

## Chapter-9

### 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

#### Sectoral Analysis

Utility Stores Corporation (Pvt.) Limited was incorporated on September 3, 1971 as a private company under the Companies Act, 1913. (Now the Companies Act, 2017). The USC has its registered office at Plot 2039-F-7, G/7 Blue Area 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 entity comprises of its Head Office at Islamabad, and 09 Zonal Offices at Islamabad, Lahore, Gujrat, Multan, Sargodha, Karachi, Sukkur, Peshawar, Abbottabad and Quetta, headed by Zonal Managers and 64 Regional Offices are operating under the Zonal Managers throughout the country headed by Regional

Managers to control the operational activities of 3,989 utility stores operating at union council level in the country.

Sales of the Corporation increased by 406.55% i.e. from Rs. 9,310.06 million during 2018-19 to 47,160.37 million during 2019-20 whereas Selling & Distribution expenses only decreased by 1.36%. Also, administrative expenses increased by 8.57% i.e. from Rs. 437.45 million during 2018-19 to Rs. 474.96 million during 2019-20. Disproportionate decrease/increase in Selling & Distribution expenses and Administrative expenses with respect to sales needs explanation.

The Corporation has loss after taxation amounting to Rs. 1,418.346 million during the year 2019-20 which resulted in increase in accumulated losses to Rs. 15,513.126 million. The Company has positive cash flows from operations amounting to Rs. 3,223.627 million this is just because of Government subsidy.

#### **Audit Profile of Ministry of Industries & Production**

(Rs. in million)					
S. No.	Description	Total	Audited	Expenditure audited FY 2021-22	Revenue /Receipts audited FY 2021-22
1	Formations		6	12,320.500	143,863.073
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. 79,131.520 million were raised as a result of this audit. This amount also includes recoverable of Rs. 5,268.972 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

#### **Overview of the Audit Observations**

<b>Sr. No.</b>	<b>Classification</b>	<b>Amount (Rs. in million)</b>
1	Non-Production of record	94.800
2	Reported cases of fraud, embezzlement and misappropriation	146.904
3	Irregularities:	0
A	HR/Employees related irregularities	2,027.667
B	Procurement related irregularities	8,989.292
C	Management of accounts with Commercial Banks	10,741.405
4	Value for money and services delivery issues	36,349.123
5	Others	20,782.329
		79,131.52

## 9.1 Export Processing Zones Authority

### 9.1.1 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.

### 9.1.2 Comments on Audited Accounts

**9.1.2.1** 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 2021-22 despite a number of reminders.

Audit requires that the annual audited accounts of the years 2010-11 to 2021-22 be provided immediately and timely finalization be ensured in future, besides, fixing responsibility for non-finalization of annual audited accounts (*Annex-2*).

### 9.1.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% of compliance
2000-01	1		1	194	-
2009-10	8	7	1	96	88%
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%
2019-20	6	5	1	7.1.4.1, 7.1.4.2, 7.1.4.3, 7.1.4.4, 7.1.4.5	83%
<b>Total</b>	<b>48</b>	<b>18</b>	<b>30</b>		<b>38%</b>

The overall compliance of PAC directives needs improvement.

## 9.1.4 Audit Paras

### 9.1.4.1 Non-achievement of committed exports - US\$ 120.971 million equivalent to Rs. 24,799.055 million

According to clause 42 of license agreement, the investor application, undertaking annual export of his products worth US\$... million per annum, the sanction / approval letter of the license is and shall be treated as integral part of this license agreement.

According to part H of Export Projections for five years of Application form of investors 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, Karachi for the years 2021-22, it was observed that the following units failed to achieve committed exports: (Annex-79)

				Amount in US\$
No of units	Committed Exports	Actual Exports	Variation	Achievement (%)
63	135,609,590	14,638,134	(120,971,459)	10.79

(Source: Export Processing Zones Authority)

Audit was of the view that management did not scrutinize the units with respect to their performance against their committed exports which resulted in loss of foreign exchange of Rs. 24,799.055 million.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. The management informed that non-achievement of set targets was due to weak monitoring mechanism which has been addressed accordingly. DAC directed the management to provide detail of the cases which have not achieved the minimum target of committed annual export. DAC further directed the management to share with audit checks and balances / initiatives and take necessary steps for cancellation of license accordingly. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### 9.1.4.2 Loss due to higher imports than exports - US\$ 24.027 million equivalent to Rs.4,925.585 million

The main objective of the EPZA is to increase the foreign exchange earnings of the country by export of value-added items.

According to clause 42 of license agreement, the investor application, undertaking annual export of his products worth US\$... million per annum, the sanction / approval letter of the license is and shall be treated as integral part of this license agreement.

According to Rule 9-A of Export Processing Zones Authority Rules, 1981, if in the opinion of the Authority an investor has failed to carry out the purpose for which, or has not fulfilled the conditions of, the sanction accorded to him under sub-section (1) of section 11 of the Ordinance, it may, after giving him notice to show cause, cancel, revoke or withdraw the sanction.

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2021-22, it was observed that 60 units of KEPZ showed imports higher than the exports of US\$ 24.027 million against the objectives of Zone. Summary of these units is as under: -

(Amount in US \$)			
Units	Import of Raw Material	Exports	Difference
60	96,252,467	72,225,221	24,027,246
Equivalent to Rs.4,925.585 million (US\$24.027 x Rs.205)			
<i>(Source: Export Processing Zones Authority)</i>			

Audit was of the view that the management failed to maintain check and balance on EPZA Units which resulted in a loss due to less export than import.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. DAC directed the management to takes necessary actions accordingly. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.1.4.3 Non-recovery of outstanding dues – Rs.324.497 million**

According to Clause 30 of license agreement, upon failure of the investor to pay the said ground rent within the scheduled dates, they shall be liable to pay late payment surcharge at the rate of US\$ 12% per month of the amount in default and would also entitle the Authority to revoke the license for consecutive default of two years. The security deposit shall be adjusted toward the period of default. Similarly, the utilities bills were also to be recovered on due dates and in case of non-payment of two or three consecutive bills the utility services would have to be suspended in order to recover the outstanding balances and to avoid their heavy accumulation.

According to Clause 05 of contract of canteen, all the charges of the utilities shall be paid by the second Party (M/s. Q.S.S Enterprises), on actual consumption before due date of each bill and submit the paid copies to the Manager (Admn) EPZA regularly. These revised rates / billing will retrospect be effective from 1st July, 2015.

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2021-22, it was observed that an amount of Rs.324.497 million was lying outstanding against investors / canteen contractor and others (Annex-80).

Audit was of the view that the management failed to recover outstanding dues which reflected inefficiency and poor recovery mechanism.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023.

1. DAC directed the management to pursue the court case accordingly.
2. The management informed that an amount of US\$3,033.80 has been recovered on accounts of water charges and US\$5,625.40 has been recovered on account of electricity. DAC directed the management to provide relevant documents to audit on recovery and pursue the leftover amount.

However, no record was produced by the management till finalization of this report.

Audit recommends expediting the recovery of outstanding amount.

**9.1.4.4 Loss of remittance due to zero exports - US\$ 1.487 million equivalent to Rs.304.835 million**

The main objective of the EPZA is to increase the foreign exchange earnings of the country by export of value-added items.

According to Rule 9-A of Export Processing Zones Authority Rules, 1981, if in the opinion of the Authority an investor has failed to carry out the purpose for which, or has not fulfilled the conditions of, the sanction accorded to him under sub-section (1) of section 11 of the Ordinance, it may, after giving him notice to show cause, cancel, revoke or withdraw the sanction.

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2021-22, it was observed that 13 units of KEPZ made no exports during last five years i.e. 2017-18 to 2021-22 against imported items valuing US\$ 1.487 million equivalent to Rs.304.835 million (Annex-81).

Audit was of the view that the management neither imposed any penalty nor took any legal action against the investors having zero exports.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. The management informed that non-achievement of set targets was due to weak monitoring mechanism which has been addressed accordingly. DAC directed the management to provide detail of the cases which have not achieved the minimum target of committed annual export. DAC further directed the management to share with audit checks and balances / initiatives and take necessary steps for cancellation of license accordingly. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.1.4.5 Irregular renting out of premises - US\$ 1.450 million equivalent to Rs.297.250 million**

According to circular No. Inv-11-111 dated November 09, 2020, this rental permission is not a regular feature / arrangement under EPZA Rules and regulations. In special cases, where zone investor faces shortage of space for the

time being, their request for acquiring temporary spaces in special condition would be considered; maximum for a period of six (06) months. No further extension in rental period will be allowed, in any case.

During audit of Export Processing Zones Authority (EPZA), Karachi for the years 2021-22, it was observed that the management approved 12 cases of KEPZ premises on rental basis amounting to US\$ 1.450 million equivalent to Rs.297.250 million continuously for more than 06 months in violation of above circular.

Audit was of the view that the management failed to maintain check and balance on the rental premises, which was irregular and unjustified.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. DAC directed the management to place the matter before BOD for its consideration. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.1.4.6 Loss of tax and service charges on sick units - US\$ 1.027 million equivalent to Rs.210.535 million per annum**

According to clause 26 of License Agreement of Export Processing Zones Authority (EPZA), upon failure of the investor to utilize the plot(s) by suspending all material operations and activities of the unit or keeping the said unit idle for more than a period of nine to twelve months, the Authority shall be entitled to revoke this license and takeover the possession of the plot(s).

According to Rule 9-A of Export Processing Zones Authority Rules, 1981, if in the opinion of the Authority an investor has failed to carry out the purpose for which, or has not fulfilled the conditions of, the sanction accorded to him under sub-section (1) of section 11 of the Ordinance, it may, after giving him notice to show cause, cancel, revoke or withdraw the sanction

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2021-22, it was observed that 46 units of KEPZ were closed / non-functional for last many years. The committed export of these units was mentioned

as US\$ 68,437 million per annum, but the achievement of these units remained zero. Hence, the management sustained recurring loss of presumptive tax and service charges US\$ 1.027 million equivalent to Rs.210.535 million per annum.

Audit was of the view that the management failed to take over the sick units which reflected inefficiency and negligence.

The matter was reported to the management in November, 2022. The management informed that non-achievement of set targets was due to weak monitoring mechanism which has been addressed accordingly. DAC directed the management to provide detail of the cases which have not achieved the minimum target of committed annual export. DAC further directed the management to share with audit checks and balances / initiatives and take necessary steps for cancellation of license accordingly. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.1.4.7 Irregular renting of premises for Used Textile Clothing during ban period - US\$ 1.008 million equivalent to Rs.206.640 million**

According to 121<sup>st</sup> Board of Director's Meeting held on January 11, 2019, it was decided that:

- i. To restrict the activity, no fresh permission / license should be given to worn (used) clothing.
- ii. No Sale / Purchase / Transfer to be allowed to existing units of worn (used) clothing retrospectively effective from 3<sup>rd</sup> January 2019; thus, ratifying the Chairman's decision.

According to circular No. Inv-11-111 dated November 09, 2020 stated that this rental permission is not a regular feature / arrangement under EPZA Rules and regulations. In special cases, where zone investor faces shortage of space for the time being, their request for acquiring temporary spaces in special condition would be considered; maximum for a period of six (06) months. No further extension in rental period will be allowed, in any case.

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2021-22, it was observed that the management rented out following units for Used Textile Clothing (UTC) in ban period in violation of BoD directives.

Owner	Tenant	Tenancy period		Amount (US\$)
		From	To	
M/s. Amar & Sons Industries (Pvt.) Limited	M/s. Al- Wadaq Industries	01.01.2019	30.11.2019	227,125
	M/s. Galaxy Rags	11.6.2020	30.04.2021	454,250
	Galaxy Rags	01.05.2021	31.10.2021	176,981
M/s. MY Textile	M/s. Noble Impex	28.07.2019	27.06.2020	149,530
<b>Total</b>				<b>1,007,886</b>

(Source: Export Processing Zones Authority)

Audit was of the view that the premises of KEPZ should not have been rented out to UTC during ban period.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. The management contended that the ban was applicable from October, 2019 not from January, 2019. DAC directed the management to provide relevant documents to audit reflecting that the decision of renting-out and extension was in accordance with the approved policy. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.1.4.8 Non-imposition of penalties for non-construction of open plots – US\$.531,512 equivalent to Rs.108.960 million**

According to 110th Minutes of the BoD meeting held on April 23, 2015, it is proposed to BoD by the management to amend the existing clause 10 of license agreement to the extent that penalty may be imposed US\$ 3,000/- per annum instead of US\$ 5/- per sq. meter per month in addition to applicable amount of AGR. Board approved the proposal.

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2021-22, it was observed that 10 units failed to start the construction work despite lapse of 2 to 22 years. Moreover, 13 units also failed to complete the construction work despite lapse of 01 to 05 years against the allowed period of 18 months. Despite the above, the management did not impose penalty of US\$ 531,512 to the aforesaid units.

Audit was of the view that the management failed to impose penalty of US\$ 3,000 per annum in violation of BoD directives which resulted in a loss of Rs.108.960 million.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. DAC directed the management to conduct survey on identical cases (non-construction after defined timelines) and share the results with audit for examination. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.1.4.9 Loss due to sale of items in local market instead of exports - Rs.72.560 million**

According to Rule 9-A of Export Processing Zones Authority Rules, 1981, if in the opinion of the Authority an investor has failed to carry out the purpose for which, or has not fulfilled the conditions of, the sanction accorded to him under sub-section (1) of section 11 of the Ordinance, it may, after giving him notice to show cause, cancel, revoke or withdraw the sanction.

During audit of Export Processing Zones Authority (EPZA), Karachi for the years 2021-22, it was observed that various FIRs were lodged against the various units by Custom Authority, Karachi. Such units import duty free items for processing these at zone for subsequent export but instead of exporting, they consumed these in local market, causing huge revenue loss to exchequer of leviable duty and taxes Rs.72.560 million.

Audit was of the view that due to sale of items in local market instead of exports the exchequera sustained loss in terms of leviable duty and taxes of Rs.72.560 million due to weak internal controls and lack of proper monitoring mechanism.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. DAC directed the management to pursue the court case. Internal controls may be strengthened and remedial measures may be taken accordingly. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.1.4.10 Involvement of investor in unlawful activities - Rs. 53.657 million**

According to Rule 9-A of Export Processing Zones Authority Rules, 1981, if in the opinion of the Authority an investor has failed to carry out the purpose for which, or has not fulfilled the conditions of, the sanction accorded to him under sub-section (1) of section 11 of the Ordinance, it may, after giving him notice to show cause, cancel, revoke or withdraw the sanction.

During audit of Export Processing Zones Authority (EPZA), Karachi for the years 2021-22, it was observed that the Collectorate of Custom Export has lodged an FIR on October 08, 2021 for 'Mis-declaration' of goods against M/s. AAA Packages (SMC) Pvt limited and recoverable duties and taxes. The total amount of detected fraud was Rs.26.438 million. Besides above, another FIR lodged in January 19, 2017 on the complaint of KEPZ Security Division for missing of 03 containers for goods valuing US\$ 49,599/- (equivalent to Rs. 5.188 million) and recoverable duties and taxes was Rs.2.731 million. Later on, 04 more missing containers added in the respective FIR by the Customs. It was also observed that M/s. AAA Packages (SMC) Pvt. limited has been continuously involved in illegal and unlawful activities of smuggling.

Furthermore, another FIR was lodged against M/s. SAS (Pvt.) Limited by the Custom Authority on January16,2021 on the basis that some persons are engaged in the smuggling of foreign origin cloth by concealing for foreign origin Betel (Areca) Nuts, in the foreign origin clothing. These valuing was Rs.19.300 million. It was also observed from the report of IO / Complainant that the importer M/s. SAS (Pvt.) limited of KEPZ and others involved in the illegally removal of imported goods meant for KEPZ.

Audit was of the view that the involvement of investor in illegal & unlawful activities resulted in a loss of revenue amounting to Rs.53.667 million.

