation of standard procedure on core functions. This indicated inefficiency of the management.

The matter was reported to the management in September 2020. The irregularity was discussed in the DAC meeting held on 15-16 January, 2021. With respect to non-existence of BoG, DAC directed that Ministry should look into the matter and finalize BoG to avoid any legal and financial obligations. With respect to utilization of budget without approval of competent authority, Management informed that competent forum i.e. BoG is not functional since 03 years, therefore budget and subsequent expenditure is not approved. It was further informed that formation of BoG is in final stage and once the BoG is formed, all budget and expenditures will be submitted before BoG for ex-post facto approval. DAC directed Ministry to expedite the formation of BoG in order to avoid any financial complications of the organization. With respect to non-formulation of standard operating procedure (SOPs) for core functions of PIM, Management informed that SOP / Rules are prepared however, could not be approved due to non-formation of BoG. DAC directed the management to provide copies of rules framed by the PIM and further directed the Ministry to expedite the matter of formation of BoG. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives on priority.

8.7.4.2 Loss due to renting out space on lower rates of Rs. 4.177 million and non-fulfillment of investment condition of renovation of the Institute for Rs. 15.000 million – Rs. 19.177 million

As per Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013, 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.

As per Clause 3 (2) of the bidding documents, the successful bidder will be required to invest Rs. 15.000 million or more in the renovation and up gradation of PIM facilities in Karachi and / or Lahore, as per requirement of PIM, within the period of 3 to 6 months starting from the date of taking possession.

During audit of Pakistan Institute of Management (PIM) for the year 2019-20, it was observed that management entered into rental agreement with M/s. JS Bank Limited on 18.05.2019. As per agreement PIM rented out the space of premises having covered area of 7880 sq.ft in Karachi and Lahore for a period of 11 months. The monthly rent was agreed at the rate of Rs. 101.80 per sq.ft with an amount of Rs.802,230 per month in addition to fixed utility expense of Rs. 100, 000 per month. However, it was observed that the premises were rented out without assessed market-based rental value of the area from an independent evaluator.

It was further observed that contrary to agreed terms & conditions, the successful bidder did not invest the requisite amount of Rs. 15.000 million or more in the renovation and up-gradation of PIM facilities.

Audit is of the view that renting out of space without assessed market-based rental value of the area from an independent evaluator and non-enforcement of investment condition of renovation of the Institute indicated weak internal controls & improper monitoring of the interest of the Institute by PIM management.

The matter was reported to the management in September 2020. The irregularity was discussed in the DAC meeting held on 15-16 January, 2021. DAC directed that the instant matter may be inquired at Ministry level and report may be submitted within 30 days. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.7.4.3 Irregular appointment of Project Director for Centre for Security Disaster Management – Rs. 7.740 million

As per Establishment Division's O.M No. F.53/1/2008-SP dated 22.10.2014, (vi)It is mandatory to obtain NOC from Establishment Division for all recruitments in public sector organization. According to the Cabinet Secretariat Establishment Division OM No.6/2-2000/R.C dated May 06,2000 vacancies to be filled through contract appointment should be made through regularly circulated Newspaper and Selection Committee/ Board.

Furthermore, the S.C.P passed an order on Human rights case No.104 of 1992 on Dec 26,1992 (circulated by the Cabinet Division),which shows that initial appointments both ad hoc /regular without publicity and proper advertisement indicates the violation of Fundamental rights (Article -18 of the Constitution)and the court further ordered to discontinue this practice forthwith.

During audit of Pakistan Institute of Management (PIM) for the year 2018-19, it was observed that Major (R) Mr. Muhammad Irfanullah was appointed on September 1st 2018 in the institute as Project Director for newly established Centre for Security Disaster Management (CSDM) without advertisement in the press which is clear violation of rules. Moreover, appointment has been done without NOC from Establishment Division. He was appointed for a period of three years against fixed salary of Rs. 200,000 including 1300 cc Car and additional Rs. 15,000 for fuel and maintenance. The total amount of three years' salary and emoluments comes to Rs. 7.740 million.

Audit is of the view that incumbent has been appointed in violation of rules and payments of Rs. 7.740 million paid up to June 2020 is held irregular.

The matter was reported to the management in August 2010. The irregularity was discussed in DAC meeting held on 15-16 January, 2021. Management informed that the inquiry as per previous directives of DAC is being concluded and will be shared with Audit accordingly. DAC directed to provide the inquiry report to audit within a week. However, no progress was intimated to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

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8.8 Pakistan Steel Mills Corporation (Pvt.) Limited

8.8.1 Introduction

Pakistan Steel Mills Corporation (Pvt.) Limited (PSM) was incorporated on July 02, 1968 as a Private Limited Company and is wholly owned by the Government of Pakistan. The Corporation was engaged in the manufacturing and sale of iron and steel products. Pakistan Steel Mills is the Country's largest Steel Industrial undertaking, now its operations have closed for the last four years.

8.8.2 Comments on Audited Accounts

8.8.2.1 The management of PSM did not provide the audited accounts for the years ended June 30, 2018-19 and 2019-20. However, the working results of the Corporation for the year 2017-18 as compared with those of the previous years are given below:

(Rs. in million)

	2017-18	% Inc / Dec	2016-17	% Inc / Dec	2015-16
Sales-Net	539.03	23.85	435.24	(85.63)	3,029.39
Cost of Sales	(8,903.58)	1.18	(8,799.69)	(30.91)	(12,735.73)
Gross Profit/(Loss)	(8,364.55)	0.00	(8,364.45)	(13.82)	(9,706.34)
Distribution costs	(175.12)	23.52	(141.78)	(30.58)	(204.24)
Administration expenses	(2,515.53)	40.71	(1,787.69)	(13.85)	(2,075.00)
Other Operating Expenses	(1210.39)	15.69	(1046.2)	84.94	(565.69)
Finance Cost	(8,055.36)	(4.54)	(8,438.33)	64.13	(5,141.18)
Total expenses	(11,956.4)	4.75	(11,414)	42.92	(7,986.11)
Other Income	12,869.83	(5.50)	13,619.27	2691.41	487.90
Profit (loss) before Tax	(7,484.22)	21.56	(6,156.80)	(64.21)	(17,202.94)
Taxation	(31.86)	(9.15)	(35.07)	12.87	(31.07)
Net Profit/ (Loss) after Tax	(7,516.08)	21.39	(6,191.88)	(64.07)	(17,234.00)
Accumulated losses	(174,031.96)	4.24	(166,955.77)	5.80	(157,806.38)

(Source: Annual Audited Accounts)

8.8.2.2 Sales increased to Rs.3,539.030 million in the year 2017-18 as compared to Rs.435.240 million in the year 2016-17 registering increase of 23.85%. However, cost of sales has shown nominal increase of 1.18% from Rs.8,799.690 million in 2016-17 to Rs. 8903.58 million in the year 2017-18.

8.8.2.3 Total expenses increased from Rs.11,414.000 million in 2016-17 to Rs.11,956.400 in 2017-18 recorded an increase of 4.75%. However, Administration expenses have shown an increase from Rs.1,787.690 million in 2016-17 to Rs.2,515.50 million in 2017-18 registering an increase of 40.71% which needs justification.

8.8.2.4 Net loss after tax for the year 2017-18 was Rs.7,516.080 million as compared to net loss after tax of Rs.6,191.880 million in 2016-17 recorded an increase of 21.39% in losses after tax, which required justification.

8.8.2.5 Accumulated losses of the corporation continued to rise from Rs.166,955.770 million in 2016-17 to Rs.174,031.960million in 2016-17 showing an increase of 4.24%.

8.8.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
1990-91	06	05	01	700	83
1992-93	25	19	06	136, 137, 138, 140, 143, 145	76
1994-95	12	09	03	118, 120, 126	75
1995-96	28	26	02	121, 122	93
1996-97	36	11	25	100, 101, 111, 112, 113,114,117,118,123, 1.1, 1.3, 1.5, 1.8, 1.9, 1.10, 2.2, 2.3, 2.7, 2.8, 2.9, 2.10, 2.11, 2.13, 2.15, 3.1	31
1997-98	10	7	03	209, 210, 215	70
1999-00	10	9	01	219	90
2000-01	10	6	04	216, 218, 220, 224	60
2003-04	12	9	03	92.5, 92.6, 92.7	75
2004-05	08	05	03	65, 66, 70	63
2005-06	28	24	04	117,118,122,124	86
2008-09	16	12	04	106,107,109,110	75

2009-10	19	11	08	98.1,99,100,104,105,109,110,112	58
2010-11	10	09	01	11.3.4.6	90
2013-14	15	02	13	8.7.1, 8.7.2.1, 8.7.2.2, 8.7.2.3,8.7.2.4, 8.7.2.5, 8.7.2.7, 8.7.3,8.7.4.2, 8.7.4.3, 8.7.4.4, 8.7.4.5, 8.7.4.6 (PAC referred for DAC level)	13
2015-16	18	01	17	8.9.4.5, 8.9.4.8, 8.9.2.1, 8.9.2.2, 8.9.2.3, 8.9.2.4, 8.9.2.5, 8.9.2.6, 8.9.2.7, 8.9.3, 8.9.4.1, 8.9.4.2, 8.9.4.3, 8.9.4.4, 8.9.4.6, 8.9.4.7, 8.9.4.9	6
Total	263	165	98	-	63%

The overall compliance of PAC directives needs improvement.

8.8.4 Audit Paras

8.8.4.1 Irregular expenditures out of employees Provident Fund contribution instead of crediting into relevant account - Rs.29,929.624 million

Section 218 of the Companies Act, 2017 requires that the provident fund Contribution collected from employees and the Corporation's own Contribution needs to be deposited within fifteen (15) days from the date of collection.

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills(PSM) for the year 2019-20, it was observed that contrary to above, management did not deposit the provident fund amount, both employees and corporation fund, into relevant head of account.

It was further observed that the management expended out the employees' provident fund amount of Rs.29,929,624,584 as on 30.06.2020 stating serious liquidity crunch faced by the Corporation. The details are as under:

S#	Description	Amount (Rs.)
1.	Outstanding Employee's, Employer, loan deduction & interest	17,129,497,750

2.	Accrued Markup on PF unpaid Contribution	11,664,151,028
3.	Accrued markup on PF Loan	1,135,975,808
Total		29,929,624,584

Audit is of the view that due to poor internal control the management expended the employees Provident Fund elsewhere, instead of crediting the same into relevant head of account.

The matter was reported to the management in October 2020. The irregularity was discussed in DAC meeting was held on 15-16 January 2021. Management informed that the amount used for provident fund was due to emergency. DAC directed the management that the issue regarding legality of withdrawal and recoupment of Provident Fund amount and other impact if any along with reconciliation be provided to Audit for verification. DAC further directed the management to place the issue before BoD under intimation to Audit. However, no relevant record reflecting progress on subject matter was produced to audit by the management.

Audit recommends implementation of DAC directives.

8.8.4.2 Loss due to encroachment of PSM land - Rs.5,005.600 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

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

During audit of Pakistan Steel Mills (PSM) for the year 2019-20, it was observed that management has failed to recover its encroached land of township scheme worth Rs. 5,005.600 million (250 acres@ 20 million/acre). The details of encroached land are as under:

S#	Description	Area (Acres)	S#	Description	Area (Acres)
1.	Pir Sirhindi Goth	15.93	5.	Abbasia Society	100
2.	Mian Khan Jokhio Goth	27.12	6.	Northern side of Parking Terminal	00.09
3.	Photo Goth	52.33	7.	Ghulshan-e- Hadeed Phase- III	35.29

4.	Ali Akbar Goth	19.52			
Total acres		250.28			

Audit is of the view that the management has failed to remove the encroachment from its land which indicates inefficiency of the management and weak internal controls.

The matter was reported to the management in November 2020. The irregularity was discussed in DAC meeting held on 15-16 January 2021. Management informed that a total of 34 acres has being retrieved out of 95 acres after lapse of almost 12 years. Audit is of the view that those officers/officials who were responsible to safeguard the land of the organization must be taken to account. DAC directed to:

- i. Verify the documents about the land so far recovered from encroachers.
- ii. Expedite the recovery of remaining land by engaging the Ministry of I&P.

However, no record was provided to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.8.4.3 Non-recovery of PSM share from M/s. National Industrial Park - Rs.734.264 million

As per section 5.1 of agreement between PSM and NIP dated 13.07.2007, PSM and NIP agree that the price of each plot of the land shall be Rs. 7.000 million per acre, which includes Rs. 1.500 million per acre for the cost of land while the remaining amount of Rs. 5.500 million is the cost of infrastructure development charges. Provided that NIP and PSM agree that the price of each plot of the land mentioned in the GOP letter shall be mutually reviewed by NIP and PSM after a period of five years from the date of this agreement and thereafter on an annual basis where after any increase in the amount shall be determined by PSM and NIP on the basis of the situation existing at the time of the said revision.

As per section 5.2 of agreement between PSM and NIP dated 13.07.2007, it is understood by both PSM and NIP that the aforesaid amount pertaining to the cost of each plot of the land shall be paid by NIP to PSM on a pro-rata basis once NIP receives such amount from the third party in accordance with the Terms and conditions.

During audit of Pakistan Steel Mills (PSM) for the year 2019-20, it was observed that management of PSM entered into an agreement with NIP on 13.07.2007 for the purpose of the development and establishment of an industrial park at PSM lands for which PSM provided 930 acres of land to NIP. The plots were allotted to investors by M/s. NIP from 2013 to 2019. However, the huge amount of Rs. 734.264 million is still outstanding and recoverable from NIP on account of PSM share for cost of land. The detail thereof is as under;

S#	Name of allottee	Area in	Date of	Cost of land/acre (Rs.)	Receivable from
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		acre	allocation	in million)	M/s.NIP (Rs.)
1.	MID Coil Centre	5.027	23.04.2014	6	5,027,000
2.	Horizon Steel	6.072	11.09.2014	7	5,000,000
3.	Ahmed Glass Industries	6.524	19.01.2017	13	3,837,256
4.	Master Motor	15	11.09.2017& 20.04.18	22	275,400,000
5.	International Steel Limited	15	20.04.2018	22	330,000,000
6.	Lucky Auto Industries	5	30.06.2019	23	115,000,000
Total					734,264,256

Moreover, there is dispute on the market rate of plots between the parties as no such provision for receiving cost of land from NIP at market rate was included in the agreement which need to be resolved.

Audit is of the view that it is due to inefficiency of management that the matter could not be resolved for such a long time with M/s. NIP and thereby could not recover their legitimate dues.

The matter was reported to the management in October 2020. The irregularity discussed in DAC meeting held on 15-16 January 2021. Management informed that negotiations are being concluded and are in final stages. DAC directed the management to expedite the matter on priority basis and share progress of recovery with Audit. However, no record was provided to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.8.4.4 Non-recovery / adjustment of amounts under multiple heads of account - Rs. 706.590 million

Rule 4 (3) of the Public-Sector Companies (Corporate Governance) Rules, 2013 states that, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

Rule 26 of GFR provides that it is the primary responsibility of the departmental authorities to see that all revenues or debts due to governments which have to be brought to account are correctly and promptly assessed, realized and credited to the public account.