The matter was reported to the management in November. The irregularity was discussed in the DAC meeting held on January 27, 2023.

1. The management informed that the unit has duly been taken-over, license canceled and recovery made. DAC directed the management to pursue the case accordingly.

2. DAC directed the management to pursue the case accordingly.

However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

(DP Nos.756 & 761)

#### 9.1.4.11 Irregular payment of Eid assistance - Rs.35.316 million

According to PAC directives on observation raised by the Commercial Auditors in 2005, the management was required to obtain concurrence of Finance Division, in the matter of payment of Eid Assistance to EPZA employees / officers.

During audit of Export Processing Zones Authority (EPZA) for the year 2021-220, it was observed that the management had incurred an expenditure amounting to Rs.35.316 million on account of Eid Assistance to the employees in May and July 2022 without the prior approval of Board and Finance Division. The details are given below:

S#	Description	Date	Amount (Rs)	S#	Description	Date	Amount (Rs)
1	Eid-Ul-Fitr	14.04.2022	17,694,555	2	Eid-ul-Azha	30.06.2022	17,621,899
<b>Total</b>							<b>35,316,454</b>

(Source: Export Processing Zones Authority)

Audit was of the view that payment of Eid Assistance amounting to Rs. 35.316 million to the employees without approval was irregular and unjustified.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. DAC directed the management to place the matter before BOD for its consideration. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### 9.1.4.12 Irregular award of contract to the 2nd lowest bidder – Rs.31.117 million

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

During audit of Export Processing Zone Authority (EPZA) Karachi for the year 2021-22, it was observed that the management awarded the contract for consultancy services for KEPZ Phase-III for commercial feasibility study, detailed designing and planning / Master planning of the Infrastructure Development Work to 2nd lowest bidder M/s. NESPAK without giving any cogent reason. Detail is as under: -

S#	Name of bidder	(Rs. in million)			
		Transaction Advisory Phase-I	Transaction Negotiation & Financial Close Phase-II	Construction supervision Phase-III	Total
1.	NESPAK	34.565	4.226	55.429	94.220
2.	International Consulting (ICONSULT)	110.000	30.000	60.000	200.000
3.	IQ Capital Plus	51.620	5.736	5.747	63.103

(Source: Export Processing Zones Authority)

Audit was of the view that the management extended undue favor by awarding the contract to second lowest bidder which resulted in excess payment of Rs. 31.117 million.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. DAC directed the management to provide relevant documents to audit reflecting justification for 80% weightage to technical and 20% to the financial evaluation. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.1.4.13 Non-obtaining of performance guarantees – Rs.9.422 million**

According to clause 10.1 of bidding document of contract, the Contractor shall provide Performance Security to the Employer in the prescribed form. The said Security shall be furnished or caused to be furnished by the Contractor within 28 days after the receipt of the Letter of Acceptance. The Performance Security shall be of an amount equal to 10% of the Contract Price stated in the Letter of Acceptance. Such Security shall, at the option of the bidder, be in the form of either (a) bank guarantee from any Scheduled Bank in Pakistan or (b) bank guarantee from a bank located outside Pakistan duly counter-guaranteed by a Scheduled Bank in Pakistan or (c) an insurance company having at least AA rating from PACRA/JCR.

During audit of Export Processing Zones Authority (EPZA) Karachi for the year 2021-22, it was observed that the management awarded a work to M/s. NESPAK on May 24, 2022 for consultancy services for KEPZ Phase-III for commercial feasibility study, detailed designing and planning / Master planning of the Infrastructure Development Work as Engineer amounting to Rs.94.221 million, however no performance securities / bank guarantees equal to 10% of contract price Rs. 9.422 million was not obtained.

Audit was of the view that the management failed to obtain performance security of Rs.9.422 million which reflected undue favor.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. The management informed that the performance guarantee is available. DAC directed the management to provide relevant document to Audit for verification. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.1.4.14 Loss of foreign exchange due to inordinate delay in auctioning / re-allotment of taken over units - US\$ 45,000 equivalent to Rs.9.000 million per annum**

The main objective of the EPZA is to increase the foreign exchange earnings of the country by export of value-added items.

According to Rule 9-A of Export Processing Zones Authority Rules, 1981, if in the opinion of the Authority an investor has failed to carry out the purpose for which, or has not fulfilled the conditions of, the sanction accorded to him under sub-section (1) of section 11 of the Ordinance, it may, after giving him notice to show cause, cancel, revoke or withdraw the sanction.

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2021-22, it was observed that three units of KEPZ had been taken over by the management in the year 2021-22, but no auction was made till now. Resultantly, the management sustained a loss on account of presumptive tax and service charges as detailed below:

(Amount in US\$)				
S#	Taken Over Units	No. of Years	Acquired Land in Meters	Committed Export per annum
1	Cedar Conifer	07	2,000	2,000,000
2	MOC Industries	07	1,000	1,000,000
3	Crescent Chemical	06	1,000	1,000,000
	<b>Total</b>		<b>4,000</b>	<b>3,000,000</b>
Presumptive tax (3,000,000 x 1%)				30,000
and service charges (15,526,000 x 0.5%)				<u>15,000</u>
Total US\$				<u>45,000</u>
Equivalent to Rs.45,000 x 200 =				9,000,000
<i>(Source: Export Processing Zones Authority)</i>				

Audit was of the view that the management failed to auction the units taken over timely which resulted in a revenue loss of Rs.9.000 million.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. The management informed that the units have been taken-over by the Authority. DAC directed the management to take necessary actions accordingly. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.1.4.15 Loss of foreign exchange due to renewal of license of underperforming investor – US\$ 39,795 equivalent to Rs.8.158 million**

The main objective of the EPZA is to increase the foreign exchange earnings of the country by export of value-added items.

According to Rule 9-A of Export Processing Zones Authority Rules, 1981, if in the opinion of the Authority an investor has failed to carry out the purpose for which, or has not fulfilled the conditions of, the sanction accorded to him under sub-section (1) of section 11 of the Ordinance, it may, after giving him notice to show cause, cancel, revoke or withdraw the sanction.

During audit of Export Processing Zones Authority, Karachi for the years 2021-22, it was observed that the management renewed the license agreement of 03 plots of M/s. Polytek International on August 31, 2020 for next thirty (30) years without taking into account of its past performance as the unit consistently failed to achieve 10% of committed annual export (Annex-82). The detail of performance before renewal is hereunder:

<b>(Amount in US\$ in million)</b>			
<b>From Year 2001-2020</b>	<b>Total Export</b>	<b>Total Import</b>	<b>Difference Export &amp; Import</b>
Total	4.104	4.641	-0.537

The details of performance after renewal of license is hereunder:

<b>(Amount in US\$ in million)</b>					
<b>Committed Export per annum</b>	<b>Export</b>		<b>Total Export</b>	<b>Total Import</b>	<b>Difference Export &amp; Import</b>
	<b>Tariff area</b>	<b>Abroad</b>			
3.000	0.063	0.284	0.347	0.374	(0.027)
Committed Export					3,000,000
Less; Actual Export					- 347,000
<b>Loss of committed export</b>					<u>2,653,000</u>
Loss of 1% presumptive tax and 0.5% service charges (2,653,000 x 1.5%)					<u>39,795</u>
Equivalent to Rs. (39,795 x 205)					<b><u>8,157,975</u></b>
<i>(Source: Export Processing Zones Authority)</i>					

Audit was of the view that the management failed to maintain check and balance required for renewal of license for next 30 years resulting in loss of Rs. 8.158 million.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. The management informed that non-achievement of set targets was due to weak monitoring mechanism which has been addressed accordingly. DAC directed the management to provide detail of the cases which have not achieved the minimum target of committed annual export. DAC further directed the management to share with audit checks and balances / initiatives and take necessary steps for cancellation of license accordingly. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.1.4.16 Loss due to exports in tariff area beyond permissible limit - US\$ 31,039 equivalent to Rs.6.300 million**

According to Rule 228 (5) of Custom Rules, 2001, the units established in the Export processing Zone shall export only up to twenty percent of their total production to tariff area in Pakistan while eighty percent shall be exported to other countries.

During audit of Export Processing Zones Authority, Karachi for the years 2021-22, it was observed that contrary to above, the investors exported more than 20% of export in tariff area. The detail is as under:

Units	Export			(Amount in US\$)	
	Tariff Area	Abroad	Total	20% Allowed in Tariff Area	Excess Export in Tariff Area
New Techno Plastic Ind.	80,017	210,800	290,817	58,163	21,854
Perfect Packaging	15,364	39,223	54,587	10,917	4,447
So Safe International	14,529	45,310	59,839	11,968	2,561
International Industrial	39,880	148,631	188,511	37,702	2,178
<b>Total</b>	<b>149,790</b>	<b>443,964</b>	<b>593,754</b>	<b>118,751</b>	<b>31,039</b>
<b>US \$ 31,039 x Rs.203 = Rs.6,300,917</b>					
<i>(Source: Export Processing Zones Authority)</i>					

Audit was of the view that foreign exchange loss due to exports in tariff area beyond permissible limit indicated weak internal controls.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. The

management informed that total excess is of US\$ 14,635. DAC directed the management to reconcile the amount with audit and take necessary actions accordingly. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.1.4.17 Unauthorized regularization of illegal construction - US\$ 9,048 equivalent to Rs.1.855 million**

According to Rule C-1 to C-3 of Guidelines / Building By-laws for the construction of building in EPZA, 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 any one side and 3 meters from other side.

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2021-22, it was observed that various investors constructed industrial units in violation of building by-laws. The management imposed the penalties instead of demolishing the construction. Detail are as under: -

(Amount in US\$)			
S#	Name of unit	Un-authorized construction in (sft)	Amount of penalty
1	M/s. WTC	196.00	586.95
2	Noble Impex	456.65	2,280.61
3	H & M Textile	162.00	486.98
4	Salwa International	640.00	3,196.51
5	Al-Wadaq Industries	500.00	2,497.23
<b>Total</b>		<b>1,954.65</b>	<b>US\$ 9,048.28</b>
<b>US\$ 9,048.28 * Rs.205 =Rs.1,854,897</b>			
<i>(Source: Export Processing Zones Authority)</i>			

Audit was of the view that the management extended undue favor to the investors which reflected favoritism.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. DAC directed the management to provide relevant documents to audit reflecting that the

regularization was in accordance with relevant policy / rules. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.1.4.18 Non-finalization of annual accounts**

According to AGP letter dated August 02, 2007, the compliance of PAC directives be made by PAO in letter & spirit. The accounts should be prepared. The preparation of accounts is mandatory requirement and it could not be condoned by any authority forum.

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2021-22, it was observed that the annual accounts for the years 2010-11 to 2021-22 have not been prepared.

Audit was of the view that the management failed to finalize the accounts.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. DAC directed the management to ensure finalization of accounts by March, 2023. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.1.4.19 Non-verification of degrees / certificates of officers / officials**

Establishment Division, OM No. 6/1/92-R.2 dated March 25, 1992 states that "immediately on initial appointment a verification roll verifying the character and antecedents of the employees shall be issued to the relevant authorities. In case of mis-statement and concealment of facts were proved consequent to inquiries conducted by the concerned agencies the employees is liable for dismissal from service, which debars such a person" from Government Service".

During audit of Export Processing Zones Authority (EPZA) for the year 2021-2022, it was observed that the management did not verify the degrees / certificates of 19 officers / officials (Annex-83).

Audit was of the view that and undue favor was extended by not carrying out verification at the time of recruitment of nineteen officers.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. The management informed that degrees in three cases have been verified. DAC directed the management to provide relevant documents to audit for verification and pursue leftover cases accordingly. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.1.4.20 Irregular award of canteen contract without tender**

Rule 04 of PPRA Rules, 2004, states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2021-22, it was observed that the management awarded canteen contract to M/s. Q.S.S Enterprises for the period of one-year w.e.f. 01.05.2010 to 30.04.2011. However, since then the contract was extended multiple times without any competitive process.

Audit was of the view that the management extended undue favor to the contractor by avoiding open tender process.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. DAC directed the management to share inquiry report already conducted, take necessary action, effect recovery and finalize the canteen contract in accordance with procurement rules. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.1.4.21 Irregular deputation of officers / officials**

According to Section-7 (c)-ii, Chapter-II of Employees Service Rules of EPZA, "No employee of the Authority shall be allowed to proceed on deputation to the Federal Government or a Provincial Government or any Autonomous and Semi-Autonomous Body or the Corporation without the approval of the Board."

During audit of Export Processing Zones Authority (EPZA) for the year 2021-22, it was observed that following 11 officers / officials were sent to deputation from EPZA to Federal Government and Provincial Governments without approval of the Board in violation of rules.

S#	Name	Designation	Deputation to
1	Syed Mehboob Ali Bukhari	DGM	Ministry of Religious affairs, Islamabad
2	Asghar Ali Mangrio	Manager	Housing Foundation of Pakistan
3	Muhammad Naveed Khan	Manager	National Vocational Technical Training Com. (NAVTC)
4	Jawad Imtiaz	Dy. Manager	Pakistan Industrial Development Corporation
5	Syed Mudassir Hassan	Asst. Manager	Federal Gov.t Employees Islamabad
6	Ms. Farzana Imam	Asst. Manager	Ministry of Religious Affairs

(Source: Export Processing Zones Authority)

Audit was of the view that the management extended favor to the officers / officials which reflected negligence.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. The management informed that the deputations were made with approval of BOD. DAC directed the management to place the matter before BOD for its consideration. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.1.4.22 Appointment of officials with nil experience / qualification**

According to Establishment Division, OM No. 6/1/92-R.2 dated March 25, 1992 states that "immediately on initial appointment a verification roll verifying the character and antecedents of the employees shall be issued to the relevant authorities. In case of mis-statement and concealment of facts were proved consequent to inquires conducted by the concerned agencies the employees is liable for dismissal from service, which debar such a person" from Government Service". Further, Cabinet Secretariat, Establishment Division (Management Service Wing) DO No 6(28)2001-DG-II, dated March 08.2011 states that "It will

be the responsibility of the concerned Secretary & Head of the Department/Organization to verify the degrees/certificates and furnish to the Establishment Division within forty-five (45) days of issue of these instructions".

During audit of Export Processing Zones Authority (EPZA) for the year 2021-2022, it was observed that the management appointed following officers / officials against different posts without requisite qualification and experience (Annex-84).

Furthermore, EPZA service rules were also not notified and approved from quarter concerned yet despite of the fact that management should not hire inappropriate and incapable person on experienced post and such deviation can badly effect on the productivity of the organization. It was also found in FIA enquiry that employees concerned have nil experience and irrelevant qualification. FIA clearly directed to management for taking legal action against intimation of such employee concerned but management deliberately continued the services of employees yet.

Audit was of the view that employees in question have unlawfully been appointed in violation of EPZA Service Rules without observing their appropriate experience and relevant qualification required for the post. Hence, management extended undue favor to employees concerned.

The matter was reported to the management in of November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. DAC directed the management to pursue the case accordingly. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.1.4.23 Irregular promotion of Assistant Manager to Deputy Manager**

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

<b>Grade</b>	<b>Duration of Service</b>
From S-V to E-I (Assistant Manager)	04 years' service in S-V cadre
From Assistant Manager to Deputy Manager	04 Years' service as Assistant Manager
From Deputy Manager to Manager	05 years' service as Deputy Manager
Manager to Dy. General Manager	07 years' service as Manager
Dy. Gen. Manager to General Manager	10 years' service as Deputy Gen. Manager

During audit of Export Processing Zones Authority (EPZA) for the year 2021-2022, it was observed the management appointed Mr. Obaid Ahmed Farooqi as Assistant on 21-05-1990. Afterwards, he was promoted to Assistant Manager on 30-06-2010 and further promoted as Deputy Manager on 17-04-2013 having 2 years and 9 months which was less than the requisite period i.e. 4 years.

Audit was of the view that the management extended undue favor to the officer at time of promotions which was irregular and unjustified.

The matter was reported to the management in November, 2022. The irregularity was discussed in the DAC meeting held on January 27, 2023. DAC directed the management to provide revised reply reflecting justification/eligibility for promotion in accordance with standing orders. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

## 9.2 Pakistan Industrial Development Corporation

### 9.2.1 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.

### 9.2.2 Comments on Audited Accounts

9.2.2.1 The working results of the Corporation for the year ended June 30, 2021 as compared to the previous years are given as follows:

(Rs.in million)					
Description	2020-21	% Inc / (Dec)	2019-20	% Inc / (Dec)	2018-19
Interest income	480.149	(32.91)	715.633	75	409.318
Property income	263.799	12.17	235.181	9	216.566
Dividend income	141.094	11.15	126.938	(53)	269.181
Total income	885.042	(17.88)	1,077.75	20.41	895.065
Expenses	(270.917)	4.73	-258.681	(13.17)	(297.929)
Operating profit/(loss)	614.125	(25.02)	819.071	37.17	597.136
Other charges	(106.493)	1,173.23	(8.364)	(97.79)	(378.559)
Profit/(loss) before taxation	718.687	(12.32)	819.666	274.73	218.735
Taxation	(205.205)	(2.67)	(210.828)	(16.72)	(253.158)
Profit/(loss)after taxation	513.482	(15.66)	608.838	-	(34.423)

(Source: Annual Audited Accounts)

9.2.2.2 Total income decreases from Rs. 1,077.75 million in the year 2019-20 to Rs. 885.042 million in the year 2020-21, registering increase by 17.88 %. Major contribution in declining total income is fall of interest income which decreases from Rs. 715.633 in the year 2019-20 to Rs. 480.149 in the year 2020-21, registering decrease by 32.91%, which needed explanation.

**9.2.2.3** Total expenses increases from Rs.258.681 million in the year 2019-20 to Rs. 270.917 million in the year 2020-21, registering increase by 4.73 %. Rising trend of Total expenses is caused by rising salary expense by 9.94% from Rs. 157.78 million in the year 2019-20 to Rs. 173.460 million in the year 2020-21, which needed justification.

**9.2.2.4** Other charges increases from Rs.8.364 million in the year 2019-20 to Rs.106.493 million in the year 2020-21, registering increase by 1,173.23%.The alarming rising tendency of other charges is brought about by impairment of investment in subsidiaries and AHAN stock write off with Rs.104.37 million and Rs 0.977 million respectively in the year 2020-21. Increase in other charges along with heavy cost of impairment and AHAN stock write off which needed justification.

**9.2.2.5** Profit / (loss) after taxation decreases from Rs. 608.838 million in the year 2019-20 to Rs. 513.482 million in the year 2020-21, registering decrease by 15.66%, which needed justification.

**9.2.2.6** Current liability increases from Rs.373.44 million in the year 2019-20 to Rs.910.531 million in the year 2020-21, registering increase by 143.83%, which needed justification.

**9.2.2.7** The current ratio is reflecting satisfactory level of 5.64 for the year 2020-21but it also highlights declining trend of current ratio as compare to preceding year. i.e. 14.1 in the year 2019-20, which needed explanation.

**9.2.2.8** Debt ratio is 08% in the year 2020-21 as against 3.57% in the year 2019-20, reflecting rising obligation to asset pattern which needed to be explained, which needed explanation.

## 9.2.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age 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%
2006-07	5	4	1	94	80%
2007-08	-				
2008-09	4	3	1	104	75%
2010-11	6	6			100%
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%
2019-20	4	2	2	7.2.4.1, 7.2.4.2,	50%
<b>Total</b>	<b>199</b>	<b>178</b>	<b>21</b>		

The overall compliance of PAC directives needed improvement.

## 9.2.4 Audit Paras

### 9.2.4.1 Non-compliance of investment guidelines - Rs.4,963.570 million

Memorandum issued by Finance Division, Government of Pakistan dated 02 July 2013 States: Sr. No. 3 (b) “The process of selection of bank/(s) should be transparent. 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.” Sr. No. 3(e) “The working balance limit of each organization should be determined with the approval of the administrative ministry in consultation with Finance Division. The account of this working balance may be maintained in a current or savings bank account”.

During audit of Pakistan Industrial Development Corporation (PIDC), Karachi for the year 2020-21 it was observed that an amount of Rs. 4,963.579 million was invested in TDRs, T. Bills and COI’s in June 2021 but following lapses were noted in placing investment.

1. Non-Existence of Formal and approved Policy document of investment.
2. Non-availability of approval regarding working balance limit from administrative ministry of PIDC in concurrence with Finance Division.
3. Non-Existence of in-house professional treasury management functions as

to streamline investment.

4. There is no mechanism for “Transactions above the approval authority of the IC will be subject to approval of the Board of Directors or an equivalent forum”.
5. PIDC has no any mechanism for “The Investment Committee (IC) should be assisted by an Investment Management Unit employing qualified staff with at least 3-5 years of experience of managing investment in debt/equity instruments”, as per Federal Govt. directives.
6. Non issuance of certificate from the Chief Executive Officer of PIDC regarding compliance of instructions in respect of working balance and surplus funds of PIDC.

Audit was of the view that placing fund without complying Federal Government directives rendered the investment irregular and unjustified.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that all the decisions relating to investments are made by the Board of Directors through a formal investment policy as per the provisions of companies and finance division memorandum therefore the specific guidelines for obtaining the ministry’s approval for determination of surplus will create contradictions. DAC directed to share the facts and get them verified from audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.2 Non-completion of project / construction in violation of terms & conditions of allotment - Rs.3,646.730 million**

According to Terms and Conditions for construction at plot of land of Bin Qasim Industrial Park (BQIP) the project shall be completed in all respects and commissioned into operation within twenty four months from the date of execution of License Agreement. The project shall be deemed to be completed in terms of the above as and when NIP approves of work done and issues a Certificate of Completion in respect of the project to the allottee/occupant of the allotted plot of land. Should project not be completed in 24 months and a certificate of completion

is not granted, the License Agreement may at the discretion of NIP/PSM stand cancelled.

During audit of Pakistan Industrial Development Corporation (PIDC), Karachi, for the year 2020-21, it was observed that National Industrial Park allotted 171.447 acres of Land to six companies who could not even start construction activity despite expiry of 3-7 years. The detail of such allotment is as under:

<b>BQIP-STATUS REPORT-As on June 3-,2021</b>					
<b>(Amount in Rs.)</b>					
<b>S #</b>	<b>Name of Allottee</b>	<b>Allotment Date</b>	<b>Plot Area (Acres)</b>	<b>Selling Price Per Acre</b>	<b>Total Sale Value</b>
1	DE Automotive Pvt. Ltd.	21-Sep-15	3.27	13,500,000	44,145,000
2	Gasco Engineering Pvt. Ltd.	21-Sep-15	2	13,500,000	27,000,000
3	Central Ventilation System Pakistan Pvt. Ltd.	21-Sep-15	3.467	13,500,000	46,804,500
4	Lucky Motor Corporation Ltd.	17-May-19	5	36,000,000	180,000,000
5	Pinnacle Biotech Pvt. Ltd.	22-Mar-17	10	18,000,000	180,000,000
6	Master Auto Engineering SMC - Pvt. Ltd.	20-Dec-17	12	35,000,000	420,000,000
7	Master Auto Engineering SMC - Pvt. Ltd.	20-Apr-18	3	35,000,000	105,000,000
<b>Total</b>			<b>171.447</b>	<b>271,500,000</b>	<b>3,646,729,500</b>
<i>(Source: Pakistan Industrial Development Corporation)</i>					

Audit was of the view that non-initiation of construction activity on industrial plot of BQIP resulted in blocking the industrial land which was a serious concern for the success of BQIP project.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. DAC directed the management to share the progress with audit and verify the facts. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### 9.2.4.3 Irregular investment in excess of prescribed limit - Rs.1,894.870 million

Rule No. f (ii) of PIDC investment policy states that Surplus funds of Public Sector Enterprise can be invested in non-government securities/TFC/Shares up to the extent of 20% (lesser allowed) of the total funds under the management of the PSE while rest 80% (greater allowed) has to be invested in any of the following government securities which includes PIBs, TB and GoP Ijarah Sukuk.

During audit of Pakistan Industrial Development Company (PIDC) for the year 2020-21, it was observed that contrary to above, the management made investment of surplus fund in non-government securities in excess of 20% of total funds. The detail is hereunder:

(Amount in Rs.)		
Rule for Investment in Non-Govt. Securities	Short Term in Non-Government	Long Term in Non-Government
Investment required as per rule	992,715,000	2,612,323,000
Investment as per accounts (actual)	1,075,000,000	799,741,000
Excess Investment	82,285,000	1,812,582,000
Variation in Excess (%)	8.3%	60%

(Source: Pakistan Industrial Development Corporation)

Audit was of the view that the management invested an amount of Rs. 1,894.870 million in violation of prescribed rule.

The matter was reported to the management in April, 2022. The management in its reply stated that the facts are not reconciled with financial statements. The reply was not tenable as investment was made beyond permissible limits.

Audit recommends that the management may bring the investment in accordance with the existing rules and strengthen the controls accordingly.

#### 9.2.4.4 Non-recovery from allottees of industrial projects - Rs. 851.195 million

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC) Karachi, for the year 2020-21, it was observed that an amount of Rs. 851.195 million was outstanding against three (03) different industrial parks (Annex-85). The detail is hereunder:

<b>Rs. in million)</b>			
<b>S#</b>	<b>Description</b>	<b>Number of parties</b>	<b>Amount</b>
01	Bin Qasim Industrial Park	06	520.755
02	Rachna Industrial Park	11	227.19
03	Korangi Industrial Park	04	103.25
<b>Total</b>		<b>21</b>	<b>851.195</b>

*(Source: Pakistan Industrial Development Corporation)*

Audit was of the view that long outstanding dues against reported allottees reflected poor monitoring and control over financial affairs.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that: -

As regarding the outstanding amount from allottees of Bin Qasim Industrial Park all the amount as mentioned in the list has been recovered. DAC directed to verify recoveries from Audit.

As regarding the outstanding amount from allottees Rachna Industrial Park of the outstanding amount from all of the allottees as given in the list, except M/s Interwood Mobil (Pvt.) Ltd. is received. The reply was not tenable as outstanding amount including non-imposition of penalty on late payment exist. DAC directed to verify the recoveries and vigorously pursue the outstanding of Rs. 180 million from Ms. Interwood Mobil Pvt. Ltd.

As regarding the outstanding amount from allottees of Korangi Industrial Park, an amount of Rs. 20,049,000 is recovered leaving outstanding balance of Rs. 83,200,000. DAC directed to verify the recoveries and vigorously pursue the outstanding amounts.

However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

(DP Nos.480, 310 & 315)

#### 9.2.4.5 Loss due to non-receipt of shares. – Rs.789.074 million

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC), Karachi, for the year 2020-21, it was observed that the management paid advances against equity to its subsidiaries worth Rs.789.074 million but in return could not get due shares. Details are as under:-

(Rs. in million)			
S#	Name of Subsidiary	Advance against Equity released (2020-21)	Shares Not Received
1	Furniture Pakistan	1,045.33	717.55
2	Pakistan Hunting and sporting arms	281.61	39.92
3	Southern Punjab Embroidery Industries	26.604	26.604
4	Skilltech Centre, Karachi	5	5
<b>Total</b>		<b>1,358.54</b>	<b>789.074</b>

(Source: Pakistan Industrial Development Corporation)

Audit was of the view that due to non-receipt of due shares; the management should have replaced advance against equity to loan account to safeguard its claim against subsidiary assets and charge interest accordingly.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that they had been making efforts to receive the shares against outstanding amounts. Rs.722.55 million out of Rs.789.074 million has already been adjusted during the year 2021-22, leaving only Rs.66.500 million for which PIDC management is aggressively pursuing the issuance of shares. DAC directed to verify the facts in respect of non-receipt of equity shares. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### 9.2.4.6 Abnormal delay in completion of projects – Rs.708.350 million

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties

with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC) Head Office Karachi, for the year 2020-21, it was observed that the management of PIDC Subsidiary-National Industrial Park started various industrial development projects at Korangi Creek Industrial Park in the year 2007. Despite lapse of 15 years, the project work was not completed. The details of pending works are as under:

S #	Description (s) of future commitments	Estimated cost (Rs)
1	ETP	495,000,000
2	Telecommunication	50,000,000
3	Contingencies	39,350,666
4	Admin Office, Fire Station and others	124,000,000
	<b>Total</b>	<b>708,350,666</b>

(Source: Pakistan Industrial Development Corporation)

Audit was of the view that management failed to complete the planned development work at project sites which reflects non-completion of agreed work. Further, the factor of cost overrun against the estimated cost of future commitment could not be ruled out. Resultantly, heavy loss would be added against the KCIP project.

The matter was reported to the management on April 05, 2022. The irregularity was discussed in the DAC meeting held on June 23, 2022. DAC directed the management to get the record verified from Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

(Para no.4.4.5 of PAR of NIP 2018-19 & 2019-20)

#### **9.2.4.7 Wasteful expenditure on Noshero Feroz Industrial Park - Rs. 439.110 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC) Head Office Karachi, for the year 2020-21, it was observed that the Project of Noshehro

Feroz Industrial Park was commenced in August 2017 with project cost of Rs. 439.110 million. The record reveals some serious nature reservation regarding initiating project as reflected in the letter of Special Economic Zone Management Company-Sindh dated December 05,2019 as detailed below: -

- 1 The complete SEZ area is water logged, therefore seems not viable for industries.
- 2 High Tension Wire crossing the proposed location across the entire length of SEZ thereby not viable to construct industry under high tension wires
- 3 Right of way issue as a passage through the SEZ leads to village.
- 4 Location adjacent to a Housing Society, which may adversely impact the life of civil society due to possible noise and air pollution.
- 5 NOC from SEPA is not available.

Audit was of the view that the project of NFIP was initiated without having feasibility report and due assessment of ground realities with environmental issues which resulted in highlighting significant threat for project completion and its survival.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that the para is already reported in performance audit of NIP for financial year-2018-19 & 2019-20 as Para No.4.4.3. DAC convened on June 23, 2022 where DAC considered management response satisfactory and directed management to get NOCs from the Environmental Protection Agency and SEZMC. DAC directed to verify the Board's approval and share NOC from SEPA. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.8 Low returns from investment in property - Rs.371.135 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Company (PIDC), Karachi for the year 2020-21, it was observed that despite owning such lucrative properties rental revenue were not fruitful. Rental income was Rs. 263.799 million against the property valuing Rs. 9,074.224 million which was merely 2.91%. It had been seen that return from property was relatively lower than other return like, PIBs, TDRs etc. which was above 7%. Monetary element of difference in return was very huge worked as  $(7\% - 2.91\%) 4.09\% * 9074.224 \text{ million} = 371.135 \text{ million}$ . It means PIDC had the opportunity to earn more revenue by Rs.371.135 million.

Audit was of the view that the management should rationalized rental revenue as per market rate against investments in property.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that they are currently conducting a survey to determine the market rentals to set the benchmark for the existing rental rates being charged to tenants. DAC directed to share market survey of rental rates along with actual. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.9 Poor monitoring and control of contractor work - Rs. 264.850 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC) Head Office Karachi, for the year 2020-21, it was observed that the construction contract of infrastructure and allied works (Phase-I) at Naushehro Feroz Industrial Park was awarded to M/s Gul Construction. on July 27, 2017 with completion date of August 09, 2018. The work was commenced on August 10, 2017 but could not be completed despite expiry of 05 years. Further, negligence on the part of Contractor also came to the notice.

Audit was of the view that poor monitoring and control was evident on the part of management which resulted in delayed performance and eventually non completion of the project despite expiry of 05 years.