During audit of Pakistan Steel Mills (PSM) for the year 2019-20, it was observed that management failed to recover outstanding amount of Rs. 706.590 million as on 30th June, 2020 (**Annex-50**). Detail of outstanding is as under:

(Rs. in million)					
S#	Description	Amount	S#	Description	Amount
1.	Advances to suppliers	261.737	4.	Commercial units	82.475
2.	Electricity bills	197.193	5.	Residential units of township	15.012
3.	Outstanding dues of water	148.137	6.	Various Downstream Industrial Units	2.036
Total		706.59			

Audit is of the view that non-recovery / adjustment of amounts under various categories indicated slackness of the management and weak internal controls.

The matter was reported to the management in October 2020. The irregularity was discussed in DAC meeting was held on 15-16 January 2021, and following decisions were made;

1. DAC directed to expedite the recovery and share updated report on monthly basis with Audit and Ministry.
2. DAC was not satisfied with the explanation and recovery procedure of the management and directed that Ministry should take up the case with Sindh Government for decentralization of the bulk meter and further directed the management to pro-actively pursue the remaining recovery from all consumers and share progress with audit.
3. Management informed that an amount of Rs. 0.750 million has been recovered so far, DAC was not satisfied with the explanation and recovery procedure of the management and directed the management to proactively pursue the remaining recovery.
4. Management informed that a total of Rs. 12.270 million has been recovered against 82.47 million. DAC directed to get the same verified from Audit and to vigorously pursue the remaining recovery.
5. Management informed that the recovery process has already been initiated. DAC showed serious concerns on delayed action on part of the management and directed to take immediate recovery action for realization of amount and a progress report in this regard be shared with audit and Ministry on monthly basis.
6. Management informed that an amount of Rs. 1.588 million has been recovered and efforts are underway to recover the remaining amount. DAC directed to get the recovered amount verified from Audit and vigorously pursue the remaining amount.

However, no record was provided to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.8.4.5 Loss due to non-utilization of store & spares - Rs. 668.157 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills(PSM) for the year 2019-20, it was observed that the management did not utilize or dispose of the store & spares of Rs.1,468,428,000 instead, created provision for dead & obsolete items of Rs.668,157,000. This resulted into loss Rs. 668.157 million. The details are as under:

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Description	Amount (Rs.)
Total Store and Spares	1,468,428,000
Less : Provision for dead & obsolete store items	(668,157,000)
Net Stores and Spares	800,271,000

Audit is of the view that non-utilization of store items and non-auctioning of the same in time indicated weakness of the internal controls and negligence of the management in safeguarding the interest of the Corporation.

The matter was reported to the management in November 2020. The irregularity discussed in DAC meeting was held on 15-16 January 2021. Management informed that due to closure of Mill's operations these items became obsolete. DAC directed the management to conduct physical verification and assess their being obsolete due to passage of time and share the same with Audit. However, no record was provided to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.8.4.6 Loss due to shortages in stock-in-trade - Rs. 266.806 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2019-20, it was observed that the management did not safeguard the stock-in-trade of raw material and finished goods which resulted into shortages of inventory of Rs.266,806,000 due to theft or loss.

Audit is of the view that shortages of stock-in-trade indicated weakness of the internal controls and negligence of the management in safeguarding the interest of the corporation.

The matter was reported to the management in the month of November 2020. The irregularity was discussed in DAC meeting held on 15-16 January 2021. DAC directed the management to provide industry standards with respect to shortages in accordance with tolerance level and verify the same from Audit. However, no record was provided to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.8.4.7 Loss of rental income due to non-finalization of disputed cases - Rs. 57.003 million

Rule 26 of GFR provides that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

During audit of Pakistan Steel Mills (PSM) for the year 2019-20, it was observed that management has failed to realize an amount of Rs. 57,003,506 of rent recovery due to non-finalization of disputed cases (**Annex-51**).

Audit is of the view that non-recovery of such a huge amount due to non-finalization of disputed cases reflected slackness and inefficiency of the management.

The matter was reported to the management in November 2020. The irregularity was discussed in DAC meeting was held on 15-16 January 2021. DAC directed the management to pursue the matter vigorously. However, no record was provided to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.8.4.8 Loss due to theft incidents - Rs. 3.380 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2019-20, it was observed that PSM sustained a loss of Rs. 3,380,239 due to theft incidents of various items. (**Annex-52**)

Audit is of the view that despite having a full-fledged security department of 600 security employees the items were stolen which is clear negligence of security department. The theft material couldn't be recovered till the close of audit.

The matter was reported to the management in the month of October 2020. The irregularity was discussed in DAC meeting was held on 15-16 January 2021. The management informed that instant Para has already been printed in ARPSE 1996-97 vide Para 117 & 123. However, it was checked and found that management assertion was not correct as the occurrence of the incidences were in the year 2019-20. DAC directed the management to provide action/efforts including registration of FIR, responsibility be fixed against the involved officials of PSM in each case under intimation to Audit for verification.

Audit recommends that efforts may be taken for recovery of stolen items and responsibility may be fixed on person (s) at fault.

8.8.4.9 Non-removal of audit qualifications and non-finalization of audited Financial Statements for the year 2019-20

According to the Section 223 of the Companies Act, 2017, the Board of every company must lay before the company in Annual General Meeting (AGM) its financial statements for the period up to the date of close of financial year adopted by the company. The financial statements must be laid within a period of four months following the close of financial year of a company.

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2019-20, it was observed that the management not finalized the financial statements for the year 2019-20.

It was further observed that management has not taken any corrective action on the qualifications remarks by the external auditors on accounts of 2018-19. The detail of audit qualification is hereunder:

1. The Corporation is in dispute with SSGCL with regard to late payment surcharge of Rs. 61.712 million as on June 30, 2019 for which SSGCL stopped gas supply and filed suit in Sindh High Court against outstanding gas bills. PSM also filed a counter-suit against SSGCL claiming damages for losses occurred due to stoppage of gas supply.
2. Auditor draw attention towards material uncertainty relating to going concern, accumulated losses upto 30 June 2019 of Rs.189,729 million. The current liabilities of the PSM exceeded its current assets by Rs. 159.366 million.
3. Supreme Court took action for the losses incurred by PSM in the year 2008-09 and the matter is pending with relevant authorities.
4. PSM has deducted the amount from employees on account of provident fund Contribution whereas, Corporation didn't deposit its portion in the fund account.

Audit is of the view that non-finalization of audited accounts and non-removal of qualifications reflects non-professionalism of management and weakness of internal control.

The matter was reported to the management in October 2020. The irregularity was discussed in DAC meeting was held on 15-16 January 2021. The management informed that due to revaluation of plant and machinery, building as desired by PC could not be finalized. DAC directed to get the requisite job done and qualification / observation in the accounts of 2018-19 may be removed. DAC further directed the Management to share progress report in this regard on quarterly basis with Audit and Ministry. However, no record was provided to audit by the management till finalization of Audit report.

Audit recommends implementation of DAC directives.

8.8.4.10 Irregular appointment of Chief Executive Officer

Section 3 of Public Sector Companies (Appointment of Chief Executive) Guidelines, 2015, states that while making appointment of the Chief Executive, the Board shall evaluate the candidates based on the fit and proper criteria.

As per Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013, 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 audit of Pakistan Steel Mills (PSM) for the year 2019-20, it was observed that pursuant to BoD decision on appointment of Chief Executive in 405th meeting on 31.10.2019, management appointed Chief Executive of the corporation without relevant qualification & experience.

It was further observed that BoD did not evaluate the candidates for Chief Executive based on the fit and proper criteria (**Annex-53**).

Audit is of the view that Chief Executive was appointed without following the Guidelines 2015 on appointment of the Chief Executive which require fit & proper criteria entailing sectoral expertise, organization awareness, understanding of the role of the government as a shareholder, financial literacy and business acumen irrespective of the professional background, knowledge of the statutory responsibilities of a Chief Executive, the capability for a wide perspective on issues and leadership qualities. This resulted into irregular appointment of CEO.

The matter was reported to the management vide memo dated 03.10.2020. The irregularity discussed in DAC meeting held on 15-16 January 2021. The management informed that there is no fixed criterion existing for the appointment of CEO, Steel Mills. In instant case, all codal formalities have been complied. Further, the services were appointed for privatization of the PSM rather than effective management. Audit contended that the said appointment was not done fairly as the criteria of relevant qualification was not formed and relevant experience was also ignored. Additionally, as per advertisement the hired was made for running of PSM rather than privatization. However, the PAO was of the point of view that as a Government-own Company, the Government is in best place to determine the criteria for selection to the Post. All procedural requirements have also been met and therefore recognizing the difference of opinion with Audit Authority the PAO proposed the para for settlement. However, no relevant documents were provided to audit by the management.

Audit recommends that the management may provide relevant documents reflecting that rules and regulations were followed in appointment of Chief Executive.

8.9 Pakistan Machine Tool Factory (Pvt.) Limited

8.9.1 Introduction

Pakistan Machine Tool Factory (Pvt.) Limited (PMTF) was established with technical collaboration of M/s. Oerlikon Buhle of Switzerland. It was incorporated on Jul 23, 1974 as a private limited company under the Companies Act, 1913 (now Companies Act 2017). The Company is engaged in manufacturing and marketing of machine tools, transmission components for trucks and tractors, die-casting and other classified defence-based products. PMTF is wholly owned by the Government of Pakistan and its working is controlled through State Engineering Corporation (Pvt.) Limited.

8.9.2 Comments on Audited Accounts

8.9.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2018-19 to 2019-20 despite a number of reminders.

Audit requires that the annual audited accounts of the years 2018-19 to 2019-20 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*refer Annex-2*).

8.9.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
2007-08	7	3	4	82.1, 82.2, 82.4, 82.7	43
2008-09	5	2	3	121.1, 121.3, 122	40
2013-14	9	5	4	8.20.3, 8.20.4.3, 8.20.4.4, 8.20.4.5	56
2015-16	7	-	7	8.11.2.1, 8.11.2.2, 8.11.3, 8.11.4.1, 8.11.4.2, 8.11.4.3, 8.11.4.4,	-
Total	28	10	18	-	36%

The overall compliance of PAC directives needs improvement.

8.9.4 Audit Paras

8.9.4.1 Loss due to improper operation management & underutilization of capacity – Rs.1,638.000 million

As per Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013, 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.

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Machine Tool Factory (PMTF) for the year 2018-19, it was observed that management did not achieve the budgeted sales target & underperformed by 80.68 percent / less realization of amount of Rs.988,554,000. This reflected lack of appropriate monitoring which compromised profitability. The details are as under:

S#	Product	Sales Target (Rs.)	Actual Sales(Rs.)	Less achievement(Rs.)	Less achievement(%)
1.	Transmission	281,829,000	104,559,000	177,270,000	62.90
2.	Die Casting	53780,000	13,327,000	40,453,000	75.22
3.	Special Products	721,483,000	82,483,000	639,000,000	88.57
4.	Machine Tools	168,175,000	36,344,000	131,831,000	78.39
Total		1,225,267,000	236,713,000	988,554,000	80.68

It was further observed that the sales of the company declined by Rs. 643 million during the year 2018-19 compared to 2017-18 due to underutilization of capacity and non-completion of confirmed orders of production. This reflected lack of appropriate strategy for optimum utilization of the establishment. The details of underutilized capacity during 2018-19 are as under:

S#	Descriptions	Units	Installed Capacity	Actual utilized Capacity
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1.	Transmission	Sets	12,000	1,194
2.	Die Casting	M.Tons	684	24.3
3.	Special Products	Units	2,004	114
4.	Machine Tools	No.	84	17

Moreover, various customers returned their goods stating that the same were defective / not as per specifications / sales order. This caused a loss to the Company of Rs. 4.909 million due to poor quality control mechanism.

Furthermore, the management failed to deliver supply quantity of 50 Gear Axles 60 Teeth against purchase order of Pakistan Railways dated 04.08.2018 by stipulated time on 06.02.2019 which resulted into payment of Rs. 1,173,234 on account of liquidated damages. This reflected poor operational efficiency by the Business Development Division.

The matter was pointed out vide Memo Nos.01, 10, 11 & 24 in March, 2020, but no reply was received from the management. DAC meeting was also not convened despite request by Audit.

Audit recommends that management may conduct a fact-finding inquiry and may also adopt robust strategy for capacity utilization.

8.9.4.2 Non-recovery / adjustment of outstanding recovery & advances – Rs. 200.627 million

Rule-26 of GFR provides that it is the duty of the departmental controlling officer to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

During audit of Pakistan Machine Tool Factory (PMTF) for the year 2018-19, it was observed that management has failed to recover following outstanding amount of Rs. 200.627 million as on 30.06.2019.

Particulars	(Rs. in million)	Particulars	(Rs. in million)
Advance against expenses	5,284,119	Utility & rent charges from tenants	5,609,071
Advance against medical expenses	526,565	Govt. Agencies, State Enterprises, Industries and Commercial Customers	181.122
Provision of doubtful debts	8.086	Total	200.627

It was further observed that instead of recovery from the govt. agencies, state enterprises, industrial and commercial customers, the management has created provision of declaring an amount of Rs. 8.086 million for the year 2018-19 as bad debts.

Audit is of the view that non-recovery of the outstanding amounts /adjustment of advances and creation of provision for the recoverable amounts reflected negligence of the management & poor internal controls.

The matter was pointed out to the management in March 2020, but no reply was received. DAC meeting was not convened despite request by Audit.

Audit recommends that management may conduct a fact-finding inquiry and may also effect recovery / adjustment on priority.

8.9.4.3 Non-deposit of provident fund - Rs. 116.358 million

As per Section 218 of the Companies Act, 2017, all moneys or securities deposited with a company by its employees in pursuance of their contracts of service with the company shall be kept or deposited by the company within fifteen days from the date of deposit in a special account to be opened by the company.

As per section 23 of PMTF Employees Provident Fund Deed of Trust, the trustees shall from time to time pay into any scheduled bank jointly selected by the company and the trustees, to the credit of the fund to an account to be opened in the name of the fund.

During audit of Pakistan Machine Tool Factory (PMTF) for the year 2018-19, it was observed that the management did not deposit employees' contributory provident fund (CPF) of Rs. 116.385 million as on June 30, 2019 in a separate bank account on monthly basis.

Audit is of the view that non-depositing of employees' contributory provident fund (CPF) of Rs. 116.385 million reflects poor financial management and weak internal controls.

The matter was pointed out to the management in March 2020, but no reply was received. DAC meeting was not convened despite request by Audit.

Audit recommends that management may conduct a fact-finding inquiry and may also do needful on priority.

8.9.4.4 Loss due to non-repayment of loan – Rs. 17.073 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

As per Clause-3 of the agreement between ENAR Petrotech Services Private Limited (EPSL) and Pakistan Machine Tool Factory (PMTF), the loan shall be repayable to ENAR by PMTF in earliest possible time, latest by March 17, 2012 with interest at mark up of 11.50% per annum for the period from the payment of loan to the date of its repayment.