The matter was reported to the management on May 06, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that project could not be completed not only due to contractor performance but some other factors like Land issues / encroachment of land, late receipt of construction drawings, long holidays, heavy rain, Covid 19 etc. DAC directed to initiate the inquiry & verify all actions taken by the management against contractor & consultant including recovery, blacklisting, monetary loss. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.10 Non-utilization of development budget – Rs. 196.670 million**

According to Section 12 of Implementation Schedule of PC-I, “the project shall be completed within 18 months after the release of funds”. Further, Section-10 ibid says, the total cost of the project is Rs. 434 million which is proposed to be borne by PIDC.

During audit of Pakistan Industrial Development Corporation (PIDC), Karachi, for the year 2020-21, it was observed that an amount of Rs.196.670 million disbursed for establishing 132 KV grid station at BQIP but could not be utilized and resulted in zero progress on approved development project.

It appeared from the record that a project of 132 KV grid station at BQIP was approved in CDWP meeting 3rd to 09th June 2020. The commencement date of project was August 20, 2021 with completion date of August 19, 2023. An amount of Rs 300 million allocated in the Budget of 2020-21 where an amount of Rs 196.67 million disbursed for establishing the grid station. But management remained unable to utilize a single penny for the development of Grid station and resultantly released amount is surrendered.

Audit was of the view that non-utilization of released development Budget reflected poor performance on the part of management which deprives the country from attaining timely and economic development.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that following the issuance of Administrative Approval, coordination with KE was initiated in order to finalize the Terms and Conditions of the Contract Agreement and to ensure the smooth execution of the project. Several meetings (virtual and physical) were held between NIP and KE but the contract terms and conditions were not finalized. Therefore, NIP surrendered funds amounting to Rs.196.67 million. DAC directed to verify the facts regarding the release and surrender of PSDP funding. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.11 Wasteful expenditure due to failure of sustainability initiative- Rs.134.510 million**

TORs-Institutional Development Fund states that Institutional Support Fund, referred as “Fund” approved in the 117th meeting of Board of Directors of PIDC aims at providing financial assistance to its subsidiaries in order to make the, self-reliant and sustainable.

During audit of Pakistan Industrial Development Corporation (PIDC) Head Office Karachi, for the year 2020-21, it was observed that the management created institutional support fund of Rs. 500 million to make its five subsidiaries sustainable but could not attain sustainability of any single project. The details are as follows:

<b>(Rs. in million)</b>			
<b>S#</b>	<b>Name of subsidiary</b>	<b>Approved amount</b>	<b>Released amount</b>
1	Aik Hunar Aik Nagar	67.50	33.49
2	Peshawar Gunsmith Skill Development Center	148.32	24.83
3	Technological Up-Gradation & Skill Development Company	120.32	24.83
4	Pakistan Stone Development Company	100	07
5	Development Projects of Gems & Jewellery Development company	52.29	44.36
<b>Total</b>		<b>488.43</b>	<b>134.51</b>
<i>(Source: Pakistan Industrial Development Corporation)</i>			

Audit was of the view that the management initiative to make its subsidiaries sustainable and self-reliant could not be executed in productive manner which resulted in wasteful expenditure of Rs.134.51 million along with closure of subsidiary's own existence.

The matter was reported to the management on May 06, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that in pursuance to the objectives of industrialization and sector development, PIDC released funds to various subsidiaries against equity. The funds were disbursed in accordance with their approved business plan and financial requirements but subsequently the subsidiary companies did not show any progress on the plan. DAC directed the management to verify due diligence & process, Approved Business Plan, BoD approval, Performance of work and current sustainability status from Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.12 Non-operational water tank – Rs. 95.448 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi, for the year 2020-21, it was observed that an underground water tank was non-operational since its construction at cost of Rs.95.448 million at Bin Qasim Industrial Park. The work was started at site on 28th April, 2014, and completed on 31st January, 2016.

Audit was of the view that non-operationalization of water tank despite a lapse of period of 06 years reflects poor planning, execution and monitoring on the part of management which resulted in wasteful expenditure of Rs.95.448 million.

The matter was reported to the management on April 05, 2022. The irregularity was discussed in the DAC meeting held on June 23, 2022. DAC directed the management to operationalize the water tank and to get the record

verified from Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

(Para No.4.3.3 of PAR of NIP 2018-19 & 2019-20)

#### **9.2.4.13 Cost overrun at Bin Qasim Industrial Park Phase-II – Rs. 58.194 million**

As per Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2017, 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) Karachi, for the year 2020-21, it was observed that the management's subsidiary, National Industrial Park, awarded a contract to M/s Kazi Nisar Ahmed & Shangrilla for construction of main roads, culverts, surface drainage system, street lights & allied works at BQIP. The contract was awarded on 26th April, 2019 and initial date of completion was 28th October, 2019 which was further extended up to 28th December, 2021. The detail of the contract amount is under:

(Amount in Rs.)				
S#	Estimated Cost	Actual cost	Cost overrun	In terms of percentage
1	494,786,277.75	552,980,516	58,194,239	11%

(Source: Pakistan Industrial Development Corporation)

Audit was of the view that poor execution, monitoring and control resulted in extra financial burden of Rs.58.194 million.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management in its reply dated October 07, 2022 stated that the DAC convened on June 23, 2022 to discuss the performance audit report of NIP (Now PIDC) and directed the management that to get verify the record from audit. DAC directed the management to verify the facts from Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.2.4.14 Undue favour granted to Consultant at Bin Qasim Industrial Park - Rs. 44.916 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC) Karachi, for the years 2020-21, it was observed that a contract of consultancy Services for Infrastructure Development Works (Phase-II) of Bin Qasim Industrial Project was awarded to M/s Zaheeruddin Consultants (Pvt.) Limited at a cost of Rs.44.916 million but the services of consultant was substandard and poor.

Audit was of the view that despite non-compliance of agreed standard terms by the contractor, management granted undue favour and avoided due action which resulted in non-completion of mega project despite elapsing 05 years as well as poor supply of services for the completed work.

The matter was reported to the management on May 06, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that in 73rd Board of Directors meeting on June 11, 2021, PIDC management informed the board of directors about the serious issues encountered by M/s ZCL. According to the Board's directives, M/s ZCL's contract was not extended beyond June 28, 2021, and a new Consultant firm was hired to complete the remaining project work. DAC directed the management to initiate the inquiry at Ministry level. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.2.4.15 Loss on account of imprudent investment - Rs. 39.090 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC) Head Office Karachi, for the year 2020-21, it was observed that the management made an investment in quoted companies but not receiving due rerun or dividend for last 05 years. Non-receipt of dividend renders the investment as imprudent. The detail of imprudent investment is as under:

(Amount in Rs.)			
S#	Organization	Cost of investment	Dividend in last 05 years
1	Crescent Jute Product Limited	4,892,000	NIL
2	Sui Southern Gas Company Ltd	31,316,000	NIL
3	Saleem Sugar Mills	2,885,000	NIL
<b>Total</b>		<b>39,093,000</b>	<b>NIL</b>

*(Source: Pakistan Industrial Development Corporation)*

Audit was of the view that management could not exercise due diligence and professionalism in placing and holding investment in quoted company which resulted in non-receipt of dividend to the corporation.

The matter was reported to the management on April 30, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that PIDC has held all of the listed securities for many years. Further, the Government of Pakistan holds majority shares in many listed firms as a strategic investment; selling the shares would result in the loss of management control over these listed companies. Hence PIDC is not authorized to dispose of these shares without the approval of the Federal Govt. DAC directed the management to place the matter before Board. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.16 Irregular/unjustified reorganization of staff - Rs. 33.786 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC) Karachi, for the year 2020-21, it was observed that the management decided to reorganize the available strength of officers / officials. For rationalization/

downsizing of staff, management asked from each section to provide required manpower. Here, the Management ignored the assessment of staff based on qualification, ACRs, experience and necessary expertise to perform duty but allowed the section in-charges to choose / pick staff of their choice. Moreover, management selected 41 numbers of the officers / officials and asked for voluntarily resignations with package of golden handshake / Ex-Gratia along with normal dues. In normal due course, the employees are allowed to choose for a golden hand shake. Further, it was revealed that officials / officers who did not opt option of early retirement, management created a pool and declared them on special assignment. Some of them were near to retire. The management has put them as idle and not utilizing the human resources and paying regular salaries and benefits for Rs.33.786 million (Annex-86).

Audit was of the view that management did not exercise due diligence to reorganize the required staff and placing them as idle was highly unjustified despite the fact that they were drawing salaries. This also showed nepotism and favoritism.

The matter was reported to the management on May 06, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that the CBA Union has filed an application with NIRC which has issued notices to Company's management to maintain status quo and stop any corrosive action against employees until final decision. DAC directed to pend the para and directed the management to provide justification regarding re-organization of staff to Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.17 Submission of fake bank guarantee by consultant and contractor – Rs. 26.480 million**

According to Clause 16.1 of Integrity Pact, if the Contractor, or any of his Sub-Contractors, agents or servants is found to have violated or involved in violation of the Integrity Pact signed by the Contractor as Schedule-F to his Bid, then the Employer shall be entitled to:

(a) recover from the Contractor an amount equivalent to ten times the sum of any commission, gratification, bribe, finder's fee or kickback given by the

Contractor or any of his Sub-Contractors, agents or servants;(b) terminate the Contract; and (c) recover from the Contractor any loss or damage to the Employer as a result of such termination or of any other corrupt business practices of the Contractor or any of his Sub-Contractors, agents or servants.

During audit of Pakistan Industrial Development Corporation (PIDC) Karachi, for the years 2020-21, it was observed that the management's subsidiary National Industrial Park & Management Company could not exercise its power under the integrity pact to recover loss or damage suffered by company as a result of termination of contract on account of fraudulent act of Contractor and consultant of NFIP Project. The construction contract of infrastructure and allied works (Phase-I) at Naushero Feroz Industrial Park was awarded to M/s Gul Construction with commencement date August 10, 2017. The performance and mobilization guarantees submitted by the contractor, for NFIP work were expired and required to be validated for completion of remaining work. In this regard, the contractor submitted Bank Guarantee for performance security amounting Rs 26,484,746 from Bank of Khyber dated 04-09-2020. The guarantee was got verified by the consultant vide their letter dated Oct 12, 2020 which later proved fake. This guarantee was also verified by NIP.

Audit was of the view that the consultant in association with contractor had submitted false verification of Bank Guarantee which was a serious fraud. Therefore, besides, terminating contracts of consultant and contractor, recover the loss from consultant and contractor.

The matter was reported to the management on May 06, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management in its reply dated Oct 7, 2022 stated that the para is already reported in performance audit report of NIP for financial year-2018-19 & 2019-20. The DAC convened on June 23, 2022 directed the management to get the facts verified from Audit and with direction that it must be ensured that the contractor must not be awarded any work in future. DAC directed the management to verify the facts from Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### 9.2.4.18 Loss due to investments on lower rates - Rs.23.118 million

According to the investment policy “investment in equities should be restricted to only those companies where expected dividend yield is at least 8% per annum”.

During audit of Pakistan Industrial Development Company (PIDC), Karachi for the year 2020-21, it was observed that average investments in Term Deposit Certificates remained amounting to Rs.2 to 2.5 billion during the year. During the year 2020-21, interest rates were drastically changed from 13% during Jan-May to 7% in June-Dec. Due to very Short term maturity period PIDC could not benefited the higher rates prevailing in previous periods. Below is the effect of investments at lower rates.

(Rs. in million)				
Bank Name	Investment Amount	Interest Rate of Last Investment	Applied Interest Rate	Loss due to less holding period
Soneri Bank	275	10.80%	6.35%	6.118
National Bank	500	13.70%	6.90%	17.00
<b>Total</b>				<b>23.118</b>

(Source: Pakistan Industrial Development Corporation)

One-year rate of return was higher and investments made for one year during the same period could have fetched Rs.23.118 million more.

Audit was of the view that despite clarity of reduction in interest rates during April-June 2020, management went on investing for shorter periods and reinvest the same amounts at lesser rates.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management stated in its reply that when the above investments were made, the KIBOR was lower due to the economic slowdown caused by COVID-19. DAC directed the management to verify the facts from Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.19 Excess expenditure on non-operational business venture - Rs.21.625 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Company (PIDC), Karachi for the year 2020-21, it was observed that associate company named Furniture Pakistan Pvt. Ltd. has not been operational since its inception i.e., 2015. PIDC is regularly paying its expenses on account of non-operational project, during the current year PIDC has paid Rs.21.625 million.

Audit was of the view that paying expenditures on sick and non-operational units was a question mark on the management's ability to complete executed projects into successful and profitable industrial units. This was also against the moto of PIDC that their projects are not operationalized.

The matter was reported to the management on May 06, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that M/s Furniture Pakistan began its operational activities, i.e. common facility services, manufacturing, and trainings, in 2015-2016. DAC directed to share the revival plan and operational performance of Furniture Pakistan. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.20 Non-revision of sale price of land at KCIP – Rs. 19.080 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC) Head Office Karachi, for the year 2020-21, it was observed that due to non-revision of selling price per acre from 2010 to 2011, the management could not recover an

amount of Rs.19.080 million which reflected loss of potential income. The detail of allotment and potential loss of revenue is as follows:

(Amount in Rs.)					
S#	Customer Name	Date of Allotment	Plot Area (Acres)	Selling Price Per Acre	Total Sale Value
1	Mulla Ebrahimji Karimbhoy	3-Aug-11	0.473	24,500,000	11,588,500
2	Al-Rehman Lubricants (Pvt.) Ltd.	3-Aug-11	0.473	24,500,000	11,588,500
3	MAL Pakistan Ltd	3-Aug-11	3.937	24,500,000	96,456,500
4	Palpex Pharma	3-Aug-11	0.515	24,500,000	12,617,500
5	Mediplas Innovations Pvt Ltd	1-Jul-11	1.042	24,500,000	25,529,000
6	So-Safe Water Technologies	1-Jul-11	0.857	24,500,000	20,996,500
7	AQMAR Pharma	3-Aug-11	0.494	24,500,000	12,103,000
	<b>Total</b>		<b>7.791</b>		<b>190,879,500</b>
	<b>Revenue Loss</b>			<b>190,879,500 X 10%</b>	<b>19,087,950</b>

(Source: Pakistan Industrial Development Corporation)

Audit was of the view that due non-revision of per acre price of the land on time, non-realization of revenue was evident to the extent of Rs.19.080 million which reflected slackness on the part of management.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that primary objective of PIDC is to promote industrialization. Therefore, land in its projects (i.e. industrial parks/estates) is sold on subsidized rate as planned and approved by all the stakeholders. DAC directed to share approved rates and get the facts verified from Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.21 Release of payment without valid bank guarantee- Rs. 10.820 million**

Letter of award Condition Point 3-b states that the contractor is bound to submit Performance security, 10% of contract price against a bank guarantee from a schedule bank of Pakistan.

During audit of Pakistan Industrial Development Corporation (PIDC) Karachi, for the years 2020-21, it was observed that the management's subsidiary National Industrial Park & Management Company released an amount of

Rs. 10.820 million to the contractor in the absence of valid Bank Guarantee. The construction contract of infrastructure and allied works (Phase-I) at Naushehro Feroz Industrial Park was awarded to M/s Gul Construction. The management granted favour and released an amount of Rs 10.280 million in the absence of valid performance Guarantee. The details of irregular payment are as follows:

(Amount in Rs.)							
Date	IPC No	Cheque#	Amount Paid	Date	IPC No	Cheque#	Amount Paid
29.11.2018	5	41	4,000,000	17.12.2018	5	46	2,820,173
6/12/2018	5	44	4,000,000		<b>Total</b>		<b>10,820,173</b>

*(Source: Pakistan Industrial Development Corporation)*

Audit was of the view that the release of payment in the absence of valid Bank Guarantee reflected undue favour to the contractor and exposed the company to potential loss.

The matter was reported to the management on May 06, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that IPC No. 5 submitted by the contractor on 15 October 2018 was not released by NIP management due to the lack of a valid bank guarantee. Contractor requested the release of IPC No. 5, but it was not granted, so NIP management decided to approach Consultant M/s Arch Vision for the submission of a valid bank guarantee from the contractor. IPC No. 5 was released following the contractor's assurance/s. DAC directed to verify management's contention that bank guarantee was valid at the time of bill processing. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.22 Unjustified expenditure on consultancy contract – Rs. 8.200 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC) Karachi, for the years 2020-21, it was observed that the management's subsidiary National Industrial Park & Management Company Re-award the consultancy

contract of NFIP Project which resulted in bearing excess expenditure of Rs.8.200 million. It appeared from the record that the consultancy contract of infrastructure and allied works (Phase-I) at Naushehro Feroz Industrial Park was awarded to M/s Arch Vision Consulting Engineers Environmental & Architects at contractual cost of Rs 14.35 million. The management terminated the service contract of M/s Arch Vision due to verifying fake guarantee of contractor. M/s Arch Vision got Rs 10.37 million for the completed work. After termination of M/s ARCH vision, the services of Asian Consulting Engineers (Pvt.) Ltd were hired at cost of Rs 12.19 million resulting in excess cost amounting to Rs. 8.198 million.

Audit was of the view that bearing extra expenditure for left over work was unjustified and irregular.

The matter was reported to the management on May 06, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management in its reply dated Oct 07, 2022 stated that the para is already reported in performance audit of NIP for financial year-2018-19 & 2019-20. The DAC held on June 23, 2022 directed the management to get verified the extra work and additional cost from audit. DAC directed to verify the payments along with scope of work. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.23 Loss due to renting out the premises at lower rates - Rs. 7.720 million**

According to Section 8 (1) (a) of the Sind 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 2020-21, it was observed that the management rented out its premises at PIDC Building at lesser rates to the companies as compared to other tenants which resulted into a loss of Rs.7.720 million to the Corporation every year. It is relevant to mention that management has rented the rentable property on higher rate per sq. ft. as compared to other tenants on same floor. Further, there is huge difference of rate among the tenants (Annex-87).

Audit was of the view that the management did not charge rates against the tenants as per market rate and rather charged less as compared to other tenants at same floor of building which resulted into a loss of Rs.7.720 million to the Corporation.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that they are charging rent on historical basis in different cases with standard rise. DAC directed to verify existing rent of PIDC tenants as per market. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.24 Irregular procurement of vehicles during ban period – Rs. 7.043 million**

According to the Finance Division (Expenditure Wing) office memo No.F.7(1) Exp-IV/2016-540 dated 26th July, 2017 states that “there will be complete ban on purchase of all types of vehicles both for current as well as development expenditure except operational vehicles of law enforcing agencies for which NOC from Finance Division would be required.

During audit of Pakistan Industrial Development Corporation (PIDC), Karachi, for the year 2020-21, it was observed that the management purchased two vehicles without observing directives of the Finance Division (Expenditure Wing) for Austerity Measures. The details are as under:

(Amount in Rs.)			
S#	Vehicle Description	Registration#	Amount
1.	Toyota Yaris Super white	GPB-118	2,801,050
2.	Honda Civic Lunar Silver	GAH-777	4,241,600
<b>Total</b>			<b>7,042,650</b>
<i>(Source: Pakistan Industrial Development Corporation)</i>			

Audit was of view that procurement of vehicles tantamount to a gross violation of the Finance Division order. Thus, the procured vehicles amounting to Rs. 7.043 million were held irregular / unjustified.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The

management informed that the Board had approved the purchase of vehicles. The reply of the management was not tenable that the company purchases vehicles from self-generated resources. The Government owns the company and has invested ample amount of capital as investment. The funds for setting up the venture allow raising questions as to why public money is wasted. Further, it has been observed that the company has formulated a buy back policy for vehicles which allows the employee to purchase the vehicle under use at residual price. This practice initiates purchasing vehicles for handing over to employees on annual basis. DAC directed the management to verify the facts from Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.25 Wasteful expenditure on procurement of water pumps – Rs. 7.000 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC) Head Office Karachi, for the year 2020-21, it was revealed that two water suction pumps having capacity of the 100 HP were kept un-operational at KCIP site. The same pumps were procured in the year 2007.

Audit was of the view that management utilized the fund of Rs.7.000 million for procuring two heavy suction water pumps but was lying idle at the sites without usage.

The matter was reported to the management on April 05, 2022. The irregularity was discussed in the DAC meeting held on June 23, 2022. DAC directed the management to initiate internal inquiry and fix the responsibility. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

(Para no.4.4.1 of PAR of NIP 2018-19 & 2019-20)

#### **9.2.4.26 Irregular appointment & payment of pay and allowances to Chief Executive Officer - Rs.5.818 million**

The advertisement detailing the vacant position of C.E.O at P.I.D.C states that “the candidate must have minimum experience of at-least 15 years at senior most management position, in a reputable large company/organization, having expertise in any of the following fields: Industrialization, Industrial Policy Management, Industrial Finance, Industrial Estates Development & Management, Public Finance Management.”

Finance Division’s O.M No 3(2)R-4/2011 dated 13-12-2016 “Revision of Management Position Scales (MP-I, MP-II, MP-III)” has provided the basis for salary structure of Management Pay Scales and Establishment Division O.M No. 1/3/2020/E-6 dated 16.09.2020 has clarified the initial recruitment process, contract extension, other miscellaneous policies along with performance evaluation and equivalency in Basic Pay Scales.

The Finance Division Letter No. F.3 (2)R-4/2011 dated 12th July 2017 approved the revision in salary package with break-ups of pay, house rent and utilities along with minimum, maximum and increment. The package entails Rs 33,000 per year to be effectively implemented till date.

During audit of Pakistan Industrial Development Corporation (PIDC) Karachi, for the year 2020-21, it was observed that:

1. The Chief Executive Officer (CEO) was appointed irregularly as he had nine months experience in NIP and six years’ experience in Estate Marketing of Railways. The rest of his services rendered were in the areas of sales and marketing.
2. After the initial recruitment process, the CEO PIDC was offered the same terms and conditions of pay and allowances as admissible in NIP. A Chief Executive Officer appointment in a Public Sector Organization is bound by the rules stated by the Finance Division and Establishment Division and could not carry his previous employment terms and conditions. Further, the advertisement for the post had explicitly stated that “PIDC offers a congenial professional environment and an excellent remuneration package in MP-I scale along with allied perquisites/facilities”. Further, the

management of PIDC had paid total pay and allowance amounting to Rs. 18,405,000 during the period from January 2020 to June 2021 as against entitled of Rs. 12,586,500 (Maximum pay of MP1). Thus an excess amount of Rs. 5,818,500 was paid to him which is irregular and unjustified.

Audit was of the view that the appointment of CEO on terms and conditions hired by NIP and then in PIDC were irregular and had caused huge loss of Rs. 5.818 million to the national exchequer as the salary package was very high (comparison of the pay allowances is attached at Annex-88. Besides, CEO did not have the required experience in the field of management and industrialization in policy management, finance and estate development and public finance management as mentioned in the advertisement. Hence, the appointment & payment of CEO was irregular and unjustified.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that:

1. The incumbent has various experiences in other institutes or entities. DAC directed to share the details with Audit.
2. Board of Directors is the competent authority to negotiate and fix the salary and other benefits of the Chief Executives of Public Sector companies while keeping in view the market value and credentials of the successful candidate. Therefore, the MP scale mentioned in this case was only indicative and could not be legally applied. DAC directed the management to get the facts verified from Audit.

However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.27 Unjustified expenditure on travelling and hotel accommodation of the Board members - Rs. 2.077 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC) Karachi, for the year 2020-21, it was observed that the management had incurred an expenditure of Rs.2.077 million on the Board members' travelling and accommodation, besides, paying them fee for attending the Board's meetings.

Audit was of the view that expenditure of Rs.2.077 million incurred in lieu of hotel accommodation and travelling on Board members was irregular as the Board members were separately paid fees for attending the Board meetings.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management replied that the hotel accommodation and travel expenses are approved by Board and are compulsory to Board meetings. DAC directed the management to verify the facts from Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.28 Loss due to theft incidents - Rs.1.751 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC) Head Office Karachi, for the year 2020-21, it was observed that a loss of Rs.1.751 million occurred due to theft of electricity wire at Rachna Industrial Park. It is apparent from the record that a PIDC project in the name of Rachna Industrial Park is under execution at Shaikhupura through PIDC Subsidiary-National Industrial Park. At the location of the project, an incident occurred which involves theft of electricity wires measuring 3000 meters from 15 poles of under construction 3MW transmission line of Rachna Industrial Park. The incident resulted in bearing loss of Rs. 1.751 million.

Audit was of the view that despite having services of hired security service agency at Rachna Project, reported theft incidents reflected poor monitoring and control and raised concerns about the security measures at the project for safeguard of projects assets.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management in its reply dated Oct 07, 2022 stated that an amount of Rs. 1,203,904/- was deducted from the invoices of M/s. Safety and Security Services Pvt. Ltd. (security service provider) to make good the loss incurred. DAC directed the management to get the facts verified from Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.29 Non-completion of sub lease requirements in KCIP Project**

According to Terms and Conditions for plot of land at Korangi Creek Industrial Park, Clause 8.6, "On execution of the Sub-lease deed, the allottee shall be liable to pay to NIP or its Estate Management Company such Annual Ground Rent charges in such manner and at such time as is notified by NIP. Clause 8.6.2, "In the event of any delay in any payment, a late payment surcharge @ 2 % per month shall be payable by the Allottee to NIP or its Estate Management Company on the unpaid due amount.

During audit of Pakistan Industrial Development Corporation (PIDC), Karachi, for the year 2020-21, it was observed that NIP in Korangi Creek Industrial Park sold out 126.92 acres of land to the industrialist/ allottees against total saleable area of 138 acres. The sale was executed to 126 customers during 2010 to 2021 but the management of NIP could not recover Annual Ground Rent from allottees due to non-completion of Sub Lease formalities.

Audit was of the view that non-completion of Sub Lease formalities against each allottee reflected slackness and poor management of business affairs which deprived the company from earning potential Revenue.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that mere execution of License Agreement doesn't qualify an allottee to execute the Sub-Lease deed with PIDC. Commencement of commercial operation after completion of construction is mandatory. DAC directed the management to get the facts verified from Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.30 Irregular change of pay structure without approval / concurrence of Finance Division**

Finance Division (Regulation Wing)'s letter No, F.4 (2) R-4/05 dated Aug.13, 2005 clearly directed that the public sector corporations shall make the revision in the existing pay scales and allowances of the employees with the concurrence of Finance Division after recommendation by the respective Board of Directors.

During audit of Pakistan Industrial Development Corporation (PIDC), Karachi, for the year 2020-21, it was observed that the salary structure was revised from the existing pay structure of Basic Pay Scale (BPS) admissible and run in Government organizations to the new pay scales which include basic pay, house rent and utilities. The allowances in the form of ad-hoc and others were discontinued. The BPS Scale includes an amount of increment for next stage whereas the scales in P.I.D.C's increments are determined on performances evaluation which is entirely dependent on the judgment of appraisers.

The new pay scale namely the simplified pay structure has been taken the components from the previous scale and the appraisal remarks have determined the new increment percentage. The pay structure revision exercise which has been done in P.I.D.C is for every individual employee and does not carry uniformity or a rule which becomes a guideline for future appointments and employees of the same position. Every employee revised salary is a separate case and is shown in their personal files. This showed biasness, prejudice and nepotism on part of management to favoring some and having unjust behavior for some. The pay structure after revision had been implemented into the Corporation but still not approved from the Ministry.

Audit was of the view that the salary could not be approved and disbursed in the corporations without the concurrence of the Ministry of Finance.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management replied that a representative from MO Finance and Industries and Production serve on the Board and decisions are made unanimously with the

consent of Govt. of Pakistan representatives. DAC directed to seek opinion from Finance Division and share with Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.31 Irregular payment of Voluntary Separation Scheme (VSS)**

The post of Chief Executive Post is a tenure post and the person acquiring this post could not avail Voluntary Separation Scheme (VSS). VSS is a scheme meant for employees holding permanent charge in a company and is voluntarily leaving the job before reaching superannuation.

The Ministry had appointed Mr. Abdul Bari Khan General Manager (F/A)/Company Secretary, as Chief Executive Officer of PIDC with effect from January 06, 2005 until further orders.

During audit of Pakistan Industrial Development Corporation (PIDC), Karachi for the year 2020-21, it was observed that the incumbent continued to work as CEO PIDC till September 2009, wherein an order dated 30th September 2009 "Release from Service" stated that the Prime Minister has not approved the Ministry's proposal for grant of extension in the tenure of posting as Chief Executive Officer, Pakistan Industrial Corporation Pakistan from 07-01-2008 until your date of superannuation i.e., 11-05-2011. The two letters clearly state that the incumbent's post was approved from the ministry and termed as a contractual post where tenures were extended. Further, the record revealed that the after the ministry's decision, the incumbent decided to be relieved from service with immediate effect on September 29th. He had however, already given a resignation letter in April 2009. The previous letter was approved but put on hold due to many important issues. The Voluntary Separation Scheme (VSS) was effective from March 2001 till May 2001 under the signature of the incumbent himself.

Audit was of the view that the incumbent had illegally opted VSS and the payment was by all means irregular due to the following reasons:

- The letter from Ministry had stated that the extension in tenure could not be granted from 7<sup>th</sup> January 2008. The period from January 2008 to September 2009 for the post of CEO is irregular.

- The incumbent had applied for release under VSS on 13<sup>th</sup> April 2009 as a back-up so his age would not extend beyond 58 years. But he left his service in September 2009 at the age of 58 years and 4 months.
- VSS scheme was not effective in 2009 and could not be used for calculating the VSS amount. The matter was reported to the management on May 6, 2022. The management replied that the Board Audit Committee has taken actions to resolve the matter but could not ascertain the possibility of recovery as the matter is quite old.

The matter was reported to the management on May 6, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. DAC directed the management to verify recoveries from Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.2.4.32 Not changing of Chairman and Board of Directors since 2014**

According to Clause 3 (A) (1) of Public Sector Companies (Corporate Governance) Rules, 2013, Terms of Office and Removal of Directors, (1) A director, once appointed or elected under section 161 or section 159 of the Ordinance, shall hold office for a period of three years, unless he resigns or is removed in accordance with the provisions of the Ordinance.

During audit of Pakistan Industrial Development Corporation (PIDC) Karachi, for the year 2020-21, it was observed that the recent composition of the Board of Directors (BoD) for Pakistan Industrial Development Corporation (PIDC) was made on 22nd May, 2014. Since then, the same Board of Directors (BoD) were working for the company which was clear violation of the Public Sector Companies (Corporate Governance) Rules, 2013 (3A). Term of office and removal of Directors.

Audit was of the view that the same Corporation's Board was working since 2014 who had the same composition of Non-Executive Directors since the last eight years. Their work policies were all redundant and the team needed to be renewed.

The matter was reported to the management on May 06, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. The management informed that the members can continue to hold office until the nominating body removes them. DAC directed to share the progress with Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

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## 9.3 Pakistan Institute of Management

### 9.3.1 Introduction

Pakistan Institute of the Management (PIM) was established in 1954 by Pakistan Industrial Development Corporation (PIDC) under the Ministry of Industries, Government of Pakistan. In Dec 1975, it was transferred to the Ministry of Industries and Production, Government of Pakistan and subsequently through SRO dated Nov 15th, 1976 an autonomous Board of Governors 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.

### 9.3.2 Comments on Audited Accounts

9.3.2.1 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 2012-13 to 2021-22 despite a number of reminders.