During audit of Pakistan Machine Tool Factory (PMTF) for the year 2018-19, it was observed that PMTF management borrowed short-term loan of Rs. 20.000 million from ENAR Petrotech services to meet its current obligations i.e. payment of salary to staff. The arrangement was made under the directive of the Ministry to EPSL on November 11, 2011. Furthermore, PMTF pledged its special saving certificates of the employees' provident fund as guarantee of the borrowed amount. Further, PMTF has neither paid back the full amount of loan to EPSL (paid only an amount of Rs. 5.000 million) nor did it get back the special saving certificates of the employees' provident fund. PMTF has yet to pay an amount of Rs. 15.000 million with the total mark up of Rs.17,073,035 as on 31.12.2019.

Audit is of the view that due to non-payment of the loan amount of Rs. 20.000 million in time, PMTF has suffered from loss of mark up of Rs.17,073,035.

The matter was pointed out to the management in March 2020, but no reply was received. DAC meeting was not convened despite request by Audit.

Audit recommends that management may conduct a fact-finding inquiry.

8.9.4.5 Irregular appointments of 50 employees after superannuation – Rs. 12.262 million

As per Govt. of Pakistan, Establishment Division O.M.No.4/1/84-R.I, dated 02.09.1990, all Ministries/Divisions were requested 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. Further, as per policy guidelines for contract appointments in autonomous/semi-autonomous

bodies/corporation, issued by the Government of Pakistan, Establishment Division vide O.M No. 6/2/2000-R.3, dated 6th May 2000, the post should be advertised.

During audit of Pakistan Machine Tool Factory (PMTF) for the year 2018-19, it was observed that the management made irregular re-employment of fifty (35 Job contractors & 15 Job consultants) after the age of superannuation from 2013 onwards.

The audit is of the view that undue favour was extended to the retired employees as they were employed without due approvals from the competent authority. Thus, the payment of Rs.12,262,000 is irregular.

The matter was pointed out to the management in March 2020, but no reply was received. DAC meeting was not convened despite request by Audit.

Audit recommends that management may conduct a fact-finding inquiry.

8.9.4.6 Irregular investment of funds – Rs. 10.000 million

As per Sr. No. 3(b) of Memorandum issued by Finance Division dated 02 July 2003, Prior to placing deposits with a bank ..., and in case the total working balances exceed Rs. 10.000 million, the selection of the bank(s) as well as the terms of deposits will be approved by the concerned Board of Directors/Governing Body on the basis of competitive bids from at least three independent banks. Para 6 states that before making any investment under this policy, it would be necessary for public sector entities to set up in-house professional treasury management functions. Specifically, they would need to have an Investment Committee (IC) with defined investment approval authority. Transactions above the limit of the approving authority of the IC will be subject to approval of the Board of Directors or an equivalent forum. ... However, it will be necessary for public sector enterprises to use the services of professional fund managers approved by SECP.

During audit of Pakistan Machine Tool Factory (PMTF) for the year 2018-19, it was observed that the management invested an amount of Rs. 10.000 million in MCB on short-term basis for a period of three (03) months without obtaining competitive rates and without following due process of investment through Investment Committee and utilization of services of the SECP approved fund manager.

Audit is of the view that management has not followed standing orders of the government on investments which resulted into irregular investment of funds of Rs. 10.000 million.

The matter was pointed out to the management in March 2020, but no reply was received. DAC meeting was not convened despite request by Audit.

Audit recommends that management may conduct a fact-finding inquiry.

8.9.4.7 Irregular procurement through cash instead of crossed cheques to the vendors - Rs. 5.876 million

According to FBR notification no. F.4 (1) TP/2004-EC dated July 17th2004, expenditure incurred under single account is inadmissible if it exceeds Rs.5,000 and not paid through cross-cheque. Clause (1) of Section 21 of the Income Tax Ordinance, 2001 has been amended to raise the limit to Rs.10,000 for the purpose of making payment through crossed-cheque under a single account head.

During audit of Pakistan Machine Tool Factory (PMTF) for the year 2018-19, it was observed that the management purchased stores items of Rs. 5.876 million through cash instead of crossed cheques to the vendors. The detail of the cash payments during 2018-19 is as under:

Account code	17-10-01244	17-10-01356	Total (Rs.)
Amount in (Rs.)	2,831,873.00	3,043,680.00	5,875,553.00

Audit is of the view that payments in cash of Rs. 5,875,553 instead of the crossed cheques are irregular.

The matter was reported to the management in March 2020, but no reply was received. DAC meeting was not convened despite requests by Audit.

Audit recommends that management may conduct a fact-finding inquiry and strengthen the internal controls.

8.10 Furniture Pakistan (Pvt.) Limited

8.10.1 Introduction

The Furniture Pakistan Company is limited by guarantee and was incorporated on August 06, 2007 under Section-42 of the Companies Ordinance, 1984 (now Companies Act 2017). The company is a wholly owned subsidiary of Pakistan Industrial Development Corporation (Pvt.) Ltd. (PIDC), Ministry of Industries & Production. The registered office of the company is situated at 4-A Lawrence Road, Lahore. The overall objective of the company is to promote, develop and upgrade furniture sector of Pakistan and to strengthen and support the technical capabilities thereof to enhance competitiveness of the sector.

8.10.2 Comments on Audited Accounts

8.10.2.1 The working results for the year 2019-20 as compared to the previous years are as under:

(Rs. in million)

	2019-20	% Inc. / (Déc.)	2018-19	% Inc. / (Déc.)	2017-18
Income					
Profit on bank accounts	0.1	(82)	0.57	(73)	2.12
Income from projects	1.16	(76)	4.77	74	2.74
Gain on disposal of fixed assets	0	(100)	0.03	(94)	0.54
Others income	0	(100)	0.79	618	0.11
Total income	1.26	(80)	6.16	12	5.51
Expenditure					
Salaries & Wages	13.97	(21)	17.63	9	16.24
Advertisement	0	(100)	2.22	455	0.4
Legal & professional charges	0.24	(48)	0.46	(35)	0.71
Other expenses	21.74	(39)	35.66	(3)	36.94
Total expenditure	35.95	(36)	55.97	3	54.29
Surplus/ (deficit) for the year	(34.69)	(30)	(49.81)	2	(48.78)

(Source: Annual Audited accounts)

8.10.2.2 The company continued to be in deficit from 2017-18 to 2019-20. In 2019-20 the deficit was at Rs. 34.69 million. Efforts need to be made to further reduce the deficit to make the company a going concern.

8.10.2.3 Income from projects is declined from Rs. 4.77 million in 2018-19 to Rs. 1.16 million in 2019-20 registering a decrease of 76% that indicating no efforts were made to initiate new projects. It will make very difficult for the company to survive in the long run.

8.10.2.4 Cash and bank balances increased from Rs. 1.10 million in 2018-19 to Rs. 4.16 million in 2019-20. However, profit on deposits in banks is decreased from Rs. 0.568 million in 2018-19 million to Rs. 0.101 million in 2019-20 which shows that management is not utilizing its resources in best possible way.

8.10.2.5 As per note 8, Stock in Trade includes Furniture items and Raw Wood having value of Rs. 1.289 million was same/static in 2018-19 & 2019-20. It indicates that management failed to convert its stock into sales which needs to be justified.

8.10.2.6 As per note 12, an amount of Rs. 58.43 million received as advance from Parent Company for improvement in operations. However, no significant change was observed in the performance of the company and management failed to convert its deficit into surplus.

8.10.2.7 An amount of Rs. 3.64 million as Unsecured Advances considered doubtful during the year 2019-20 indicating weak financial management and failure of getting deliverables against said amount.

8.10.3 Compliance of PAC Directives

There was no pending PAC directives for compliance.

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8.11 Heavy Electrical Complex (Pvt.) Limited

8.11.1 Introduction

The Company was incorporated as a Private Limited Company on December 09, 1991, fully owned by State Engineering Corporation (Pvt.) Limited Ministry of Industries and Production, Government of Pakistan. The registered office of the company is situated at Third Floor, Software Technology Park, (STP-I), 5-A Constitution Avenue, F-5/1, Islamabad. The Company is engaged in the manufacturing and repair of power transformers.

8.11.2 Comments on Audited Accounts

8.11.2.1 The working results of the Company for the year 2019-20 as compared to the preceding years were tabulated below:

(Rs. in millions)

	2019-20	% Inc/ (Dec)	2018-19	% Inc/ (Dec)	2017-18
Sales	221.80	(27.46)	305.78	18.06	259.00
Cost of sales	127.86	(57.67)	302.03	31.37	229.90
Gross profit/(loss)	93.94	2411.76	3.74	(87.15)	29.10
Operating expenses					
Administrative expenses	61.82	4.11	59.38	(0.07)	59.42
Selling & distribution expenses	11.80	15.46	10.22	(3.58)	10.60
Operating profit/(loss)	20.31	(130.84)	(65.86)	60.95	(40.92)
Other income	7.96	48.51	5.36	(39.91)	8.92
Financial charges	71.63	25.78	56.95	50.94	37.73
Loss for the year before tax	43.36	(63.08)	117.44	68.42	69.73
Taxation	3.36	(11.11)	3.78	2420.00	0.15
Loss after taxation	46.72	(61.46)	121.22	74.22	69.58

(Source: Annual Audited Accounts)

8.11.2.2 The Chartered Accountants in their qualified opinion expressed that the company has not taken into consideration the impact of liquidation damages/late delivery charges while determining the transaction price as per provisions of

IFRS-15. Accordingly revenue is required to be reduced by penalties comparing late delivery charges. Resultantly, trade debts include an amount of Rs. 176.901 million relating to liquidation damages which is doubtful for recovery. The company has recognized provision of only Rs. 32.609 million there against instead of recognition of allowance for expected credit loss considering current and forward looking factors enumerated. Consequently revenue for the year is overstated by Rs. 0.801 million, whereas retained earnings and trade debts are overstated by Rs. 144.291 million as at June 30, 2020. The management may review the case and position needs to be explained.

8.11.2.3 Sales of the Company decreased by 27.46% from Rs. 305.78 million in 2018-19 to Rs. 221.80 million in 2019-20 while the cost of sales also decreased by 57.67% from Rs. 302.03 million in 2018-19 to Rs. 127.86 million in 2019-20. The huge decrease in sales shows that the company has no production orders for completion. Reasons for huge decrease in sale need to be explained.

8.11.2.4 Although Trade Debts decreased from Rs. 370.662 million in 2018-19 to Rs. 276.60 million in 2019-20 but these are still on higher side. Early recovery stress upon the management.

8.11.2.5 Stock in trade include work in progress valuing Rs. 314.010 million in 2019-20 as compare to Rs. 168.645 million in 2018-19. Reasons for non-completion of WIP need to be explained besides their early completion.

8.11.2.6 Advance payable to customers increased by 98.44% from Rs. 185.062 million in 2018-19 to Rs. 367.244 million in 2019-20. This includes an amount of Rs. 75 million against WAPDA order placed during the year 2005. WAPDA did not accept the delivery due to non-fulfillment of respective requirements. However order was not cancelled till date. Reasons for non-fulfillment of WAPDA requirements need to be explained besides early resolving of the issue.

8.11.2.7 As per Note-36 of the Annual Accounts against the capacity and production, plant has practical capacity of 1,328 Nos. MVA (310 MVA in 2018-19) against which could only produce 442 MVA. Reasons for continuous less production of MVAs need to be explained.

8.11.2.8 Accumulated loss increased up to Rs. 756.147 million. The management failed to utilize its full production capacity due to non-obtaining of business. The management is stressed upon to take up effective measure for obtaining of business activities from the market by reducing production cost.

8.11.3 Compliance of PAC Directives:

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	%age of compliance
1995-96	05	04	01	190	80
1996-97	05	04	01	169	80
1998-99	03	02	01	262	67
2000-01	04	03	01	299	75
2002-03	09	07	02	103.5,103.8	78
2003-04	05	0	05	104.2,107&107.1,107.2,104&104.1, 108.3	-
2005-06	06	05	01	132.3	83

2006-07	05	04	01	107.1	80
2007-08	03	02	01	80.2	67
2009-10	03	02	01	132	67
2010-11	09	01	08	11.11.1, 11.11.2.1, 11.11.2.2, 11.11.2.3, 11.11.2.5, 11.11.2.6, 11.11.3, 11.11.4.1	11
2013-14	04	01	03	8.19.1&8.19.2.1, 8.19.2.2, 8.19.2.3, 8.19.2.4, 8.19.2.5, 8.19.2.6, 8.19.2.7, 8.19.4.1, 8.19.4.3, 8.19.4.5	25
2015-16	09	01	08	8.20.1, 8.20.2.1, 8.20.2.2, 8.20.2.3, 8.20.2.4, 8.20.2.5, 8.20.2.6, 8.20.3	11
Total	70	36	34		51

Overall compliance of PAC directives was not satisfactory which needs to be improved.

8.11.4 Audit Paras

8.11.4.1 Loss due to poor performance of the company - Rs. 228.628 million

According to Rule-5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to handling of public funds, assets, resources etc.

During the audit of Heavy Electrical Complex for the years 2018-20, it was observed that management received 41 orders for manufacturing of transformers for financial years 2017-18 to 2019-20. Despite the fact that management had sufficient orders and staff for manufacturing of transformers only 10 out of 41 transformers were manufactured during this period. Thus, management suffered a loss of Rs. 228.628 million. Detail is as under:

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Financial Year	Orders in hand	Transformers manufactured (No.)	Manpower used(No.)	Loss during the year (Rs. in million)
2017-18	10	04	292	69.579
2018-19	14	05	282	121.224
2019-20	17	01	258	37.825
Total	41	10		228.628

The above table shows a declining trend in manufacturing for the last three years despite the fact that management had sufficient orders in hand as well as sufficient man power for manufacturing of transformers.

Audit is of the view that management could have utilized the capacity of plant as well as labour hired for the purpose of manufacturing but the same had not been done which shows serious concerns for survival of the company and poor performance on behalf of the management.

The matter was reported to the management on 18th November 2020. In DAC meeting held on 20th January 2021, the management explained that transformers were not supplied after expiry of delivery schedule due to financial constraints. DAC directed the JS/MD, HEC to hold inquiry for working capital assessment at the time of receipt of orders for manufacturing of transformers.

Audit recommends compliance of DAC directives.

Para-29 HEC, 2018-20

8.11.4.2 Loss due to sale of transformers below production cost - Rs. 47.880 million

According to Rule-5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to handling of public funds, assets, resources etc.

During the audit of Heavy Electrical Complex for the years 2018-20, it was observed that management sold four transformers to different clients for Rs. 191.70 million (excluding GST). Management incurred Rs. 239.580 million as production cost of these transformers excluding administrative expenses. Thus management suffered loss of Rs. 47.880 million. Detail is as under:

(Rs. in million)

S. No.	Transformer No.	Client	Production Cost (Material + FOH)	Sale price	Loss
1.	T8-35	HESCO	54.298	47.50	6.798
2.	T8-36	HESCO	60.152	47.50	12.652
3.	T8-37	HESCO	53.120	47.50	5.620
4.	T8-39	NETRACON	72.010	49.20	22.810
	Total		239.580	191.70	47.880

The matter was discussed with the management and it was stated that they participated in the tenders and quoted lowest cost to win the tender.