Audit requires that the annual audited accounts of the years 2012-13 to 2021-22 be provided immediately and timely finalization be ensured in future, besides, fixing responsibility for non-finalization of annual audited accounts (*Annex-2*).

### 9.3.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% of compliance
2009-10	8	-	8	Annex-I Item-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%
2015-16	3	2	1	8.8.2.1	67%
<b>Total</b>	<b>18</b>	<b>6</b>	<b>12</b>		

The overall compliance of PAC directives was satisfactory.

### 9.3.4 Audit Paras

#### 9.3.4.1 Non-deposit of funds in Gratuity Fund Account - Rs. 141.181 million

According to Clause 218 of Companies Act, 2017 Employees' provident funds, contributory retirement funds and 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 for the purpose in a scheduled bank or in the National Saving Scheme.

During audit of Pakistan Institute of Management (PIM) for the year 2020-21, it was observed that the management has made provision for gratuity to Employees as per detail given below:

Qualifying Service	Rate of Gratuity
05 to 10 Years	One Month's Basic Salary for the completed year of Service
10 to 15 Years	One & Half Month's Basic Salary for the completed year of Service
15 Years and above	Two Month's Basic Salary for the completed year of Service

Provision for the total accrued liability for gratuity is made in the accounts amounting to Rs. 141.181 million up to June 30, 2020.

Audit was of the view that the management had not deposited the Gratuity in Gratuity Fund Account, which was required to be maintained separately.

The matter was reported to the management in March, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. The management informed that due to shortage of funds the amount was not deposited. DAC pended the Para till clearance of liability. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### 9.3.4.2 Loss of revenue due to non-achievement of targets - Rs. 121.790 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive is responsible for the management of a public sector company for its procedures in financial and other matters, subject to the oversight and direction of the Board, with the ordinance, responsibilities of CEO

include implementation of strategies and policies approved by the Board, making appropriate arrangement to ensure that funds and resources properly safeguard and used economically, efficiently and in advance with all statutory obligations.

During audit of Pakistan Institute of Management (PIM) for the year 2020-21, it was observed that the management planned to conduct 577 trainings / courses out of which only 140 courses were scheduled and remaining 437 courses were cancelled. Furthermore, the management also targeted to train 8,076 trainees, however only 1,588 trainees got trained in the scheduled courses. The target revenue was estimated at Rs.160.320 million, out of which target of Rs.38.530 million was achieved, leaving a short fall of revenue amounting to Rs.121.79 million. It has been further been observed that courses wise training cost / record has not been maintained, thus, the feasibility and the breakeven analysis of training courses could not be determined.

Audit was of the view that non-achievement of targets regarding courses and trainees reflected inefficiency and negligence on the part of management.

The matter was reported to the management in March, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. The management informed that targets in respect of morning schedule could not be achieved due to Covid situation. DAC directed the management for provision of following record to audit for verification:

- i. Training Schedule
- ii. Achievement made w.r.t. COVID impact.
- iii. Comparison of training with last year.
- iv. Overall achievements against the set targets.

However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.3.4.3 Non-recovery from various parties - Rs. 11.586 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties

with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Institute of Management (PIM) for the year 2020-21, it was observed that an amount of Rs.11,586,580 was recoverable from different parties as on June 30, 2021 as detailed below:

(Amount in Rs.)		
S#	Name of Party	Amount
1.	Asian Continental (Pvt.) Ltd	27,000
2.	Artistic Milliners (Pvt.) Ltd	32,400
3.	Adamjee Dura Built (Pvt.) Ltd	21,000
4.	Brainchild Communication (Pvt.) Ltd	39,000
5.	Captain & Company	49,000
6.	Enar Petroleum Refining facility	42,000
7.	FESF H (Ltd)	179,200
8.	Hi-Tech Lubricants Ltd	212,250
9.	International Steels Limited	60,000
10.	Institute of Chartered Accountant of Pakistan	105,000
11.	Ignite National Technology Fund	21,000
12.	Infrastructure Development Authority of Punjab	42,000
13.	International Zusammenarbeit (GIZ) GMBH	21,000
14.	JS Bank	10,736,000
<b>Total</b>		<b>11,586,580</b>
<i>(Source: Pakistan Institute of Management)</i>		

Audit was of the view that non-recovery of Rs.11.586 million showed negligence on the part of management.

The matter was reported to the management in March, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. The management informed that the amounts have been recovered. DAC directed the management for provision of following record to audit for verification:

- i. Bank Statements.
- ii. Copies of cheques along with deposit slip.

However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.3.4.4 Non-adjustment of advances against expenses - Rs. 1.294 million**

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive is responsible for the management of a public sector company for its procedures in financial and other matters, subject to the oversight and direction of the Board, with the ordinance, responsibilities of CEO include implementation of strategies and policies approved by the Board, making appropriate arrangement to ensure that funds and resources properly safeguard and used economically, efficiently and in advance with all statutory obligations.

During audit of Pakistan Institute of Management (PIM) for the year 2020-21, it was observed that advances of Rs. 1,294,169 were outstanding against the various parties as on June 30, 2021 which were not adjusted / recovered.

Audit was of the view that the management failed to make serious efforts to adjust / recover the outstanding amount which reflected inefficiency and weak financial management.

The matter was reported to the management in March, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. The management apprised that adjustment of advances had already been made. DAC directed the management to provide detail of adjustments to Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.3.4.5 Non-finalization of annual accounts**

According to Section 233 of the Companies Act 2017, the company should finalize its annual accounts within four months after closing date of accounts for the year. These accounts were to be provided to audit for review.

During audit of Pakistan Institute of Management (PIM), Karachi for the year 2020-21, it was observed that the annual accounts for the year 2020-21 has not been finalized.

Audit was of the view that annual accounts possess a vital importance for assessing the operational as well as financial stability of the entity and gave an idea for its future prospectus.

The matter was reported to the management in March, 2022. The irregularity was discussed in the DAC meeting held on January 25, 2023. DAC pended the para till finalization of account for FY 2020-21 and approval of account FY 2018-19 & 2019-20 by the BOD. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

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## **9.4 Pakistan Steel Mills Corporation (Pvt.) Limited**

### **9.4.1 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.

### **9.4.2 Comments on Audited Accounts**

**9.4.2.1** 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 2020-21 to 2021-22 despite a number of reminders.

Audit requires that the annual audited accounts of the years 2020-21 to 2021-22 be provided immediately and timely finalization be ensured in future, besides, fixing responsibility for non-finalization of annual audited accounts (*Annex-2*).

### 9.4.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
1990-91	6	5	1	700	83%
1992-93	25	19	6	136, 137, 138, 140, 143, 145	76%
1994-95	12	9	3	118, 120, 126	75%
1995-96	28	26	2	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	3	209, 210, 215	70%
1999-00	10	9	1	219	90%
2000-01	10	6	4	216, 218, 220, 224	60%
2003-04	12	9	3	92.5, 92.6, 92.7	75%
2004-05	8	5	3	65, 66, 70	63%
2005-06	28	24	4	117.8, 118, 122, 124	86%
2008-09	16	13	3	107, 108, 110	81%
2009-10	19	12	7	98.1, 99, 100, 104, 105, 109, 110	63%
2010-11	10	9	1	11.3.4.6	90%
2013-14	15	2	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	1	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%
2019-20	3	-	3	7.9.4.1, 7.9.4.2, 7.9.4.3	0%
<b>Total</b>	<b>266</b>	<b>167</b>	<b>99</b>		<b>63%</b>

The overall compliance of PAC directives needs improvement.

## 9.4.4 Audit Paras

### 9.4.4.1 Loss due to encroachment of land - Rs.5,393.600 million

Rules 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.

During audit of Pakistan Steel Mills (PSM) for the year 2021-22, it was observed that approximately 269.68 acres PSM Township land was under encroachment. Now, as per afresh measurement/survey, carried out by CDB Survey Team, and Development Cell up to January,2022. The detail of encroached land is as under:

(Rs. in million)				
S#	Description/Name	Area (Acres)	Per Acre	Total
1	Near Bari Textile Mill-Pir Sirhindi Goth	15.93	20	318.6
2	Mian Khan Jokhio Goth	28.9	20	578
3	Photo Goth	65.09	20	1301.8
4	Ali Akbar Goth/Christian Colony	19.52	20	390.4
5	Abbasia Society	100	20	2000
6	Near KDA Colony, Filter Plant	1.99	20	39.8
7	Northern side of Cadet College/Near Security Check Post No.15	0.89	20	17.8
8	In between Usman Farm & Sui Gas Line Deh Kotirero	26	20	520
9	Illegal Water Line and Electric Cable laid down by Bari Textile Mills	0.82	20	16.4
10	Ghulshan-e- Hadeed Phase- III	35.29	20	705.8
<b>Total</b>		<b>294.43</b>	<b>20</b>	<b>5,888.6</b>

(Source: Pakistan Steel Mills)

Audit was of the view that management failed to remove the encroachment from its land. Moreover, there was a significant rise in encroachment of Land by Bari Textile Mills who illegally obtained water supply line and electric cables were laid down in his mills at 0.82 acres.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC directed the management to share the documents regarding efforts already made

for removal of encroachments to audit for verification. DAC further directed the management to make efforts for retrieval of land and provide details to audit on acquisition of 40 acres or so of the land procured from private parties. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### 9.4.4.2 Non-payment of loan along with markup - Rs.4,818.000 million

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Mill (PSM), Karachi for the year 2021-22, it was observed that management obtained loan of Rs.4,818 million from 2015 to 2021 in seven (07) trenches, which is still liable to pay back. The detail of outstanding loan along with principal amount & mark-up is given as below:

<b>Force Payment Against Documents</b>					
(Amount in Rs.)					
<b>S#</b>	<b>From</b>	<b>To</b>	<b>Outstanding Principal</b>	<b>Markup Amount</b>	<b>Total</b>
1	18-May-15	30-09-2021	607,685,813	565,877,029	1,173,562,842
2	29-June-15	30-09-2021	35,530,078	32,488,703	68,018,781
3	29-June-15	30-09-2021	357,572,553	326,964,342	684,536,895
4	29-June-15	30-09-2021	607,341,735	555,353,282	1,162,695,017
5	30-July-15	30-09-2021	579,949,179	523,114,159	1,103,063,338
6	05-Oct-15	30-09-2021	25,042,372	21,917,084	46,959,456
7	05-Oct-15	30-09-2021	309,310,258	270,708,338	580,018,596
<b>Total</b>			<b>2,522,431,988</b>	<b>2,296,422,937</b>	<b>4,818,854,925</b>

(Source: Pakistan Steel Mills)

Audit was of the view that the management failed to repay agreed principal amount along with applicable mark up on due dates which raised serious concern.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. The management informed the DAC that markup amount of Rs.2,296 million has been waived off by NBP. DAC directed the management to provide following documents to the audit:

- i. Documents of payment already made.

- ii. Waive off interest amount by the bank.

DAC further directed the management to make payment of remaining loan. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.4.4.3 Non-recovery of outstanding dues from various clients - Rs.3,826.550 million**

Rule 7 of Public Sector Companies (Corporate Governance) Rules, 2013, stipulates that the Board shall establish appropriate arrangements to ensure to enable it to carry out its role effectively. (2) For the purpose of sub-rule (1), significant issues shall, inter-cilia, include the following, namely: - (L) failure to recover material amounts of loans, advances, and deposits made by the Public Sector Company, including trade debts and inter corporate finances.

During audit of Pakistan Steel Mills (PSM), for the year 2021-22, it was observed that an amount of Rs.3,826.550 million was lying outstanding against various customers as on June 30, 2022 as detailed below:

(Rs. in million)		
S#	Description	Amount
1.	Recovery of bulk water supply charges	506.360
2.	Outstanding dues on supply and erection of metal beam guard rail barriers	39.989
3.	Recovery dues of rent from PSO Petrol Pumps	16.146
4.	Recovery of rent and utilities charges	160.877
5.	Recovery from the residential colony and crush plant	9.837
6.	Recovery from Education Department	40.642
7.	Recovery of outstanding dues of electricity	237.469
8.	Recovery of outstanding dues from downstream industrial units	57.792
9.	Recovery of 1377.06 acres PSM township land from Government of Sindh	2,754.000
10.	Recovery from M/s Multipole Industries Ltd	3.438
<b>Total</b>		<b>3,826.550</b>
<i>(Source: Pakistan Steel Mills)</i>		

Audit was of the view that the management failed to recover the huge amount of Rs. 3,826.550 million from various customers / Department which showed negligence and weak recovery mechanism.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023.

1. DAC directed the management to provide following documents to the audit i.e. Documents of recovered amount Rs.6.496 million and reconcile figures with audit regarding recoverable amount whether it is Rs.506.364 million or Rs.218.91 million. DAC further directed the management to make efforts for recovery of remaining amount and pursue the legal cases accordingly.
2. DAC reduced the Draft Para to the extent of recovered amount subject to verification of record i.e.22.804 million. DAC further directed the management to make efforts for recovery of remaining amount.
3. The management apprised the DAC that full amount has already been recovered. DAC directed the management for provision of following record to audit for verification i.e. Bank Statements andCopies of cheques along with deposit slip.
4. The management informed that in amount of Rs.9.740 million has been recovered. DAC directed the management to provide relevant documents to audit on the recovery, and make efforts for recovery of remaining advances and pursue legal cases.
5. DAC directed the management to provide detail of expenditure made to audit for comments.
6. DAC pended the Para till final recovery/ book adjustment.
7. DAC directed the management to provide following documents to the audit:
  - i. Documents of recovery already made -Rs.26.334 million.
  - ii. Reconcile figure with audit whether the amount in question is Rs.237.469 million or Rs.200.743 million. DAC further directed the management to make efforts for recovery of remaining amount.
8. DAC directed the management to provide following documents to the audit i.e. Documents of recovery already made amounting to Rs. 385,584. DAC further directed the management to make efforts for recovery of remaining amount and pursue the court cases vigorously.
9. DAC pended the Draft Para and directed the management to pursue the court case vigorously.

10. The management informed the DAC that there is decree in the case in favor of PSM. DAC pended the Draft Para with the direction to management to place the matter before BOD for its consideration.

However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

(DP Nos.911, 913,915,928,932,933,949, 950,954 & 955)

#### 9.4.4.4 Non-payment of loan long with mark up to commercial banks - Rs. 3,767.000 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive 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 Steel Mills for the year 2021-22, it was observed that the management restructured the loan in the year 2000 and amount of Rs. 3,500.000 million was paid in Nov-Dec 2007 leaving a balance of Rs. 4,267.000 million. Furthermore, during 2021-22 management repaid an amount of Rs. 500.000 million against consortium loan. However, an amount of Rs. 3,767.000 million is still payable as detailed below:

(Rs. in million)			
Name of the Bank	Loan Amount	Current Payment	Balance as on June 2022
Habib Bank Limited	1,066.000	125.000	941.000
National Bank of Pakistan	1,067.000	125.000	942.000
United Bank Limited	1,067.000	125.000	942.000
MCB Limited	640.000	75.000	565.000
Allied Bank Limited	427.000	50.000	377.000
<b>Total</b>	<b>4,267.000</b>	<b>500.000</b>	<b>3,767.000</b>

(Source: Pakistan Steel Mills)

Audit was of the view as per agreement the amount of loan was payable in 07 equal installments (Rs. 1,109.581 million per year) from 2013 to 2019 but the management failed to pay the balance amount of the loan.

The matter was reported to the management in September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. The management informed the DAC that it was a syndicate loan meant for restructuring of PSM. DAC pended the Para till payment of loan and further directed the management to provide following documents to the audit for verification i.e. Restructuring / deliverables and schedule of re-payment along with documentary evidences. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.4.4.5 Loss due to cancellation of contract - US \$ 8,814,094.52 equivalent to Rs. 1,965.543 million**

Rule 4 (3) of 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.

During audit of Pakistan Steel Mills (PSM), for the year 2021-22, it was observed that the management entered into a contract of affreightment with M/s Coniston Ltd. Hong Kong on August 20, 2008 to load and discharge a total quantity of 750,000 MT Coal (+/- 10% more or less Charterers Option from Port Gladstone, Port Newcastle (Australia) and Port Roberts Bank (Canada) during the period from August 20, 2008 to August 31, 2009. In spite of all efforts, Pakistan Steel was only able to lift a total quantity of 538,865 MT coal out of the total 750,000 MT Coal from Port Gladstone, Port Newcastle (Australia) and Port Roberts Bank (Canada). After cancellation of the contract of affreightment, M/s Coniston invoked the arbitration clause and preferred claim of US \$ of 26.262 million.

Two arbitrators each nominated by the respective side delivered interim award issue "A" i.e., 10% balance freight valuing US\$ 2,542,440.96 that was subsequently affirmed by the Umpire and was thereafter made rule of the court by Hon'ble High Court of Sindh. A decree to this effect was issued against PSM on February 17, 2020 for US \$ 2.542 million. PSM filed an appeal in High Court against said decree. Meanwhile PSM contacted the claimant's Counsel in Pakistan

and offered for out of court settlement of the dispute. Upon the counsel's advice PSM on December 30, 2020 put up a formal offer of US\$3.0 million as full and final settlement to the claimants through respective counsels. The claimants in response through letter dated January 25, 2021 gave their counter offer of US\$ 10.0 million in reply to which PSM on February 25, 2021 put up its revised offer of US\$ 4.0 million while the claimant's response to PSM's revised offer was yet awaited. PSM received another notice from the learned Umpire for joining the proceeding and payment of his professional Honorarium. PSM made submission that negotiations between the parties for out of court settlement were in progress. Therefore, till outcome of the same the proceedings might be kept in abeyance. Surprisingly in reply to above submission the learned Umpire conveyed that in response to his query the claimants had denied any ongoing negotiations between the parties for out of court settlement. PSM received an email dated April 22, 2021 from the office of the learned Umpire PSM collected the copy of the award on dated April 23, 2021 delivered by the learned Umpire in which the PSM was directed to pay US \$ 6.272 million.

Audit was of the view that management did not follow the contract clauses and create heavy financial burden. Thus the corporation had to sustain a net loss of US \$ 8.814 million equivalents to Rs.1,965.543 million as the amount already decreed and the claim granted in Umpire's award become US \$ 8,814,094.52 (US \$ 2,542,440.96 million + US \$ 6,271653.56 million).

The matter was reported to the management in September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC directed the management to pursue court case vigorously. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.6 Loss due to non-lifting of Contract of Affreightment (CoA) US\$ 7,738,716.00 equivalent to Rs.1,729.603 million**

Rule 43 of PPRA, 2004 stated that on account payments, all procuring agencies shall make prompt payments to suppliers and contractors against their invoices or running bills within the time given in the conditions of the contract, which shall not exceed thirty days.

During audit of Pakistan Steel Mills (PSM) for the year 2021-22, it was observed that M/s. Emirates Trading Agency (ETA) and Pakistan Steel Mill, entered into a contract of affreightment (COA) and as per the terms of COA, PSM agreed to perform 03 shipments of coal to be lifted in bulk of 50000 MT+10% more or less owners' option per shipment. As per clause 56 of COA, PSM were bound to make every effort to lift the entire COA Tonnage i.e., 15000 MT by the end of COA period i.e., August 31, 2009. PSM failed to lift the CoA Tonnage despite all efforts. M/s ETA filed a claim for payment of US\$7,775,675. M/s ETA served arbitration notice to PSM on August 25, 2009. Therefore, both the parties i.e., PSM and M/s ETA appointed their arbitrators. After cross examination of witness on June 29, 2015 both parties considered to appoint an Umpire in accordance with clause 55 of the COA. The Umpire Mr. Justice Attaur Rehman after hearing both parties at length have passed award against PSM amounting to US\$ 7,738.716 along with interest/markup at the @ 15% per annum on October 25, 2016. As per Court proceeding the Umpire filed the award in the Hon'ble High Court of Sindh for making rule of the Court by way of Suit No.2413/2016.

Audit was of the view that the management should make all efforts to uplift the Quantity as per contract but management failed to complete the contract of affreightment Thus PSM had to sustain a net loss of US \$ 7.738716 along with interest/markup at the @ 15% per annum as the Umpire had passed award against Pakistan Steel Mills.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC directed the management to pursue court case vigorously. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.4.4.7 Loss due to irregular/unjustified payment of house rent allowance and inclusion of HRA in payment of one-month pay to retrenched employees – Rs. 1,230.542 million**

Rule 5 (1) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal

objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

PAC in its meeting held on 28-04-2010 directed that the payment of House Rent Allowance to the officers and employees of PSM residing in Corporation's residence was unjustified and illegal.

During special audit regarding retrenchment of employees of Pakistan Steel Mills (PSM) for the year 2019-21, it was observed that the Human Resource Committee of Board, in its meeting held on 12-04-2011 considered various reasons for allowing allowance to the employees who are residing in Steel Town and were shifted from city to the Steel Town accommodation to facilitate smooth operation of the mill. They were of the view that employees residing in Steel Town accommodations need to be compensated to meet the extra financial burden of transportation being incurred by them on their children studying in various professional colleges / universities located in Karachi city. The Committee recommended BoD that keeping in view the previous precedents and to redress the extra financial burden being faced by the residents of Steel Town, 25% "Dislocation" Allowance on their basic pay may be allowed to them. The Board's HR Committee also desired that this aspect may be negotiated with the CBA during the ongoing CBA agreement so as to maintain uniformity for both officers & workers as part of the overall package being negotiated. The Committee further recommended that above recommendations of BHRC is subject to the condition that case filed by the Officers Associations in the Court of law is withdrawn and is to be implemented subsequently after ensuring withdrawal of case from the court. The BoD in its meeting held on 23-04-2011 had approved the recommendation of BHRC.

The irregularity regarding payment of house rent allowance in addition to official accommodation was also communicated to PAC (ARPSE-1995-96), the Sub Committee of PAC and PAC in its meeting held on 28-04-2010 directed that the payment of House Rent Allowance to the officers and employees of PSM residing in Corporation's residence was unjustified and illegal. The management had earlier paid to the officers/staff of PSM as House Rent Allowance a sum of Rs.

1,222.196 million during the period 1985 to December 2021 even they were provided official accommodation in Pakistan Steel town.

The PAC showed extreme displeasure of the above situation and observed that anybody having official accommodation should neither be entitled to house rent nor should be allowed to occupy a second house. The Committee directed all Ministries/Divisions/Departments, Attached Departments, Corporations and Autonomous Bodies to ensure that this practice should be stopped forthwith. Any incident brought to the notice of the PAC, subsequently, will be taken seriously and the concerned Principal Accounting Officers will be held personally responsible for the offences further observing that necessary amendments may be made in the relevant rules to guard against this practice with a report to PAC within one month. The PAC further directed to submit a comprehensive report within 7 days containing the information when this practice was started and its financial implications, so far.

Audit was of the view that despite such clear instructions/directives issued by the Public Accounts Committee, the continuation of the payment of house rent allowance in addition to official accommodation was irregular and unjustified.

The matter was reported to the management in January, 2022. The matter was discussed in DAC meeting held on 24th June, 2022. The DAC was informed that the employees residing in Steel Town have been paid house rent allowance in the shape of dislocation allowance in pursuance of BoD approval vide its meeting dated 28th June, 2011 DAC directed the management to furnish the minutes of PAC meetings to audit for examination. The matter was again discussed in DAC meeting held on 7th October 2022. DAC directed the management to provide copy of High Court Decision, CBA agreement and PAC minutes for further verification to the Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of DAC directives, besides, fixing of responsibility against the person(s) at fault for irregular/unjustified payment of house rent allowance.

#### 9.4.4.8 Loss due to payment of late surcharge - Rs. 408.713 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive 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 Steel Mill for the year 2021-22, it was observed that the management did not paid the water charges resultantly penalty being charged as late payment surcharge (LPS) payable to KW&SB against monthly raw water charges on bulk water supply from September, 2013 to September 2021 as detailed below:

(Amount in Rs.)				
Current Bill up to November, 2021	Amount paid to KW & SB	Balance	Late Payment Surcharge	Net balance Outstanding
5,826,614,889	1,868,440,055	3,958,133,720	<b>408,713,928</b>	4,366,847,637

(Source: Pakistan Steel Mills)

Audit was of the view that the management did not pay the charges in time which resulted in LPS.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC pended the para till final settlement. DAC directed the management to take necessary steps on subject matter. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### 9.4.4.9 Loss due to undue favour extended to Contractor - Rs.400.206 million

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Mills (PSM) for the year 2021-22, it was observed that on July 6, 2004, a contract was signed between Pakistan Steel and

M/s Besrock Pvt. Ltd. for the supply of 1,12,000 MTN local Iron Ore from Dilband, Balochistan @ Rs.1,300 MTN having minimum 40% Iron content. The period of contract was 18 months reckoning from the date of signing of the contract. The supply was to be started regularly within 05 months from signing of contract i.e. by December 6, 2004 and its schedule was 10,000 MTN (\*10% but not less than 9000 MTN) per month. In case of short supply, the penalty was to be imposed. Due to cancellation of mining license of M/s Besrock Pvt. Ltd by Mines & Minerals Department of Balochistan during 2000 to 2007, M/s Besrock was unable to supply Iron Ore to PSM. PSM served a notice to company for termination of contract on August 31, 2005. M/s Besrock Pvt. Ltd sent a notice on September 12, 2005 for payment of damages of Rs. 404.158 million wherein Mr. Tariq Saeed as Arbitrator on behalf of M/s Besrock and Mr. Justice (R) Atta-ur-Rehman was nominated by Pakistan Steel. Due to the difference in the awards of Arbitrators, the matter was referred to Umpire Mr. Justice (R) Nasir Aslam Zahid for final decision. The Umpire granted the relief to the claimant M/s Besrock and awarded an amount of Rs. 78.000 million (Rupees seventy-eight million only) by wrongly calculating the price of Iron ore as Rs. 13,000 per ton instead of Rs.1,300 per ton. PSM also filed application for rectification of clerical error in the Umpire's award Upon mutual consent Mr. Justice (Rtd) Amanullah Yasin Zai was appointed as a new Umpire by Sindh High Court on October 17, 2017. The case was awarded in favor of M/s Besrock on December 22, 2017 and retained the decision of their arbitrator. He wrote that I concur and agree with the damages given by the Arbitrator to the tune of Rs. 400,206 million. The case is in court and M/s Besrock offered for out of court settlement vide its letter dated 13-08-2022.

Audit was of the view that why not the codal provisions/ measurement made like to check the license for supply of the Besrock issues from authority from Mines & minerals Department, Government of Balochistan before execution of the agreement. Why the notice issued late to M/s Besrock on 31-08-2005 for termination of contract. It seemed that the managements had the malafide intention and undue favor was extended to M/s Besrock. In presence of law department why the award amount exceeded Rs. 13,000/- per ton instead of Rs.1300/- per ton. Management failed to follow the rules and regulations.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC pended the Para till final decision of Sindh High Court and further directed the management for provision of relevant record i.e. fitness of work award and details on miscalculation of the amount in the Award. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.10 Irregular and unjustified payment of advances to employees - Rs. 298.177 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Mill (PSM) for the year 2021-22, it was observed that the management started retrenchment scheme process of employees with effect from Nov-27, 2020. PSM management communicated to MoIP with following financial impact:

(Rs. in million)					
S#	Cadre	No of Employees	Basic Salary per month in million (approx.)	Gross Salary per month in million (approx.)	Financial impact 100% (1 salary +PF+Gratuity)
01	Officers	2118	96.934	128.493	10,569.616
02	Workers	6503	121.109	223.012	9,086.597
<b>Total</b>		<b>8,621</b>	<b>218.044</b>	<b>351.505</b>	<b>19,656.213</b>

Economic Coordination Committee approved an amount of Rs.19,656 million in the month of May 2020 on account of Gratuity, Provident Fund and one month salary (in lieu of notice period) for retrenchment of 8,621 employees up to 27-11-2020. However, the management paid the advances to 587 employees amounting to Rs.298.177 million, despite of the fact that the management was working on retrenchment process. Thus the payment of advance to the above employees was unjustified

Audit was of the view that management had formulated the retrenchment scheme and advances payment are held irregular. This caused inconvenience not only to retrenched employees as well as retiring employees.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. The management informed that an amount of Rs.73.801 million has been adjusted / recovered. DAC directed the management to provide documents of recovery already made i.e. Rs.73.801 million. DAC further directed the management to make efforts for recovery of remaining advances and in future no such payment shall be made. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.4.4.11 Loss on payment to gas bill charges instead of consumers - Rs. 261.535 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Mills (PSM) for the year 2021-22, it was observed that an amount of Rs.261.535 million was paid by the management against the gas charges supplied to Steel Town and Pakistan Steel Hospital instead of consumer during the period from July, 2020 to June, 2022. The supply made to the houses and Pakistan Steel Hospital (100 Beds) without charging the bill and no meter are installed to the consumer house and sui gas bill charges are monthly paid by the PSM and consumer freely using the Sui Gas, furthermore to mention that Pakistan Steel Hospital is non-functional except OPD and emergency since long period, however the PSM operation is closed since June, 2015 and on bailout package and management created extra burden over the mill. The detail is given below:

S#	Description	(Amount in Rs)
1.	Steel Town	258,490,690
2.	Pakistan Steel Hospital	3,045,190
<b>Total</b>		<b>261,535,880</b>
<i>(Source: Pakistan Steel Mills)</i>		

Audit was of the view that non-recovery of outstanding dues from allotted consumer and Pakistan Steel Hospital was held irregular which reflected proper financial management.

The matter was reported to the management in October, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC pended the Draft Para with the direction to management to provide following documents to the audit i.e. CBA agreement & Documents regarding efforts made. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.12 Loss due to rejection of offer and return unused Iron Ore - Rs. 217.012 million**

Rule 4 (3) of 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.

During audit of Pakistan Steel Mill (PSM), Karachi for the year 2021-22, it was observed that the M/s Siddique Sons Ltd. supplied 20,498.155 MT of Iron Ore lump per MV Ocean Star (B/L dated 30-06-2015, which was received in 1st week of July 2015. The payment against the last shipment is delayed due to financial crunch faced by PSM as its production was stopped in June 2015 due to sudden decrease in natural gas pressure by SSGC. M/s Siddique Sons wrote a letter to PSM on 23-06-2021 to return their iron ore lying at PSM and to settle the SHC recovery suit # 1849/2017 out of court.

Pakistan Steel communicated to M/s Siddique Sons & copy to M/o Industries and Production on August 09, 2021 on the subject matter. In response, M/s of Industries & Production in its letter dated 1st September 2021 PSM was

advised to place the matter in the upcoming Board meeting for an early resolution of the dispute. Management PSM failed to provide the iron ore unused and payment has been done. It is the malafide intention of management to handed over unused iron ore despite of payment.

Audit was of the view that as to why the offer of M/s Siddique Sons was not accepted and a huge amount of rupees had been paid to M/s Siddique Sons. The matter should had been placed before BoD for early resolution of the dispute as per directives of MoI&P. It seemed that the management deliberately paid the amount with malafide intention due to which Iron Ore was still lying in dump position.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. The management informed that the value of the unused iron ore increased subsequently and the matter of non-returning the iron ore was decided by BOD. DAC directed the management to provide following record to audit for verification i.e. Approval of Board of Directors (BOD) and Cost-benefit analysis. DAC further directed the management to make arrangement for physical verification of iron ore by Audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.13 Irregular payment of loan without interest - Rs.140.059 million**

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive 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 Steel Mills (PSM) for the year 2021-22, it was observed that management granted a loan amounting to Rs.140.059 million without interest to its subsidiary Pakistan Steel Fabricating Company Limited (PSFCL) for the purpose of Retrenchment of employees. However, management itself obtained the loan amount along with interest form Federal Government, how the

management grant the loan to Pakistan Steel Fabricating Company limited without interest.