Audit is of the view that quoted rate below the production cost was not acceptable in any business. Management should minimize the cost to avoid the loss.

The matter was reported to the management on 18th November 2020. In DAC meeting held on 20th January 2021, the management explained that HEC was bound to deliver the order according to the purchase order at the price quoted at the time of tender. Further, cost estimate of material based on US\$ rate fluctuated sharply. DAC directed the management to verify the reply by the concerned wing of MoI&P regarding fluctuations in US\$ and then send it to Audit.

Audit recommends compliance of DAC directives.

Para-19 & 34 HEC, 2018-20

8.11.4.3 i. Loss due to less charging of FOH to the transformers supplied to a private party - Rs. 41.808 million
ii. Loss to government exchequer on account of GST – Rs. 7.107 million

According to Rule-5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to handling of public funds, assets, resources etc.

During the audit of Heavy Electrical Complex for the years 2018-20, it was observed that on the request of M/s Green Industrial Solution (GIS) (Pvt.) Limited Lahore, HEC sent a quotation for 02-Nos 20/26 MVA power transformers to the said party on August 28, 2019. Management quoted Rs. 57.00 million cost of one transformer. Management revised its quotation on September 12, 2019 on the request of the party and offered Rs. 52.50 million instead of Rs. 57.00 million. M/s Green Industrial Solution (Pvt.) Limited issued purchase order to HEC on November 01, 2019 on the basis of revised quotation for two transformers of Rs. 52.50 million each without GST. In April 23, 2020, GIS issued a revised P.O. No. 79190092-4 to HEC with the amendment that all the required material and equipment will be supplied by GIS and an amount of Rs. 10.20 million for two transformers will be paid to HEC. Management of HEC manufactured two transformers having Nos. T5-27A and T5-28A and delivered to the GIS in October 2020 after receiving an amount of Rs. 10.20 million.

The cost of production reports for the year 2017-18 to 2019-20 revealed that management charged amount ranging from Rs. 25.00 million to Rs. 28.00 million on account of FOH proportionately on the basis of material procured on one transformer of the same specification. But in this case management received the material from the client and charged FOH @ Rs. 8.192 million (Rs. 7.177 million on T5-27A + Rs. 1.015 million on T5-28A) to the client of two transformers. Thus management granted undue benefit to the private party and HEC suffered a loss of Rs. 41.808 million (Rs. 50.00 million – Rs. 8.192 million) on account of FOH. Further, government was deprived from GST of Rs. 7.107 million (Rs. 41.808 million x 17% GST) due to less charging of FOH.

Audit is of the view that management should charge FOH on standard costing method when material was provided by the client to avoid loss to HEC and government exchequer.

The matter was reported to the management on 18th November 2020. In DAC meeting held on 20th January 2021, the management explained that transformer was sold due to financial constraints. The DAC directed the JS/MD, HEC to hold inquiry for working capital assessment at the time of receipt of orders for manufacturing of transformers.

Audit recommends compliance of DAC directives.

Para-43 HEC, 2018-20

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Asstt Programmer
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Asstt Programmer
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8.11.4.4 Irregular promotion of casual employees - Rs. 21.477 million

According to Rule-5(7) (q) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall formulate Human Resource Policy of the Public Sector Company.

During the audit of Heavy Electrical Complex for the years 2018-20, it was observed that management has about 250 employees on regular, contract and casual basis. Management promoted 24 casual employees on pick and choose basis without any policy as under:

S. No.	Name	Current Designation	Promoted as	Per Month Salary (Rs)
1.	Mr. Naveed Ahmed	Management Trainee	Assistant Manger	39,632
2.	Mr. Sudhair Badsha	Management Trainee	Assistant Manger	39,632
3.	Mr. Imran Khan	Management Trainee	Assistant Manger	39,632
4.	Mr. Jahanzaib	Management Trainee	Assistant Manger	39,632
5.	Mr. AbdulMughees	Management Trainee	Assistant Manger	39,632
6.	Mr. Asim Riaz	Management Trainee	Assistant Manger	39,632
7.	Mr. Niaz Akbar	Management Trainee	Assistant Manger	39,632
8.	Mr. Ishitaq ur Rehman	Management Trainee	Assistant Manger	39,632
9.	Mr. Moiz Azam	Management Trainee	Assistant Manger	39,632
10.	Mr. Khan Muhammad	Management Trainee	Assistant Manger	39,632
11.	Mr. Sajid Mehmood	Management Trainee	Assistant Manger	39,632
12.	Mr. Shoaib Khan	Assistant Manager	Deputy Manager	51,008
13.	Mr. Anwar ul Haq	Assistant Manager	Deputy Manager	51,008
14.	Mr. Abdul Samad	Assistant Manager	Deputy Manager	51,008
15.	Sayed Jamat Ali Shah	Office Assistant	Junior Officer	34,396
16.	Mr. Javaid	Sr. Office Assistant	Junior Officer	34,396
17.	Mr. Muhammad Asif	Winding Technician	Junior Officer	34,396
18.	Mr. Baseer Hussain Shah	Supervisor	Junior Officer	34,396
19.	Mr. Gul Rehman	Sr. Store Keeper	Junior Officer	34,396
20.	Mr. Riaz Hussain Shah	Technician	Supervisor	27,062
21.	Mr. Shafique Ahmed	Sr. Technician	Supervisor	27,062
22.	Mr. Zia Ur Rehman	Office Assistant	Supervisor	27,062
23.	Mr. Yasir Khan	Electrician	Supervisor	27,062
24.	Mr. Muhammad Ali	Office Assistant	Supervisor	27,062
			Total	896,266
Salary paid for financial year 2018-19 & 2019-20 (Rs. 896,266 x 24 months)				21,476,784

Audit is of the view that BoD should formulate the policy for up-gradation and promotion to avoid the personal choice of the management.

The matter was reported to the management on 18th November 2020. In DAC meeting held on 20th January 2021, the management explained that promotions were made keeping in view the qualifications and length of service. The DAC directed the MD HEC to look into the matter on case to case basis and submit the report to BoD.

Audit recommends compliance of DAC directives.

Para-28 HEC, 2018-20

8.11.4.5 Loss due to late delivery of transformer - Rs. 9.264 million

As per purchase order dated July 27, 2018 issued by HESCO to HEC for supply of 04 Nos. power transformers of 132/11 KV, 31.5/40 MVA, full quantity shall be delivered within 120 days from the date

of issue of purchase order. As per purchase order dated December 16, 2019 issued by GEPCO to HEC for supply of 07 Nos. power transformers of 132/11 KV, 31.5/40 MVA, full quantity shall be delivered within 120 days from the date of issuance of purchase order.

During audit of Heavy Electrical Complex for the years 2018-20, it was observed that management was bound to deliver the four transformers on November 23, 2018 to the HESCO as per P.O. dated July 27, 2018. Out of four, HEC delivered two transformers within scheduled period. Management requested the HESCO regarding extension in delivery period due to financial constraints but was not considered by the HESCO. Third transformer was delivered on Feb 04, 2019 and last one was not delivered to date. HESCO deducted L.D of Rs. 3.335 million due to late and non-delivery of transformer.

Further, in case of GEPCO, management was bound to deliver seven transformers upto August 10, 2020 as per P.O. dated December 16, 2019. Out of seven transformers, HEC delivered only one transformer upto August 24, 2020. HEC requested the GEPCO regarding extension in delivery period due to Covid-19 but was not considered and an amount of Rs. 5.929 million was deducted by GEPCO. Thus management suffered loss of Rs. 9.264 million (Rs. 3.335 m + Rs. 5.929 m) due to mismanagement.

Audit is of the view that management already knew that purchase orders for manufacture of transformers were awarded on July 27, 2018 by HESCO and indent dated August 10, 2018 was also issued by PPC Department for purchase of material in case of HESCO. At that time the management might have ordered the raw materials to avoid liquidated damages. Further in case of GEPCO the factory remained open in Covid-19 period as per monthly progress reports.

The matter was reported to the management on 18th November 2020. In DAC meeting held on 20th January 2021, the management explained before the DAC that 02 numbers power transformer against contractual quantity of 04 numbers were delivered within delivery schedule and 3rd was supplied after expiry of delivery schedule due to financial constraints. The DAC directed the JS/MD, HEC to hold inquiry for working capital assessment at the time of receipt of orders for manufacturing of transformers.

Audit recommends compliance of DAC directives.

8.12 National Fertilizer Corporation (Pvt.) Limited

8.12.1 Introduction

National Fertilizer Corporation of Pakistan (Pvt.) Limited (NFC) was established in August, 1973 as a private limited company to carry out the business of manufacturing, buying, selling, exporting and importing all types of chemical fertilizers. The Corporation has three wholly owned subsidiaries including two institutes of engineering and one marketing company. The Company's main source of income includes dividend from investment in subsidiary companies and return on bank deposits and other investments.

Due to privatization of all fertilizer manufacturing units of NFC, the principal activities of the Corporation like manufacturing, buying, selling, exporting and importing all types of chemical fertilizers were stopped. However, marketing and selling of fertilizer imported by Trading Corporation of Pakistan is being carried out by the subsidiary company National Fertilizer Marketing Limited which was also merged with TCP w.e.f. Dec. 23, 2019.

8.12.2 Comments on Audited Accounts

8.12.2.1 The working results of the National Fertilizer Corporation of Pakistan (Pvt.) Limited for the year 2019-20as compared with the previous years are given below:

	2019-20	% Inc /(Dec)	2018-19	% Inc /(Dec)	2017-18	% Inc /(Dec)	2016-17
Income:							
Dividend	6.123	(26.37)	8.316	(27.94)	11.540	(40.55)	19.410
Profit on bank deposits	638.421	46.55	435.632	44.71	301.030	(3.13)	310.770
Other Income	18.333	(20.44)	23.044	(18.28)	28.200	5131.54	0.540
Total Income	662.878	41.94	466.993	37.04	340.770	3.04	330.720
Expenses							
Administrative Expenses	148.272	24.138	195.450	31.03	149.160	(13.92)	173.270
Financial Charges	0.0560	(18.84)	.069	(23.33)	0.090	(26.67)	0.120
Total Expenses	148.328	(24.136)	195.519	31.00	149.250	(13.93)	173.390
Profit before taxation	514.549	89.54	271.473	41.75	191.520	21.73	157.330
Taxation	148.416	90.172	78.043	35.82	57.460	17.33	48.970

Profit after taxation	366.133	89.29	193.430	44.29	134.060	23.72	108.360
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Source: (Annual Audited Accounts)

8.12.2.2 The profit after taxation of the company increased from Rs. 193.430 million in 2018-19 to Rs. 366.133 million in 2019-20 registering an increase of 89.28% which was mainly due to increase in profit on bank deposits from Rs. 435.632 Million in 2019-20 to Rs. 638.421 Million (46.55% increase). No income has been generated through any operational activity as main source of income of NFC is profit on bank deposits. Efforts needs to be made to decide the fate of NFC, either assigning some function of the Company or otherwise.

8.12.2.3 Included in the property, Plant and Equipment an amount of Rs. 32.742 million for free hold land purchased in the name of NFC institute Nausharo Feroz (sub campus of NFC-IET Multan). However the title of the land was not transferred in the name of the NFC as yet. The project has now been declared abundant due to improper selection of site and non-viability of the project which caused loss to the Government exchequer. Reason for wrong selection of site and subsequent expenditure incurred needs to be explained.

8.12.2.4 Federal Government vide notification dated Dec. 23, 2019 merged NFML with TCP and two institutes in Ministry of Education and the administrative control was transferred on April 30, 2020. However, as on June 30, 2020 the shareholdings were not transferred and still appearing in the books of accounts.

8.12.2.5 Dividend income decreased from Rs. 8.316 million in 2018-19 to Rs. 6.123 million in 2019-20 mainly due to decrease in the dividend income from Sonofi – Aventis Pakistan Limited from Rs. 7.671 million in 2018-19 to Rs. 2.040 million in 2019-20 (73.34% decrease). Reasons for abnormal decrease in the dividend income need to be explained.

8.12.2.6 Other income includes an amount of Rs. 17.317 million receivable on account of markup on loan amounting to Rs. 120 million given to M/s Machine Tool Factory (PMTF) a sister concern of NFC. Now the unit has been transferred to Strategic Planning Division (SPD). Neither any acknowledgement from MTF regarding the payment of markup receivable nor was any recovery plan regarding repayment of principal amount was available with the management which needs to be explained.

8.12.2.7 Included in non-current Assets is an amount of Rs. 18.800 million representing 10% shares held in Pak China Fertilizer. The company is inactive since long. Fate of the investment along with the returns may be explained.

8.12.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1995-96	36	35	1	36	97
1999-00	28	27	1	294	96
2000-01	35	33	2	271,273	94

2001-02	17	16	1	286	94
2006-07	23	22	01	118.3	96
2010-11	08	06	02	11.3.1, 11.13.2.5	75
2013-14	03	02	01	8.22.2.2,	67
2015-16	11	0	11	8.22.1, 8.22.2.1, 8.22.2.2, 8.22.2.3, 8.22.2.4, 8.22.2.5, 8.22.2.6, 8.22.2.7, 8.22.2.8, 8.22.2.9, 8.22.3	0
Total	161	141	20		88

The compliance of the PAC directives was satisfactory; efforts need to be made for 100% compliance.

Note: Audit paras' portion for the entity has not been compiled as audit of the entity was not undertaken during subject period.

8.13 Pakistan Hunting and Sporting Arms Development Company

8.13.1 Introduction

Pakistan Hunting and Sporting Arms Development Company is a Company limited by guarantee having share capital duly incorporated under Section 42 of the Company Ordinance, 1984 on September 29, 2006. The Company obtained the requisite certificate of business under Section 146(2) of Companies Ordinance 1984 and was thus entitled to commence business with effect from April 25, 2007. The Company was formed with the primary objective to uplift, develop and build hunting and sporting sector of Pakistan for exports and commercial activities with a view to generate foreign exchange and to develop quality and capacity to eventually compete in the international market. The registered office of the Company is situated at Ground Floor, State Life Building, The Mall, Peshawar.

The Company is a subsidiary of PIDC and fully owned by the GOP and has paid-up capital of Rs. 86.49 million. The Company is working under the administrative control of Ministry of Industries and Production.

8.13.2 Comments on Audited Accounts

8.13.2.1 The working results of the Company for the year 2019-20 as compared to previous years are given below:

(Rs. in million)

	2019-20	% Inc/ (Dec)	2018-19	% Inc/ (Dec)	2017-18
Income from Training Centre (CFTC)	3.11	27.46	2.44	(35.79)	3.80
Income from National Training & Vocational Center	0.27	-	-		
Income from exhibition and events	0.04	-	-		
Consultancy income	0.51	529.63	0.081		
Other income	1.01	(50.25)	2.03	(33.86)	3.19
Total income	4.94	8.57	4.55	(34.91)	6.99
Administrative expenses	30.44	16.14	26.21	13.86	23.02
Marketing expenses	0.14	(88.89)	1.26	293.75	0.32
Financial expenses	0.24	5900	0.004	(95.56)	0.09
Total Expenditure	30.82	12.19	27.474	17.26	23.43
(Deficit) of income over expenditure	23.88	4.14	(22.93)	39.48	(16.44)
Actuarial (loss) / gain	0.311	7.24	(0.29)	(44.23)	(0.52)

(Deficit) for the year	23.57	1.51	(23.22)	36.91	(16.96)
Accumulated Surplus / (deficit)	196.87	0.14	(173.30)	15.47	(150.08)

Source: (Annual Audited Accounts)

8.13.2.2 Total Income of the Company increased by 8.57% to Rs. 4.94 million in 2019-20 (Rs. 4.55 million 2018-19). The main contributory factor for such increasing trend was the increase in Income from training which was increased by 27.46% to Rs. 2.44 million in 2019-20. Deficit for the year increased by 1.51% from Rs. 23.22 million in 2018-19 to Rs. 23.57 million in 2019-20. Thus the accumulated loss increased from Rs. 173.30 million in 2018-19 to Rs. 196.87 million in 2019-20. The main reason for such loss was the management's failure to properly execute the operational activities in the coming years to convert the company into a self-sustaining entity. The loss needs to be controlled and steps should be taken to increase the operational income of the Company.

8.13.2.3 As pointed out by External Auditor of the Company the Company incurred total deficit Rs. 23.57 million (2019:23.22 million) during the year June 30, 2020 and as of that date, the accumulated deficit stood at Rs. 196.87 million (2019:173.30 million). These conditions as explained in Note 1.2 indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.

8.13.2.4 Depreciation charges during the year stood at Rs. 10.146 million as against Rs. 5.56 million of the previous year, showing an increase by 82.48%, whereas addition during the year was only Rs. 0.113 million. Position was not explained by means of notes to the accounts. Such abnormal increase in depreciation charges as compared to previous years needs elucidation.

8.13.2.5 Due from customers increased from Rs. 2.29 million as on June 30 2019 to Rs. 2.77 million over the previous year, which showing an increase of 21%. This shows poor financial management toward recovery. Early recovery is stressed upon the management.

8.13.2.6 Cash in hand stood at Rs. 1.83 million as against Rs. 0.080 million of the previous year showing an increase of 2,190%, such a huge increase in cash balance needs to be explained.

8.13.2.7 Advance tax under the head Current Assets of the Company stood at Rs. 6.13 million against Rs. 6.01 of the previous year registering an increase of 2%. The payment of advance tax was not explained by means of notes to the accounts. Early adjustment of advance tax is stressed up the management.

8.13.3 Compliance of PAC Directives:

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No	% of compliance
2013-14	06	01	05	8.15.2.3,8.15.2.2,8.15.2.4,8.15.2.5,8.15.2.6	17
2015-16	05	0	05	8.16.1, 8.16.2.1, 8.16.2.2, 8.16.2.3, 8.16.2.4	0
Total	11	01	10		6

Compliance of the PAC directives was very poor which requires immediate attention of the PAO.

Note: Audit paras' portion for the entity has not been compiled as audit of the entity was not undertaken during subject period.

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8.14 Pakistan Stone Development Company

8.14.1 Introduction

Pakistan Stone Development Company (PASDEC) is a public company limited by guarantee incorporated under Companies Ordinance 1984 (now Companies Act 2017). The objective of the Company is to upgrade the supply of marble and granite in Pakistan through improved quarrying practices and support infrastructure. This involves introduction of new technologies and techniques and establishment of model quarries, up gradation of existing quarries, establishment of industrial cities and establishment of Rock Mining Training Institutes to impart quarrying skills in Pakistan. The company was required to introduce mechanized mining practices keeping in view the enormous mining potential in the provinces of Sindh, Balochistan and Khyber Pakhtunkhwa. However, the company has suffered badly due to corporate governance issues, financial instability and lack of cooperation from the provincial governments. The company has not been able to improve mining practices resultantly the fixed investment in machinery and equipment is depleting.

8.14.2 Comments on Audited Accounts

8.14.2.1 The working results of Pakistan Stone Development Company for the year 2019-20 as compared with the previous years are given below:

(Rs. in million)

	2020	% Inc/(Dec)	2019
Revenue	97.628	(13.25)	112.535
Cost of Sales	71.673	(12.95)	82.338
Gross Profit	25.955	(14.04)	30.196
Administrative Expenses	82.784	1.40	81.642
Provision for doubtful debts	17.899	(18.12)	21.860
Impairment on receivables from projects	107.089	-	-
Programme expenses	0.518	(24.27)	0.684
Other income	25.303	65.54	15.285
Reversal of impairment sue to increase in NRV of Marble City RISALPUR	-	-	10.282
LOSS FOR THE YEAR	157.033	224.31	48.421

Source: (Annual Audited Accounts)

8.14.2.2 Income from PASDEC machinery pool decrease by 19% from Rs. 96.651 million during the year 2018-19 to Rs. 78.059 million during the year 2019-20. Management needs to justify the decrease in revenue from machinery pool.

8.14.2.3 Management has booked impairment loss of Rs. 512.8 million (Rs. 405 million in 2014 and Rs. 107.089 million in 2020) on account of receivable from project during the year 2015-16 and 2019-20. The management failed to manage their project and suffered loss of investment in these projects.

8.14.2.4 Remained Rs. 695.550 million as on 30 June, 2020. The management needs to conduct fact finding inquiry on account of loss suffered by projects and share their facts with audit.

8.14.2.5 The organization is continuously running in loss and accumulated loss stood at Rs. 1,857.589 million as on June 30,2020 which is almost 200% of the authorized capital of the organization i.e. Rs. 1,021.855 million. Keeping in view such huge loss the status of organization as going concern is at stake. The management needs to seriously look into the matter.

8.14.2.6 The company received advance of Rs. 729.309 million from customer against allocation of industrial plots in marble colony Risalpur. However, the company failed to allocate plot to the customers in the marble colony and the sum of Rs. 694.484 million was booked as liabilities in their accounts. The management needs to justify the non-allotment of Industrial Plots to the customers.

8.14.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
2015-16	03	0	03	8.17.1, 8.17.2, 8.17.4.1	-
Total	03	0	03		-

Compliance of the PAC directives was very poor which requires immediate attention of the PAO.

8.15 Small and Medium Enterprises Development Authority

8.15.1 Introduction

Small and Medium Enterprises Development Authority (SMEDA) was created under a notification dated October 13, 1998 issued by the Prime Minister of Pakistan office and is working under the Ministry of Industries, Government of Pakistan. On August 12, 2002, an Ordinance was promulgated for the establishment of SMEDA as an autonomous body under the Federal Government for encouraging and facilitating the development and growth of small and medium enterprises in Pakistan.

SMEDA was primarily working as an apex policymaking body for economic and commercial development of Small and Medium Enterprises (SMEs). The primary objective of the Authority is to provide a fresh impetus to Pakistan's economy through launching aggressive SMEs support programs. The head office of SMEDA is situated on the sixth floor, LDA Plaza, Egerton Road, Lahore.

8.15.2 Comments on Audited Accounts

8.15.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this the management failed to provide audited accounts of the organization for the years 2017-18 to 2019-20 till December 31, 2020.

8.15.2.2 Audit recommends that the annual audited accounts of the past year be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts. (*refer Annex-2*)

8.15.3 Compliance of PAC Directives:

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
2003-04	02	0	02	120 & 121	-
2004-05	02	01	01	77	50
2006-07	04	03	01	86.3	75
2009-10	07	05	02	114.4, 114.6	71
2015-16	04	0	04	8.26.1, 8.26.2, 8.26.3, 8.26.4.1	
Total	19	9	10		47

Overall compliance of PAC directives was not satisfactory which needs to be improved.

8.15.4 Audit paras

8.15.4.1 Loss of revenue income by SIDC and SBCC Sialkot – Rs. 452.494 million

According to the Revised PC-I of the Sialkot Business & Commerce Center Sialkot 2013, during first two years of the operations, the revenue generation of the various facilities of the SBCC would be as follows:

Year	Particulars	1st year Revenue	2nd year	Total expected
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		2017-18 (Rs)	Revenue 2018-19 (Rs)	revenue (Rs)
1.	Display Halls	3,265,900	4,311,000	7,576,900
2.	Short Term Exhibition	3,628,800	5,748,000	9,376,800
3.	Business Incubation	1,500,000	1,980,000	3,480,000
4.	Conventional Hall Services	51,2000	67,600	579,600
	Total	8,906,700	12,106,600	21,013,300

According to the revised PC-I of the Sialkot Business & Commerce Center Sialkot 2013, during first two years of the operations the revenue generation of the residential rooms would be as follows:

Year	Capacity Utilization (%)	No. of rooms planned to be occupied	Proposed room charges per day (Rs)	Expected revenue (Rs)
1	20	1229	5,000	6,145,000
2	24	1475	5,500	8,112,500
				14,257,500
		Total		14,257,500

As per table 17, Projected Profit & Loss Statement of Revised PC-I of Sports Industries Development Center (SIDC), Sialkot (approved by Ministry of Industries & Production vide letter No. 3(6)/2006-Projects dated July 27, 2009), the estimated revenue for the year 2018-19 and 2019-20 were Rs. 198.213 million and Rs. 256.285 million respectively.

During audit of SMEDA SIDC Project and SBCC Sialkot for the year 2018-19, it was observed that these were completed in 2016 and November, 2018 respectively but revenue generation was not started from business activities despite provision of the same in the respective PC-Is. This resulted into loss of revenue income of Rs. 452.494 million as detailed below:

(Rs. in million)

S No.	Name of the project	Detail of facilities	Expected revenue as per PC-I	Actual Revenue from operation	Revenue loss
	SIDC Sialkot	Services to Football industry	454.498	37.207	417.291
	SBCC Sialkot	Display Halls, Short Term Exhibition, Business Incubations and Conventional Hall	21.013	0.064	20.949
	-do-	Residential rooms	14.254	0	14.254
	Total		489.765	37.271	452.494

Audit is of the view that the management was required to take measures for enhancing their service activities to achieve their planned targets but they failed to do so. Furthermore, the management was also required to advertise the various facilities available in SBCC and get the booking of these facilities soon after the completion of building in November 2018 with the help of Sialkot Chamber of Commerce & Industries as no operational expenses were provided in PSDP. A meager amount of 64,400 was earned from booking of display halls. Non-renting out of facilities despite investment of Rs. 484.61 million was waste of public funds and held irregular.

The matter was reported to the management on 22.07.2020. The DAC in its meeting held on 18.12.2020 decided to discuss the subject matter in PAC.

Audit recommends compliance of DAC directives.

Para-13, 18 & 20 SMEDA, 2018-19

Para-19 SMEDA, 2018-19

8.15.4.2 Non-registration of the gift deed and non-transfer of mutation of SBCC land in favour of SBCC Project - Rs. 634.61 million

According to the Rule 17B (1) of Registration Act 1908, where a contract for sale of immovable property is executed but not registered prior to coming into force of section 17A- (a) the parties to the contract shall, within six months from the date of coming into force of that section, (i) present the instrument of sale of immovable property under the contract for registration, or (ii) present the contract for sale itself for registration; or, (b) either of the parties, if aggrieved for non-compliance with any of the provisions mentioned in clause (a), shall, notwithstanding anything contained to the contrary in any law for the time being in force as to the law of Limitation, institute a suit for specific performance or rescission of the contract within six months next after the expiry of the period mentioned in clause (a), failing which the contract shall stand void.

During audit of the SMEDA SBCC Project Sialkot for the year 2018-19, it was observed that the Sialkot Chamber of Commerce & Industries provided piece of land measuring 3 kanal 14 marlas valuing Rs. 150.00 million at Paris Road Sialkot to the project through gift deed dated April 08, 2011. The gift deed was not registered with District Registrar Sialkot till May 2020 in violation of the above quoted rules which was held irregular. Furthermore, the mutation of the land measuring 3 kanal and 14 marlas was also not transferred in the name of SBCC Project which was also held irregular. Thus projects valuing Rs. 634.61 million (Rs. 150.00 million + Rs. 484.61 million) were at risk.

Audit is of the view that the management was required to ask the Sialkot Chamber of Commerce & Industry to get the gift deed of land registered with District Registrar Sialkot through insertion of a clause in the agreement dated March 24, 2010 with SCCI but clause was neither inserted in the agreement nor gift deed registered. The investment of huge public funds of Rs. 484.61 million on a piece of land not owned by the project and gift deed without registration is also at risk.

The matter was reported to the management on 22.07.2020. The DAC in its meeting held on 18.12.2020 directed the management to submit revised reply after scrutinizing all aspects of the matter.

Audit recommends compliance of the DAC directives.

Para-24 SMEDA, 2018-19

8.15.4.3 Irregular grant of price escalation to civil works contractor – Rs. 22.802 million

According to Rule-23(2)(d) of Public Procurement Rules 2004, Procuring agencies shall formulate precise and unambiguous bidding documents that shall be made available to the bidders immediately

after the publication of the invitation to bid. For competitive bidding, whether open or limited, the bidding documents shall include (a) invitation to bid;(b) instructions to bidders;(c) form of bid;(d) form of contract.

During audit of SMEDA SBCC Sialkot Project for the year 2018-19, it was observed that the project titled, "Sialkot Business & Commerce Center Sialkot Project" was approved by CDWP on August 04, 2008 at total cost of 341.67 million. The project management invited tenders for the award of civil works on May 09, 2009 and re-advertised on September 28, 2009. Five bidders participated in the bid. The bid of M/s Malik Naseem & Co. Rs. 114.373 million was lowest in first tender while his bid of Rs. 117.767 million was again lowest in second tender. The PC-I of the project was revised to Rs. 484.61 million on May 27, 2014 and cost of civil work was also revised to Rs. 117.767 million against which a payment of Rs. 192.444 million (Rs. 79.929 million + Rs. 12.085 million + Rs. 100.428 million) was made to the civil work contractor M/s Malik Naseem & Co. up till July 2019. This resulted into cost overrun of Rs. 74.677 million.

Due to significant delay in award of civil works and execution of civil works, the work was planned to be completed within 18 months i.e. up to 2011. But the project was actually completed on November 28, 2018 i.e. after lapse of seven years. Furthermore, delay in completion of the civil works resulted in escalation of cost worth Rs22.802 million as detailed below:

S. No.	EPC #	Amount (Rs)
First Phase		
1.	1 st Escalation Bill	2,164,199.00
2.	2 nd Escalation Bill	3,290,750.90
3.	3 rd Escalation Bill	2,451,264.47
4.	4 th Escalation Bill	1,035,069.00
5.	5 th Escalation Bill	898,791.00
6.	6 th Escalation Bill (Part-I)	638,201.00
7.	6 th Escalation Bill (Part-II)	457,693.00
8.	7 th Escalation Bill	1,129,839.00
9.	Second Phase	0
10.	Variation Order-1	5,190,975.73
11.	Variation Order-2	148,586.38
12.	Variation Order-3	1,664,026.14
13.	Variation Order-4	3,732,774.81
Total		22,802,170.43

The escalation valuing Rs. 22.802 million paid to M/s Malik Naseem & Co was in excess of the 15% of contract cost i.e. Rs. 117.767 million; hence held irregular. Furthermore, the CEO SMEDA while approving the EPC-7, directed GM (M&E) to examine the case regarding escalation in the cost of project and fix responsibility for the same. Neither detailed examination was carried out nor responsibility fixed.

Audit is of the view that management executed civil works without detailed examination of the escalation claims of the contractor and fixing responsibility for escalation of cost.

The matter was reported to the management on 22.07.2020. The DAC in its meeting held on 18.12.2020 decided to hold a fact finding inquiry by a committee comprising officers from the Ministry as well as Organization.

Audit recommends holding fact finding inquiry into the matter and to take action in the light of the recommendations of the inquiry report.

Para-21 SMEDA, 2018-19

8.15.4.4 Irregular award of construction contract to M/s Malik Muhammad Naseem & Co. – Rs. 117.767 million

According to Rule 16(1) of PPRs. 2004,, The procuring agency engaging in pre-qualification shall announce, in the pre-qualification documents, all information required for pre-qualification including instructions for preparation and submission of the pre-qualification documents, evaluation criteria, list of documentary evidence required by suppliers or contractors to demonstrate their respective qualifications and any other information that the procuring agency deems necessary for prequalification.

According to Rule 30(1) of PPRs. 2004, all bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents; save as provided for in sub-clause (iv) of clause (c) of rule 36 no evaluation criteria shall be used for evaluation of bids that had not been specified in the bidding documents.

During the audit of SMEDA SBCC Project Sialkot for the year 2018-19, it was observed that the management floated tender in press on April 05, 2009 for pre-qualification of firms regarding construction of SBCC building. 32 companies participated in the bid. As per criteria specified by GM (CS) SMEDA Head Office, Lahore, 60 points and above were required to qualify for bid. Detail of criteria is as under:

S. No.	Name of contractor	PEC registration	Similar Building Exp.	Building Machinery	Precast Facilities	Technical Staff	Financial Status	Client feedback & repute	Marks Obtained
	Marks Allocated	5	25	10	10	15	15	20	100
1	HA Construction	5	20	10	7	10	10	10	72
2	Tijarat Developers	5	18	5	5	10	10	15	68
3	Malik M. Naseem & Co	5	10	5*	5	5	9	10	49

As per above criteria, 12 contractors qualified for this bid but M/s Malik Naseem & Co. did not qualify because they obtained less points than required to qualify. Financial and Technical Bids were opened on June 04, 2009. Only two contractors M/s HA Constructions and M/s Tijarat Developers submitted their Financial and Technical bids. On September 04, 2009 a meeting was held at SMEDA head office regarding revision of Tender Documents. It was decided to invite PWD & C&W's enlisted contractors for pre-qualification. After that decision, the management again floated tender in press on September 28, 2009 with the condition that "the approved contractors of Pak PWD and C&W Deptt" can apply. Six contractors participated in this bid. Some changes were made in selection criteria.

Extra 7 (total 12) marks were given in equipment as compared to the 5 marks given previously in building machinery to M/s Malik M Naseem & Co. Extra 10 marks were also added after revision of evaluation criteria of registration with PWD & C&W which clearly shows that M/s Malik M Naseem & Co was given special favour as against the PP rules. Furthermore, total financial & technical points of M/s

Malik M Naseem & Co. were 91.38 (1st lowest) while that of/s H. A Construction (second lowest) was Rs. 89.88 hence contractor was obliged after revision in evaluation criteria.

Audit is of the view that the management added registration clause in tender documents to give undue favor and extra marks in equipment and registration with PWD & C&W department as his bid was rejected in earlier tender. Hence, the award of contract and payment of Rs. 117.767 million to contractor was considered irregular.

The matter was reported to the management on 22.07.2020. The DAC in its meeting held on 18.12.2020 decided to hold a fact finding inquiry by a committee comprising of officers from the Ministry as well as organization.

Audit recommends to hold fact finding inquiry as per directives of the DAC and to take action against responsible(s).

Para-26 SMEDA, 2018-19

8.15.4.5 Blockade of funds due to preparation of Inland LC to avoid lapse of project funds - Rs. 78.465 million

According to Rule 4(i)(ii) & (ix) of the Revised Procedure for Operation of Assignment Account of Federal Government issued by Finance Division dated June 20, 2012, the commitment i.e. an obligation to make a future payment, funds for which are allocated in the budget, shall be recorded on memorandum basis against funds authorized from Assignment Account. The commitment can only be raised for those expenditures expected for to be paid in current financial year. Commitments which are not renewed shall be cancelled.

According to Rule 3(iii) of the Revised Procedure for operation of Assignment Account of Federal Government (Local Currency) issued by Finance Division vide letter No: F.2 (2)-BR-II/2008-948/18 dated October 12, 2018, the officers holding assignment account will ensure that no cheque is drawn from Assignment Accounts unless it is required for immediate disbursement to the goods /services provider.

During audit of the SMEDA SBCC project Sialkot for the year 2018-19, it was observed that the SMEDA management closed assignment account of the project on June 30, 2016 and made advance withdrawal of funds valuing Rs. 78.465 million from Assignment Account of PSDP Project, Sialkot Business & Commerce Center Sialkot. They prepared inland Letter of Credit No: 0300-16-ILC-03 dated September 01, 2016, from National Bank of Pakistan Main Branch Lahore for the payment against civil works to avoid lapse of funds. The civil work of the project was completed on November 28, 2018 and funds transferred from assignment account remained with bank in violation of the above referred rules of Finance Division. Furthermore, no commitment was recorded on memorandum basis by the management and no renewal of memorandum was obtained from Finance Division till 2018 when procedure for operation of Assignment Account of Federal Government was revised by Finance Division. The SMEDA Head Office after making payment of Rs. 63.498 million to the civil works contractor closed the Inland Letter of Credit No: 0300-16-ILC-03. The SMEDA Head Office also released the unspent

balance of Inland Letter of Credit amounting to Rs. 14.968 million into SMEDA bank account with Standard Chartered Bank on October 31, 2019 in violation of the Finance Division instructions. The amount was further transferred to the SBCC Bank Account No: 3163153151 in National Bank of Pakistan City Branch Sialkot.

This resulted into irregular advance withdrawal of funds from Assignment Account three and half years earlier to avoid lapse of funds in assignment account.

Audit is of the view that the management was required to withdraw funds from Assignment Account only for immediate disbursement or make commitment for payment of expenses within same financial year. But funds were withdrawn three and half year before in violation of above referred rules of Finance Division which was held irregular. Furthermore, the balance funds were required to be surrendered to Finance Division but funds were transferred into SMEDA and SBCC bank account in violation of above referred directions of Finance Division.

The matter was reported to the management on 22.07.2020. The DAC in its meeting held on 18.12.2020 decided to hold a fact finding inquiry by a committee comprising of officers from the Ministry as well as Organization.

Audit recommends to hold fact finding inquiry into the matter as per directions of the DAC and take action in the light of report.

Para-21 SMEDA, 2018-19

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8.16 Technology Up-gradation and Skill Development Company

8.16.1 Introduction

Technology Up-gradation and Skill Development Company (TUSDEC) is a Company incorporated in January 2005 and licensed under Section 42 of the Companies Ordinance 1984. The principal activity of TUSDEC is to upgrade technology & skills of the key and strategic Industrial Clusters and connect Pakistan to the global value chain. TUSDEC is a subsidiary of Pakistan Industrial Development Corporation (Pvt.) Limited (PIDC). The principal office of TUSDEC is located at State Cement Corporation Building, Kot Lakhpat, Lahore.

8.16.2 Comments on Audited Accounts

8.16.2.1 The working results of the company for the year 2019-20 as compared to previous years are as under:

(Rs. in million)

	2019-20	% Inc/ (Déc)	2018-19	% Inc/ (Déc)	2017-18
Income from services	78.509	(23.94)	103.221	53.90	67.068
Amortization of grant related to income	24.822	(14.92)	29.174	72.47	16.915
Total Income	103.331	(21.95)	132.395	57.64	83.983
Operating Cost	122.450	2.84	119.069	5.45	112.912
Project expenses	25.044	(30.11)	35.831	133.79	15.326
Administrative and general expenses	106.819	(18.16)	130.517	(1.77)	132.866
Selling expenses	1.153	(9.78)	1.298	2.12	1.271
Total expenditure	255.466	(10.90)	286.715	9.28	262.375
Other Income	5.775	(13.57)	5.085	(32.43)	7.526
Deficit before taxation	(146.361)	(1.92)	(149.233)	(12.66)	(170.866)
Taxation	-	-	-	-	-
Deficit for the year	(146.361)	(1.92)	(149.233)	(12.66)	(170.866)

(Source: Annual Audited Account)

8.16.2.2 Although the deficit of the company for the year 2019 of Rs. 149.233 million slightly decreased to Rs. 146.361 million during 2020 but operating cost was increased from Rs. 119.069 million during 2019 to Rs. 122.450 million. The increase in operating cost may be controlled.

8.16.2.3 Income from services, including trainings, projects, laboratory test and 3D scanning, toll manufacturing decreased to Rs. 78.509 in 2020 as compared to Rs. 103.221 million in 2019 registering a decrease in income by 31.47%. The income from trainings decreased from Rs. 67.729 during 2019 to Rs. 34.174 million during 2020. Income from projects also decreased from Rs6.261 million during 2019 to Rs. 0.660 million during 2020. Income from Laboratory tests and 3D scanning also decreased from Rs. 11.884 million during 2019 to Rs. 7.770 million during 2020. The decrease in above income needs explanation.

8.16.2.4 The expenses on project titled, "GIZ" increased from Rs. 6.605 million during 2019 to Rs. 19.944 million during 2020 despite overall decrease in project income by Rs. 33.555 million during 2020. The management is required to explain the reasons for such abnormal increase in expenses with justification /performance.

8.16.2.5 The trade debts of the company although reduced to Rs. 12.465 million during 2020 from Rs. 28.377 million during 2019. The management is required to make efforts for an early recovery of long outstanding debts.

8.16.2.6 The Tax refund receivable from Government increased from Rs. 18.728 million during 2019 to Rs. 19.830 million during 2020. Early efforts need to be made for refund of tax from government.

8.16.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras #	% of compliance
2010-11	15	01	14	11.9.1, 11.9.2, 11.9.2.2, 11.9.2.3, 11.9.2.4, 11.9.4.1, 1.9.4.2, 11.9.4.3, 11.9.4.4, 11.9.4.5, 11.9.4.6, 11.9.4.7, 11.9.4.8, 11.9.4.9	7
2013-14	06	-	06	8.10.1 & 8.10.2.1,8.10.2.2,8.10.4.1, 8.10.4.2, 8.10.2.3,8.10.2.4,	-
2015-16	07	0	07	8.13.1, 8.13.2.1, 8.13.2.2, 8.13.2.3, 8.13.2.4, 8.13.2.5, 8.13.2.6	-
Total	28	01	27		4

The compliance of the PAC directives was very poor which needs immediate attention of the PAO.

8.17 Utility Stores Corporation of Pakistan (Pvt.) Limited

8.17.1 Introduction

Utility Stores Corporation of Pakistan (Pvt.) Limited (the Company) was incorporated on September 03, 1971 as Private Limited Company under Presidential order issued vide President Secretariat U.O dated March 26, 1971. The Corporation is registered under Companies Ordinance 1984 (now Companies Act, 2017) with its registered office at Islamabad.

The Company has paid up capital of Rs. 737.73 million fully owned by the Government of Pakistan. The Company is working under administrative control of Ministry of Industries and Production. The key objectives of the Company are to:

- i. Undertake the procurement of essential consumer goods from domestic and external sources.
- ii. Ensure the availability of quality goods in adequate and regular quantities and market them at prices lower than the market, through a chain of store operations.

8.17.2 Comments on Audited Accounts

8.17.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this the management failed to provide audited accounts of the organization for the year 2019-20 till December 31, 2020. Audit recommends that the annual audited accounts for the year 2019-20 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts.

8.17.2.2 The working results of the Corporation for the year 2018-19 as compared to previous years are given below:

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	2018-19	2017-18	2016-17	2015-16
Sales	9,589.32	26,416.50	53,619.49	48,593.95
Subsidy	374.56	850.67	4,250.60	1,779.47
Net Sales	9,963.88	27,267.17	57,870	50,373
Increase/(Decrease) in Sales Revenue	(63.70)	(50.73)	10.34	(13.43)
Other Revenue	447.87	288.00	306.00	392.00
Profit/ (Loss) before Tax	(5,918.76)	(4,710)	(2,837)	(2,604)
Profit/ (Loss) for the year	(6,028.66)	(5,023.76)	(3,374.02)	(3,073.96)
Share Capital & Reserves	(9,273.54)	(2,542.98)	2,424.25	6,013.47
Non- Current Liabilities	3,483.14	2,365.14	2,292.14	2,147.96
Current Liabilities	38,235.88	39,414.55	49,456.42	44,963.76
Total Equity & Liabilities	32,445.48	39,236.71	54,172.81	53,125.19
Fixed Assets	4,224.23	4,277.46	4,324.91	4,377.77
Long Term Deposits	4.74	4.75	4.72	4.72
Current Assets	28,215.95	34,954.50	49,843.18	48,742.69
Total Assets	32,444.92	39,236.71	54,172.81	53,125.18
Net Cash Flow from Operating Activities	932.20	(5,361)	2,111	(212)
NetCash Flow from Investing Activities	68	62	106	176
Net Cash Flow from Financing Activities	-	-	-	(100)
Increase/ (Decrease) in Cash & Cash Equivalent	1,000.29	(5,299)	2,217	(136)
Cash & Cash Equivalent at beginning of the year	1,599	6,898	4,681	4,817
Net Changes in Cash & Cash Equivalent	2,599.62	1,599	6,898	4,681
Gross Profit to sales	9.52	8.67	8.01	7.73
Other Income	4.49	1.06	0.53	0.78
Profit/(Loss) Before Taxation	(59.40)	(17.28)	(4.90)	(5.17)

(Rs.	Net Profit/(Loss) to sales	(60.51)	(18.42)	(5.83)	(6.10)	in
	Selling and distribution expenses	68.89	25.31	12.65	12.78	
	Admin Expenses	4.39	1.57	0.71	0.81	
	Finance Cost	0.14	0.12	0.08	0.09	
	Current Ratio	0.74	0.89	1.01	1.08	
	Quick Ratio	0.68	0.75	0.77	0.79	
	Cash to Current Liabilities	0.07	0.04	0.14	0.10	
	Net Working Capital	(10,019.93)	(4,460.06)	387	3,779	
	Earnings/(Loss) Per Share Basic	(81.72)	(68.10)	(45.74)	(41.67)	
	Earnings/ (Loss) Per Share Diluted	(49.43)	(41.19)	(27.66)	(25.20)	
	Inventory Turnover	3.96	2.95	4.26	3.40	
	Average Age of Inventory	92.25	123.62	85.67	107.34	
	Receivable Turnover	0.49	1.08	2.03	1.81	
	Average Collection Period	744.90	338	180	202	
	Payable Turnover	0.24	1	1.07	1.03	
	Average Payment Period	1,520.83	365	339	353	
	Debt to Total Asset	117.85	106.5	96	87	

(Source: Annual Audited Accounts)

million)

8.17.2.3 Sales of the corporation decreased by 63.70% i.e. from Rs. 26,416.50 million during 2017-18 to Rs. 9,589.32 million during 2018-19 whereas Selling & Distribution expenses only decreased by 0.55%. Also, administrative expenses increased by 2.17% i.e. from Rs. 428.15 million during 2017-18 to Rs. 437.39 million during 2018-19. Disproportionate decrease/increase in Selling & Distribution expenses and Administrative expenses with respect to sales needs explanation.

8.17.2.4 The Corporation has loss after taxation increased from Rs. 5,023.76 million during 2017-18 to Rs. 6,028.66 million during 2018-19 resulted in increase in accumulated loss to Rs. 14,347.08 million which converted the Government equity into negative equity of Rs. 9,273.54 million. The Company has positive cash flows from operations amounting to Rs. 932.20 million this is just because of Govt. subsidy in advance.

8.17.2.5 Gross profit margin ratio of the USC remained between 7% and 9% for the financial year 2017 to 2019. A low gross profit margin of USC shows that the corporation is not managing its cost of sales well. On the other hand, Gross profit is insufficient to cover operating expenses of the corporation. A low profit margin indicates a high cost of goods sold, which can be attributed to adverse purchasing policies, low sales, stiff market competition, or wrong sales promotion policies.

8.17.2.6 Net Profit Margin is one of the Profitability Ratios that use to measure and assess the proportion of an entity's net profit after reducing the operating expenses. Financial statements of the Utility stores Corporation show continuous loss for last 3 years with increasing trend. Net loss of Rs. 6,028.66 million and net loss to sales ratio is 60.51 % in the year 2019. It is because of decreasing revenue and increasing operating expenses.

8.17.2.7 A lower Expense Ratio typically means the business is being managed efficiently and is more profitable for investors. Selling & Distribution Expense Ratio of the Utility Store Corporation is very high because of decrease in sales or revenue. S&D Expenses are 68.89% of the sales in the financial year 2018-19. On the other hand Gross profit is just 9.51% of the sales which seems very dangerous for the corporation.

8.17.2.8 The current ratio for the Utility Stores Corporations is 0.74 for the year 2018-19 that is continuously decreasing for last 4 years. 0.74 is very low because a current ratio of 2:1 is considered safe.

8.17.2.9 Similarly Quick ratio for the Utility Stores Corporations is 0.68 for the year 2018-19 that is continuously decreasing for last 4 years. 0.68 is considered very low because the ideal liquidity ratio or the generally accepted 'norm' for liquidity ratio is '1'. Quick ratio evaluates the liquidity of a company by comparing its cash plus almost cash current assets with its entire current financial obligations.

8.17.2.10 Net working capital is a measure of liquidity. It shows how much short-term resources the Corporation would have in continuing its operations if it had to settle all of its current liabilities. The net working capital is calculated by deducting all current liabilities from

all current assets. The net working capital of USC resulted in a negative amount of Rs. 10,019.93 million. It means that the Corporation has to pay current liabilities that are more than current assets of

Rs. 10,019.93 million which is very alarming.

8.17.2.11 Liquidity ratios of the Utility Stores Corporation are less than '1' which are very low than industry average or ideal ratios and negative working capital. It means the corporation has much lesser current assets to pay off current liabilities.

8.17.2.12 Earning per share (EPS), also called net income per share that measures the amount of net income earned per share of stock outstanding. The higher the earnings per share of a company, the better is its profitability.

EPS ratio of the Utility Stores Corporation for the year 2018-19 is negative 81.72 which on the increasing trend from last four years. It means the corporation is bearing loss of Rs. 81.72 per share instead of earning profit.

8.17.2.13 The inventory turnover ratio is an efficiency ratio that shows how effectively inventory is managed by comparing cost of goods sold with average inventory for a period. This measures how many times average inventory is "turned" or sold during a period. Low inventory turnover would likely indicate weaker sales, excessive inventory (dead or obsolete), and some products cross their expiry.

8.17.2.14 Financial Ratio Analysis of utility Store Corporation shows that the inventory turnover ratio is between 3 to 4 times for the year 2016, 2017, 2018 and 2019 which is very low. This means that there is just 3 to 4 inventory turns per year due to poor inventory management control. Similarly, Inventory Age ratios for the Utility Stores Corporation are 107 days, 85 days, 124 days and 92 days for the financial years 2016, 2017, 2018 and 2019 respectively. This indicates that Corporation sells its entire inventory within 85-days to 107-days period. It means for long time inventory is blocked instead of sale which is very high for such industry.

8.17.2.15 The average collection period is the average number of days required to collect receivable amounts from Debtors. Average collection period for the Utility Stores Corporation was 202 days for the year 2016 which increased up to 745 days in the year 2019. It means 745 days are required to collect debt amount from debtor which needs justification.

8.17.2.16 Average payment period (APP) is a solvency ratio that measures the average number of days it takes a business to pay its vendors for purchases made on credit. Average payment period is the average amount of time it takes a company to pay off credit accounts payable. Average payment period for the Utility Stores Corporation was 353 days for the year 2016 that was increased up to 1,520 days in the year 2019. It means after 1,520 day payable amount is paid to a vendor or creditor.

Activity ratios of the Utility Stores Corporation indicate that the corporation is not managing well its inventories, cash, receivables and payables.

8.17.2.17 The debt to total asset ratio is a ratio that measures the amount of total assets that are financed by creditors. Generally, a ratio of 40 percent or lower is considered a good debt ratio. A ratio above 60% is generally considered to be a poor ratio.

Debt to equity ratio for the Utility Stores Corporation is from 87% to 117% in last four years. It means company that the major portion of the Assets is financed by Debt portion which seems that corporation is highly leveraged which may be putting themselves at risk of insolvency or bankruptcy.

8.17.2.18 The management had made provisions on various heads of accounts without any reason/justification which needs to be explained:

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(Rs. in millions)

S. No.	Provision for	2018-19	2017-18
1	Slow moving and obsolete items	106.67	13.809
3	Doubtful insurance claims	9.31	12.741
4	Doubtful recoverable from Store In charges	16.28	51.560
5	Misc. receivables	0.182	0.531
	Total	132.442	78.641

The management required immediate attention to curb the tendency of making such provisions despite the fact that the financial health of the corporation is very weak.

8.17.2.19 The shortage in stocks recoverable from store in charges valuing Rs. 1,485.225 million as on June 30, 2019 audit recommend for provision of aging of these provisions besides basis of calculation of these provisions in books of accounts. However, timely efforts need to be made for an early recovery of the shortage amount besides minimizing the chances for shortage.

8.17.2.20 The Government of Pakistan granted subsidy to the Corporation in order to stabilize the essential commodity prices in market and this subsidy is granted particularly in the holy month of Ramadan. The subsidy was allowed about Rs. 1,475 million for the year 2018-19 but due to decrease in sales the corporation, the subsidy to the amount of Rs. 374.56 million has been realized in 2018-19 as compared to Rs. 850.67 million in 2017-18 showing a decrease of 56 % which needs to be explained.

8.17.2.21 Long Term Loan represent “Cash Development Loan (CDL)” amounting to Rs. 500.00 million approved by ECNEC for expansion of USC network (establishment of 22 warehouses and 5,000 stores at Union Council level) in F.Y. 2007-08 at a total cost of Rs. 1,778.44 million. The terms and conditions of CDL loan of Rs. 500 million have not yet been finalized which needs to be explained with reasons.

8.17.2.22 The Chartered Accountants issued a qualified opinion in their audit report for the year 2018-19 on the following basis:

❖ Plots and agricultural land in Multan amounting to Rs. 21.892 million which are appearing in the land in the books of accounts at the year end. These were confiscated and transferred against recoverable from store in charge, however, the title of land is not in the name of the company which need justification.

❖ Interest free long-term loan amounting to Rs. 500 million from Ministry of Industries and Production had not been shown at amortized cost as required by the International Financial Reporting Standard 9, “Financial Instrument: Recognition and Measurement” which needed justification.

❖ As per qualification of the Chartered Accountants, in the absence of proper inventory software system, tracking of quantitative data of goods sold is not maintained by USC which resulted in auditor’s inability to obtain assurance on the completeness of item-wise sales.

❖ Finance division through office memorandum F.15 (3) R-14/84 dated 16 October, 1984 has directed all autonomous / semi-autonomous bodies and corporations are under their administrative control, where the pension scheme does not exist that the payment of gratuity in addition to contributory provident fund should not be allowed to their employees on their d for quitting the service. However, the company has accounted for provision of gratuity amounting to Rs. 1,266.178 million at the yearend which mainly relates to employees appointed after 1984 which need justification.

❖ Trade creditor amounting to Rs. 296.814 million has been written back during the year for which no bases are available for verification. In the absence of appropriate basis we are unable to obtain assurance on the valuation and right and obligations of the trade creditors written back which needs clarification and justification.

8.17.2.23 It is emphasized on the matter regarding “Other receivables” which states that total amount of Rs. 382.425 million is still recoverable from store in charge, which is fully provided for against embezzlement of cash funds in Quetta Region.

8.17.2.24 The balanced scorecard model is a tool used to measure the performance of an organization. This model considers four main aspects of a business for evaluating the performance:

1. Financial Perspective.
2. Customer Perspective.
3. Internal Business Process.
4. Learning & Growth Perspective.

Why USC needs Balance Score Card Model?

The balanced scorecard method is a business analysis technique that translates an organization’s mission and vision statements and overall business strategies into specific, quantifiable goals. This technique also lets to monitor the corporation’s performance in achieving its goals.



Financial Perspective:

Under financial perspective performance is measured by ratios analysis to ensure that increasing profitability, increasing revenue and decreasing operating costs etc. If Profitability and revenues are increased and operating costs are decreased, it means performance of the company is good.

Financial statements of the Utility Stores Corporation shows that the corporation is sustaining loss instead of increasing profitability, Revenues are decreasing with increasing trend and operating costs are increasing with amounts. This shows organization is not performing well.

Internal Operations Perspective:

The internal business processes perspective looks at how smoothly business is running. Efficiency is important here. It's all about reducing waste, speeding things up, and doing more with less.

Financial Statement of Utility Stores Corporations for the year 2018-19 shows the damaged and obsolete goods amounting to Rs. 439.836 million. Further it was observed from ratios analysis that the corporation is not managing well its inventories, cash, receivables and payables. Hence, internal operations are not satisfactory.

Learning & Growth Perspective:

Under Learning & growth perspective performance of organization is considered good if knowledge, skills and technologies are improved.

During the audit of the Utility Stores Corporation for the year 2019-20itobserved that inventory records at stores are maintained in manual sheets and not any automated system. Errors and inaccuracies may result due to use of manual working system. Further probe into the matter revealed that there is no Enterprise Resource Planning (ERP) solution, Retail solution & point of sale solution. Further it was observed that employees of the corporation did not undergo in orientation course arranged by the company to apprise them of the material development and information.

Customer Perspective:

This perspective focuses on performance objectives that are related to customers and the market. In other words, it determines that how much the customers are satisfied?

It was observed during audit of Utility Stores Corporation for the year 2018-19 that the sales targets set on monthly basis have not been met by various zones. Reason behind not achieving sale targets may be dissatisfaction of the customers.

8.17.2.25 It is clear from the above performance analysis that the corporation performance is very poor in the last four years which is likely to deteriorate in years to come. These conditions created doubt of material uncertainty and Corporation's inability to continue as a going concern which needs explanation. Management needs to address the current situation and devise a plan to overcome the present alarming situations.

8.17.3 Compliance of PAC Directives:

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
1990-91	03	02	01	250	67
1992-93	05	02	03	149,150,151	40
1994-95	08	05	03	156,157,160	63
1995-96	13	12	01	131	92
1997-98	02	01	01	214	50
1998-99	07	06	01	172	86
1999-00	04	01	03	251,252,253	25
2002-03	08	07	01	142.4	88
2005-06	05	04	01	147.3	80
2006-07	07	05	02	87.2,87.4	71
2007-08	07	02	05	89.2,89.3,90,91,93	29
2008-09	06	04	02	116,118	67
2009-10	12	06	06	117.2,117.4,118,120,122,123	50
2010-11	16	07	09	11.6.2, 11.6.3, 11.6.4.1, 11.6.4.2, 11.6.4.3, 11.6.4.4, 11.6.4.6, 11.6.4.7, 11.6.4.8	44
2013-14	09	02	07	8.25.2.5,8.25.1&8.25.2.1,8.25.2.3, 8.25.2.4, 8.25.2.6, 8.25.2.7,8.25.2.8	22
2015-16	12	05	07	8.27.1, 8.27.2, 8.27.3, 8.27.4.1, 8.27.4.3, 8.27.4.4, 8.27.4.7	42
2019-20	23	0	23		0
Total	147	71	76		48

Overall compliance of PAC directives was not satisfactory which needs to be improved.

8.17.4 Audit Paras

8.17.4.1 Revenue loss due to non-supply of Oil & Ghee by the suppliers - Rs. 341.571 million

As per clause-l of the agreement, if execution of purchase order is delayed /suspended by vendor for over one month without any valid reason, the corporation at its sole discretion may cancel or continue its business agreement with vendor. After cancellation, for revalidation/restoration of business agreement, renewal fee of Rs. 10,000 shall be charged from vendor.”

As per clause-p, for any violation and breach of any clause of this agreement on vendor’s part, the loss if any arising thereof to USC, shall be compensated by vendor to USC. No execution of purchase order by due date will be deemed to be a violation of business agreement.

The USC management issued various purchase orders to two suppliers i.e. M/s Shujabad Agro Industries (Pvt.) Limited and M/s Unity Food Limited for the supply of ghee/oil. The said suppliers failed to supply the required quantity till close of audit. Resultantly, USC sustained loss of Rs. 341.571 million as detailed below:

Supplier Name	PO amount (Rs)	Expected Revenue (Rs)	Loss (Rs)
Shujabad Agro industries (Pvt.) Limited	1,788,698,677	1,987,816,676	199,117,998
M/s Unity Food Limited	1,420,255,745	1,562,708,900	142,453,155
Total	3,208,954,422	3,550,525,576	341,571,153

No action was taken against the defaulter suppliers by making recoveries from their earnest money or otherwise. Thus due to non-supply of ghee / oil by the suppliers, the corporation sustained revenue loss of Rs. 341.571 million.

The matter was reported to the management on 24th November 2020. In DAC meeting held on 18-19th December 2020, the management explained that USC sustained loss of Rs. 320 million due to non-supply of desired stock by the two Ghee/Oil companies. USC Regions raised demand and POs were issued accordingly but the vendors were reluctant to supply desired quantity of stock due to long outstanding dues since 2017. The DAC directed the management to submit revised reply along with detail justifications with rule position under PPRA / agreement.

Audit recommends compliance of DAC directives.

Para-9 USC, 2019-20

8.17.4.2 Loss due to non-achievement of sales targets – Rs. 22,884.70 million

As per Clause-5 (a) of Public Sector Companies (Corporate Governance) Rules, 2017, the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders, in the following manner, namely: (a) the principle of probity and propriety entails that company’s assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to the following, namely: (i) handling of public funds, assets,

resources and confidential information by directors, executives and employees; and (ii) claiming of expenses.

As per Clause 3.07 of USC Store Operational Manual, sales targets are fixed on previous performance and on minimum sales turn over expected for each Division/Zone for each financial year. The sales targets for individual stores are also fixed by the Head Office. Further, as per Clause 3.11, if a Divisional/Regional Manager/ Area Manager Incharge store fails continuously for a period of 3 months to achieve 75% of the Divisional/Regional/Area, store target respectively, he will be asked to vacate his post. Further, as per Clause 1.10, stores which continue to give poor sales performance, despite provision of adequate goods and sufficient sales stocks are closed down without waiting for any alternative location.

During audit of Utility Stores Corporation (USC) for the year 2019-20, it was observed that management fixed zone /region wise monthly sales targets for the year 2019-20 but the zonal/ regional management were unable to achieve sales targets fixed by the head office from the month of July-2019 to February 2019. Thus, the corporation sustained loss due to non-achievement of sales target of Rs. 22,884.70 million as detailed below:

Muhammad Imran Shahid
Asstt Programmer
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(Rs. in million)

S. No.	Zone/ Region	Period	Actual Sales (From July-2019 to Feb. 2020)	Sale Target (From July-2019 to Feb. 2020)	% Sales Target Achieved	Sales Less than Target
1	Abbottabad	12.12.2018 to 04.06.2020	1,670.94	4,399.45	37.98	2,728.51
		05.06.2020 to present				
2	Islamabad	17.06.2019 to 16.12.2019	3,127.81	7,352.81	42.54	4,225.00
		17.12.2019 to present				
3	Karachi	02.03.2019 to 16.12.2019	1,134.18	2,837.49	39.97	1,703.31
		17.12.2019 to present				
4	Lahore	17.06.2019 to present	2,559.12	6,487.64	39.45	3,928.52
5	Multan	17.06.2019 to 16.12.2019	2,184.62	5,126.84	42.61	2,942.22
		17.12.2019 to present				
6	Peshawar	01.11.2017 to present	2,313.14	5,378.74	43.01	3,065.60
7	Quetta	03.5.2019 to 30.07.2019	228.74	941.90	24.29	713.16
		31.07.2019 to 05.06.2020				
		06.06.2020 to present				
8	Sargodha	17.06.2019 to 31.10.2019	2,224.37	4,825.42	46.10	2,601.05
		01.11.2019 to present				
9	Sukkur	17.06.2019 to 06.04.2020	700.59	1,677.92	41.75	977.33
		05.06.2020 to present				
Grand Total			16,143.52	39,028.22	41.36	22,884.70

Audit is of the view that poor monitoring contributed towards non-achievement of sales targets. Zonal/ Regional management was required to achieve the sales targets fixed by USC head office but they failed to achieve the same.

The matter was reported to the management on 24th November 2020. In DAC meeting held on 18-19th December 2020, the management explained that due to diversified efforts of the management and support of the Government, USC started provision of stock at stores. However, due to financial conditions the vendors were reluctant to supply the stock to USC. This resulted in non-availability of stocks at stores hence sales targets were not achieved. The management presented justifications / explanations regarding non-achievement of sales target. However, Audit contended to justify / explain the same before PAC.

Audit recommends compliance of the DAC directives.

8.17.4.3 Overpayment on account of Corporate Allowance – Rs. 198.161 million

As per Para-10 of the Finance Division O.M. No. F. No. 1(3)/Imp/2015-630 dated 07.07.2015, all the special pays, special allowances or the allowances admissible as percentage of pay (excluding those which are capped by fixing maximum limit) including house rent allowance and the allowance/special allowance equal to one month basic pay, granted to Federal Government employees irrespective of his / her posting in Ministry / Division / Department / Office etc. including civil employees in BPS 1-22 of Judiciary shall stand frozen at the level of its admissibility as on 30.06.2015.

The Board of Directors in its 116th meeting held on 10.12.2013 allowed Corporate Allowance @ 20% of running basic pay to all the USC employees, employed on regular and contract basis (excluding daily wagers) w.e.f. 01.01.2014. Later on, in pursuance of Federal Government orders regarding revision of Basic Pay Scales and Allowances, the USC vide its Circular Order No. HR&A-05/2015 dated 04.12.2015 adopted the Revised Pay Scales, 2015.

The payroll of the USC employees for the year 2019-20 revealed that instead of payment of Corporate Allowance at the frozen level of its admissibility as on 30.06.2015, the same was being paid @ 20% of the running pay of the employees in violation of Government instructions and Para-9 of the USC circular dated 04.12.2015.

Non-observance of Government and USC instructions resulted into overpayment of Rs. 198.161 million from 01.07.2015 to 30.06.2020 to the employees.

The matter was reported to the management on 24th November 2020. The DAC in its meeting held on 18-19th December 2020 was informed by the management that necessary legal opinion has been prepared by Legal Consultant. The DAC directed the management to seek comments of M/o Law and Justice Division through Ministry and share the same with Audit.

Audit recommends to implement the decision of the DAC or otherwise overpaid amount may be recovered from the concerned employees or the person(s) held responsible for making overpayment. Besides, the overpayment made to the employees of all the USC Regions on this account may also be worked out and recovered under intimation to Audit.

Para-22 USC, 2019-20

8.17.4.4 Unjustifiable consecutive payment of Eid package / honorarium to regular / contractual employees – Rs. 110.066 million

As per Government of Pakistan, Finance Division, O.M. No. F.3 (5) R.12/80(R.14) Vol-II/2001-544 dated November 30, 2001, applicable to all Autonomous Bodies/ Public Sector Enterprises, the payment of bonus to the employees subject to concurrence of Finance Division. Furthermore, the bonus should be paid to the employees on the basis of operational profit of the organization.

Government decision No. 5 under FR 9(9) clarifies that any work which falls within the orbit of the normal duties of a government servant, cannot, as far as he is concerned, be treated as 'special work'.

According to engagement letter, appointment of Daily Wages Employee was on fixed pay.

The management of USC set the annual sales target of Rs. 71,028.22 million against which actual sales remained as Rs. 54,370.74 million which is 76.50% of the sale target.

The management of USC paid Rs. 110.166 million as Eid Package/ honorarium to its employees (Rs. 6.928 million in HO and Rs. 103.238 million to Regions) including Daily Wages employees. As per audited accounts 2018-19, company sustained a net loss of Rs. 6,028.66 million and accumulated loss of Rs. 14,347.086 million resulting into negative equity of Rs. 9,273.536 million depicting poor performance of the corporation.

Audit observed that the management was making payment of over time, sales commission, and special allowance / corporate allowance etc. to the employees. Further, in Bahawalnagar and Bahawalpur Regions, payment of honorarium of Rs. 78,340 + Rs. 107,760 respectively was made to the employees involved in disciplinary cases against the instructions issued by the higher management.

Thus, keeping in view the financial health of the corporation, non-achievement of sales target and payment of over time, sales commission and special allowance / corporate allowance etc. to the employees, the payment of eid Package/ honorarium Rs. 110.166 million without concurrence of the Finance Division and in disregard to the Government instructions was held unjustified.

The matter was reported to the management on 24th November 2020. The DAC in its meeting held on 18-19th December 2020 was informed that payment of honorarium was paid with the approval of BoD. However; Audit was of the opinion that payment of honorarium to contract employees and daily wages was not covered under the rules. The DAC directed the management to seek opinion from Finance Division (Reg. Wing) through Ministry.

Audit recommends to implement the decision of the DAC.

Para-25 USC, 2019-20

8.17.4.5 Non-obtaining of performance guarantee from suppliers - Rs. 626.620 million

As per PPRA para 39 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 per cent of the contract amount.

The management of USC, Islamabad made agreements/contract with different suppliers for the supply of Rice, Pulses, Dates and Sugar valuing Rs. 6,267.195 million during the financial year 2019-20. Detail is as under:

S. No.	Items	Contract Value (Rs)	10 % Performance Guarantee was to be deducted
1	Rice	2,346,658,000	234,565,800
2	Pulses	3,853,217,000	385,321,700
3	Dates	67,320,000	6,732,000
Total		6,267,195,000	626,619,500

Audit observed that the agreements were executed without obtaining 10% performance guarantee as per PPRA Rules. Audit further observed that management did not insert clause regarding performance guarantee in the agreements executed between USC and suppliers for the supply of Rice, Pulses, Dates and Sugar.

Audit is of the view that award of contract to the suppliers without obtaining performance guarantee was undue favor extended to the suppliers in violation of PPRA.

The matter was reported to the management on 24th November 2020. In DAC meeting held on 18-19th December 2020, the management explained that earnest money @ 3% was adjusted into performance guarantee to attract more vendors in the tendering process. Mostly vendors are reluctant to participate in the tenders due to such type of terms where amount of money is blocked in initial stage. Performance guarantee clause was relaxed in the larger interest of the Corporation for making healthy competition during tenders. The reply of the management was not convincing as amount of earnest money was very nominal as compared to performance guarantee and USC was exposed to higher risk. DAC kept the para pending.

Audit recommends that the matter may be investigated to fix responsibility on the persons at fault. Besides, the insertion of performance guarantee clause in future agreements must be ensured.

Para-35 USC, 2019-20

8.17.4.6 Loss due to involvement of USC employees in Embezzlement / Fraud /Theft/Misappropriation & Blast of stock committed - Rs. 155.242 million

As per Para (a) and (b) of Circular dated October 21, 2008, in case of detection of any shortage, misappropriation embezzlement at any store of Region for any reason whatsoever, the concerned Zonal Manager, Regional Manager, Accounts Officer and Area Manager shall render himself liable for disciplinary action and summary proceedings under the provision of special powers ordinance.

During audit of Utility Stores Corporation (USC), for the year 2019-20, it was observed that embezzlement / misappropriations / fraud were committed by employees of USC working as incharge stores or warehouse. These cases of embezzlements and misappropriations were observed 39 times at different regional offices amounting to Rs. 155.242 million. Whereas, in this regard fact finding inquiries were conducted in which the accused were found guilty in

embezzlement / misappropriations of Corporation funds. Subsequently the management at Regional and Zonal offices and even at head office level could not follow-up these cases for timely recovery. Recovery from NICL could not be effected also due to time barred cases. Similarly, no action against the Area Managers was initiated as per referred policy of the USC. This resulted into loss of public funds due to embezzlement / fraud / theft / misappropriation and blast Rs. 155.242 million.

Audit is of the view that lack of control / policy decision against the culprits of embezzlement / fraud / theft / misappropriation & blast was a result of poor monitoring activities causing loss of stock valuing Rs. 155.242 million. Further, audit pointed out these cases as illustrative purpose for the higher management, as a result of selective regional / zonal offices of USC, which it needs to exercise across the USC to ensure early recovery either from employees involved or from the Area Managers / Regional Managers.

The matter was reported to the management on 24th November 2020. The management replied that the main reason of embezzlement / fraud / theft / misappropriation was the non-availability of ERP system. In the absence of an ERP system it was almost impossible to keep 100% record of itemized sale and inventory in hand.

The DAC in its meeting held on 20th January 2021 directed the management to work out Embezzlement / Fraud / Theft / Misappropriation cases in all 09 regions and standing instructions shall apply in all over USC and to recover the amount forth with. Further, DAC directed to put up Region wise/nature of cases to concerned wing of Ministry regarding action taken in each category with due diligence under intimation to audit.

Audit recommends compliance of DAC directives.

Para-54 to 58, 61 to 63, 65, 66, 68, 69, 71 to 78,

101 102 to 105, 158, 164, 206, 236, 240, 339,

374, 375, 414, 417 & 422 USC, 2019-20

8.17.4.7 Blockade of funds / loss due to non-replacement of damaged and expired stores - Rs. 1,964.747 million

As per clause-7.02 of the USC Stores Operational Manual, each store In-charge is required to submit a list of damaged goods together with his monthly requisition. In case there is no damaged stock, a certificate to that effect will be submitted by the concerned stores to the Divisional Manager (Regional Manager) along with the requisition for fresh stock. As per Clause-7.04, each case of damage must be thoroughly investigated by the Area Manager concerned and the responsibility of loss may be fixed by the Divisional Manager and suitable action should be taken. The damage in the warehouse / store is the personal responsibility of the In-charge concerned after the stock taking is carried out.

During audit of USC with its regional offices for the year 2019-20, it was observed that in 10 cases stores & stocks valuing Rs. 1,964.747 million were turned into blockade stocks and

could not be sold out due to damages / expiry. The store was lying at various warehouses / stores of various regions since long as at year ended on 30th June, 2020 mainly due to non-genuine demand of the warehouses / stores. In addition to this non-sale of stocks procured without the regional demands was shifted from other one to another regions.

No efforts were made by the management for return of expired / damaged stocks to the vendors. Thus, non-initiating replacement / sales out of total stock held for replacement has not been taken seriously and the funds of Rs. 1,964.747 million would turn into loss to the Corporation.

Audit is of the view that lack of control / policy decision for non-replacement of damaged /expired stocks resulted in loss of stock valuing Rs. 1,964.747 million. It was observed for illustrative purpose for the higher management, at limited regional / zonal offices of USC which needs to be exercised across the USC to ensure early replacement from vendor or from employees.

Audit recommends 100% physical verification and to investigate the reasons for blockade of funds / damaged and expired material at USC stores and warehouses.

The matter was reported to the management on 24th November 2020. The management replied that in a chain business like USC, damaged and expired stock is ongoing process. As per agreement with the supplier all damaged / expired stock was lifted back by the concerned vendors and recovery / adjustment of subject stock made from the payment of the concerned vendors.

The DAC in its meeting held on 20th January 2021 directed the management to review the replacement mechanism of damaged / expired stock with more efforts.

Audit recommends compliance of DAC directives for replacement of damaged / expired stocks.

Para-70, 107, 108, 369, 401, 437, 450, 464 & 465 USC, 2019-20

8.17.4.8 Loss to the Government due to less deposit of stamp duty – Rs. 44.225 million

As per clause-29 read with Article 22-A of Schedule I to the Stamp Act, 1899 In the absence of an agreement to the contrary, the expense of proper stamp shall be payable by the contractor in whose favour the instrument is executed. As per Article 22-A of Schedule I, the stamp duty is equal to Twenty-five paises for every one hundred rupees or part thereof of the amount of the contract subject to a minimum of twelve hundred rupees.

The management of USC entered into various contracts for the procurement of Sugar, rice, and pulses etc. with various contractors / suppliers. However, the stamp duty as per Stamp Act was not paid by the contractors which resulted into loss of Rs. 44.225 million to the Government.

The matter was reported to the management on 24th November 2020. The DAC in its meeting held on 18-19th December 2020 was informed by the management that necessary legal

opinion is being prepared by Legal Consultant. DAC directed the management to seek comments of M/o Law and Justice Division via Ministry within three months i.e. before 18th March, 2021.

Audit recommends to implement the decision of the DAC and opinion of the Law & Justice Division may be shared with Audit.

Para-3 USC, 2019-20

Muhammad Imran Shahid
Asstt Programmer
Monday, 24 February, 2025, 3:24:44 PM

Muhammad Imran Shahid
Asstt Programmer
Monday, 24 February, 2025, 3:24:44 PM