Audit was of view that the PSFCL was running its own business and had its own resources to generate/operate its plant to generate its own resources. Thus loan of Rs.140.059 million without charging interest was held irregular.

The matter was reported to the management in September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. The management informed that an amount of Rs.80.000 million had been recovered. DAC directed the management to provide the relevant record on recovery to audit and make efforts for recovery of remaining loan. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.4.4.14 Loss due to fraudulent payment - US\$ 582,792.77, equivalent to Rs. 93.247 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Mill (PSM), Karachi for the year 2021-22, it was observed that the PSM entered into a contract with M/s Oceanwide Shipping Services GmbH, Germany for lifting coal from the ports of Australia and Canada in Sept 2010. The contract was valid for one year i.e., from Sept 2010 to Aug 2011. As per procedure 90% freight of the ship has to be paid immediately on start of the voyage and remaining 10% is to be paid after mutual settlement.

PSM could not pay the balance 10% freight of last three vessels amounting to US \$ 582,792.77 to M/s Oceanwide in 2011-12 M/s Oceanwide filed a suit in Sindh High Court in Feb 2015 for recovery of the said amount along with interest/markup. The case was lastly fixed on February 4, 2020. For resolving the subject matter, a meeting was held on July 13, 2020 in Ministry of Finance. A settlement agreement was signed between Pakistan Steel and M/s Oceanwide Shipping Services on November 30, 2020, wherein both parties agreed amicably for the payment /receiving of amount \$ 582,797.77 regarding unpaid freight as full

and final settlement before December 31, 2020. MOI&P apprised PSM on January 18, 2021 that Finance Division is ready to release Rs.93.247 million (Equivalent \$ 582,797,.77) to PSM as a loan. Letter of credit (LC) No.1033LCS58914/2021 of US\$582,792.77 was established in favor of M/s Oceanwide Shipping Services GmbH, Dusseldore, Germany on May 26, 2021 with expiry date of July 20, 2021. On June 10, 2021 Bank Al Habib informed PSM that according to National Bank of Pakistan, Frankfurt Branch, Germany, the beneficiary company had been closed and the funds of 90 million was withheld with NBP Germany. Later on M/s Oceanwide o Shipping Services UG submitted an attested copy of Commercial Registry of Duisburg, confirming that the Company had changed in Oceanwide Shipping Services GmbH “dated July 14, 2021”. The legal advisor of PSM also cleared the beneficiary company’s registration documents. Accordingly, PSM management requested Bank Al Habib Limited to intimate M/s NBP Frankfurt Branch, Germany to release funds to the beneficiary.

Audit was of the view that why the payment made to Oceanwide Shipping Services UG, Muelheim, Germany instead of M/s Oceanwide Services GMBH Dusseldore, Germany. As per settlement agreement made on 30th November 2020, vide para-3, the Owners willl permanently discontinue all the legal proceedings immediately on receipt of payment within stipulated period upon signing of this agreement. However, the suit/case was still pending in court of law, which seemed that the payment was received fraudently by M/s Oceanwide Shipping Services UG Muelheim, Germany instead of M/s Oceanwide Shipping Services GmbH, Duesselborf.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. The management informed the DAC that the payment was made accordingly. DAC directed the management to provide following record to Audit:

- i. Re-name of company
- ii. Court settlement
- iii. Transaction completed

However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.15 Non-settlement of Advance Tax - Rs.85.893 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Mill (PSM) for the year 2021-22, it was observed that the management failed to recover the tax refundable amount of Rs. 85.894 million from the tax authorities.

Audit was of the view that such amount of balances receivable were lying adjustable between PSM and tax authority which showed incompetency of the management for non-compliance of refund / recovery rules and its further accumulation.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC pended the Para with the direction to management to pursue the case with tax authorities for refund of amounts. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.16 Irregular appointment of security guards on daily wages - Rs. 76.196 million**

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive 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 Steel Mills (PSM) for the year 2021-22, it was observed that the management appointed 200 Security Guards on contract and daily wages @ Rs. 250,000 to Rs. 834 per month/per day and an amounting to Rs. 76.196 million has been spent on security (Annex-89). The management retrenched the security guards and newly appointed 200 security personnel which

is the doubtful action of the management, it depicted the managements has the malafide intention, although PSM should not retrench the security personnel's and control the theft and other security issues.

Audit was of the view that the management extended undue favor by appointing security guards which reflected poor financial management.

The matter was reported to the management in October, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC directed the management to ensure that hiring on daily wages is reduced to bare minimum and the same may be made if unavoidable / essential and justification in instant cases may be provided to audit for further comments. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.4.4.17 Irregular /unjustified payment to laboratories & medical stores - Rs.62.944 million**

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

During audit of Pakistan Steel Mill (PSM) for the year 2021-22, it was observed that the management paid amounting to Rs.62.944 million to different laboratories and medical stores during the year 2021-22. Pakistan Steel Hospital is working and has full fledge facilities, like lab and others, the management paid irregular and unjustified payment of Rs.62.945 million to medical stores and laboratories by violating PPRA rules.. The details of total payment are given below:

S#	Description	Total Rs.	S#	Description	Total (Rs)
1	Medical Stores	56,174,076	2	Laboratories	6,770,637
<b>Total</b>					<b>62,944,713</b>

*(Source: Pakistan Steel Mills)*

Audit was of the view that in the presence of full fledged hospital and medical facilities the reimbursement of expenditures on account of medical charges on laboratories and others were held irregular / unjustified.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. The management informed that an amount of Rs.62.944 million was paid on account on previous liability of medical bills. DAC directed the management to provide the following details to audit for further audit comments i.e. Empanelment of Medical Store and Laboratories and detail of total payment made. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.4.4.18 Doubtful payment of special advances to various departments - Rs. 62.238 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Mills (PSM) for the year 2021-22, it was observed that the management allocated the special advances to the various departments amounting to Rs.62.238 million without justification. Furthermore, management failed to provide the adjustment of such advances and its justification. The allocation of special advances amounts seems doubtful as the PSM's operations are closed since June, 2015 and PSM is running in loss since 2010. Presently PSM is working on retrenchment of its employees.

Audit was of the view that management awarded special advances to the various departments which was doubtful and irregular as its adjustment and details were not provided to audit.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC directed the management to provide following documents of recovery stated to have already been made i.e. Rs.56.000 million. DAC further directed the management to make efforts for recovery of remaining advances. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

**9.4.4.19 Loss due to sale of material at less rate than reserve price - Rs. 62.000 million**

Pakistan Steel (Administration & Personnel) letter dated A&P-04-13/39(P&C/2305 dated November 23, 2004 for SOP for disposal of scrap/condemned/surplus material through tender/auction by Stores Department in pursuance of their letter of even No. dated 31-03-2004. Para-C (v) Note: - In case of Highest Competitive Price for a lot received on lesser side than that of approved reserved price, TEC be authorized to go for competitive re-bidding through sealed envelopes amongst all of the tender participants. In order to achieve some improvements in the bid price, failing which the committee may recommend the disposal of the material on the basis of outcomes what so ever achieved through re-bidding even on lower side by 5-0% than that of reserve price for its concurrence to be obtained afresh from Director (Finance) before final approval of the competent authority.

During audit of Pakistan Steel Mill (PSM) for the year 2021-22, it was observed that the management floated tender on January 23, 2022 and the reserve price was fixed as Rs.137.000 million (exclusive of taxes) with 10% margin of concession in reserve. The Highest bid received was Rs.18.000 million against reserve price so the management decided to retendering the process. Another tender was floated on April 3, 2022 with low circulated newspaper (Pakistan Today). Management opening date was fixed on 20-04-2022, wherein M/s Faraz Enterprises offered highest price of Rs.75, 000,000/- which was accepted/approved by the management by extending undue favor to compromises the reserve price up to 40% and corporation sustained a loss of Rs.62.000 million.

Audit was of the view that why the management granted 40% margin to vendor and material sold out on less price than the reserved price which showed undue favor extended to the bidder.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. The management informed that to sell under or over 10% of reserve price is permissible under the rules and the matter was decided with approval of CEO. DAC directed the management to provide the relevant documents including CEO approval.

However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.20 Irregular /unjustified auction of vehicles - Rs. 61.138 million**

Rule 20 of PPRA Rules, 2004 stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works and Rule 04 states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of Pakistan Steel Mill (PSM) for the year 2021-22, it was observed that the management published a tender for auction of 59 vehicles, in low circulated newspapers, Daily Tribune and Roznama Jahan Pakistan Karachi, instead of widely circulated leading dailies of the Country. The management deliberately selected the local newspaper which is gross violation of rules. Furthermore, out of 59 vehicles, 15 were sold below the reserve price.

Audit was of the view that the tender published in local newspaper which had low circulation, resulted the auction process doubtful and undue favor was extended to the parties

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC directed the management to provide relevant documents to audit on sale of the vehicles including letters addressed to PID / advertisement made by PID, auction policy / process, and approval of CEO. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.21 Irregular and unjustified hiring of 369 employees on daily wages - Rs. 54.495 million**

Chief Justice of Pakistan during proceeding of Civil Petition No. 326-K and 513-K has issued an order dated 12-03-2020, quoted hereunder: -“We are unable to understand how when the Steel Mills itself is not operating and producing

anything why the employees are employed there and from where the payments are being paid to them by way of their emoluments and other benefits. All these affairs have to be attended to immediately by the Federal Government. The learned Attorney General states that he will obtain instruction and place the same before Court”

Rule 5 (1) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

Economic Coordination Committee (ECC) approved an amount of Rs.19,656 million in the month of May, 2020 for retrenchment of 100% employees of Pakistan Steel up to 30-06-2020.

During audit of Pakistan Steel Mills for the period 2019 - 2021, it was observed that the management engaged 369 employees w.e.f September 2019 to December 2021 on different posts for 89 days on daily wage basis with perpetual extensions. Their expenditure incurred in this regard is Rs. 54,494,818 (Annex-90).

Audit was of the view that the management had made unnecessary expenditure on the hiring of officers/staff on daily wages despite the fact that production of Pakistan Steel was zero since 2015. Thus, management made wasteful expenditure on pay and allowances of these employees.

The matter was reported to the management in January, 2022. The matter was discussed in DAC meeting held on 24th June, 2022. The DAC was informed that at present from a strength of 8620 Employees in August 2020 to December 2021 PSM has 3131 Employees on its roll to take care of its entire responsibilities in line with instructions and directions of Privatization Commission and MoI&P. The DAC was not satisfied with the explanation of the management and directed the management to justify the recruitment/hiring of officers/officials in the next meeting of DAC. The matter was again discussed in DAC meeting held on 07-10-2022, DAC directed the management to provide detailed record of hiring of employees, reflecting essentiality / justification, to audit for examination. The

Chair strictly directed the management to hire bare minimum staff. Moreover, every-time new person may be hired so that he / she may not become a source of permanent liability. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of DAC directives, besides, fixing of responsibility on the person(s) for unjustified hiring of employees on daily waged on continuous extensions granted to them.

(SAR Para # 4.1.18 2019-21)

#### **9.4.4.22 Doubtful sale of scarting cinder - Rs. 32.205 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Mill (PSM), Karachi for the year 2021-22. It was observed from the record of ISMD computerized generated sheet of scarting cinder for the July, 2021 to May, 2022, amounting to Rs. 32,205,760. However, it is the doubtful sale of the scarting cinder which did not reflect in the Books of accounts during the period. The management did not provide record vide Requisition No.80 dated 19-09-2022.

Audit was of the view that the audit failed to ascertain the factual physical existence of scarting cinder. The sale of scarting cinder was held doubtful. Despite of the requisition and verbal request management did not clarify the factual sale position and it was not reflected in the books of accounts.

The matter was reported to the management on September 30, 2022. The management apprised that sale of Scarfing Cinder amounting to Rs.64 million has been made and reflected in books of accounts. DAC directed the management to provide relevant record to the audit for scrutiny. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.23 Irregular/unjustified renovation of guest house - Rs.10.735 million**

Rule 04 of PPRA Rules, 2004, states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

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

During audit of Pakistan Steel Mill (PSM) for the year 2021-22, it was observed that management allocated special advances for renovation of Guest House and procured number of items from local supplier without inviting open tender, in violation of PPRA Rule.

Audit was of the view that the management procured number of items from local suppliers without tenders and quotations on account of renovation of Guest House and special advances were being misused.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC pended the Para and directed the management to provide detailed recorded to audit for verification. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.24 Loss due to theft of two vehicles – Rs. 5.000 million**

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.

During audit of Pakistan Steel Mills (PSM), for the year 2021-22, it was observed that 02 vehicles of GLI/Toyota Corolla having Regd. No.AJM-698 and, Regd. No.AJM-697 were missing/stolen which were under the use of CBA Officials. The investigation proceeding was started on April 29, 2022 however, no

report was provided to the audit which show that no action was taken by the management, even management failed to lodge FIR.

Audit was of the view that due to theft of vehicles PSM / national exchequer suffered a loss of Rs.5.000 million. Further enquiry committee did not finalize the enquiry report despite lapse of considerable time which seemed that undue favour was extended to the officials of CBA.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC directed the management to provide following documents to Audit i.e. Inquiry Committee report and Copy of FIR. DAC further directed to implement the recommendation of the inquiry committee and pursue the court case vigorously. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.25 Irregular promotion from Assistant Managers to Deputy Managers – Rs. 4.827 million**

In the Honorable Supreme Court of Pakistan (appellant Jurisdiction) vide Civil Petitions No. 326/K& 513/K of 2018 stated in the Judgement by Honorable Gulzar Ahmed Chief Justice that” The Steel Mill is lying closed since June, 2015 but its employees are still employed in the Steel Mill and or claiming all sorts of Benefits including increments , promotion and other perks and privileges. The impugned judgment challenged in the present CPLA is also one of the examples where promotions have been allowed to the respondents who are 76 in numbers. It seems that period to the said order, the learned High Court has passed other orders in CP No. D-5326 of 2013 & CP No. D-842 of 2014, where similar promotions have been granted. We are unable to understand how when the Steel Mills itself is not operating and producing anything why the employees are employed there and from where the payments are being paid to them by way of their emoluments and other benefits as noted above. All these officers have to be attended in immediately by the Federal Government, particularly, the secretary, MoI&P Islamabad. The learned attorney General states that he will obtain instruction and place the same

before this court. In the mean time we grant leave to appeal in this case and at the same time suspend the operations of the impugned judgment”.

During audit of Pakistan Steel Mill (PSM) for the year 2021-22, it was observed that the management promoted Mr. Zardard Abbasi from Assistant Manager to Deputy Manager along with 76 other employees, on the basis of judgment order of Sindh High Court Karachi (Annex-91). Later on, the management challenged the promotion order in Honorable Supreme court. The Honorable Supreme Court dismissed the decision of promotion case of Mr. Zardard Abbasi along with 76. However, the management did not revert Mr. Zardard Abbasi and others officers at their original posts.

Audit was of the view that the management should comply the orders of Honorable Supreme court of Pakistan and revert Mr. Zardard Abbasi and others from DM to AM and also recover the differential amount of salary (calculation of salary difference before and after promotion is attached) effected to be made w.e.f orders of Supreme court.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC pended the Para till final decision of Supreme Court. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.26 Un-justified increase in salary of officer - Rs. 4.800 million**

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Mill (PSM) for the year 2021-22, it was observed that the management increased the salary of GM Finance, Mr. Muhammad Arif Shaikh, on account of extensions in contract period. The incumbent was given an extension on his contract period for one-year w.e.f 25-01-2021 to 24-01-2022 with enhanced salary of Rs. 350,000. Once again in 2022 his contract period was extended for further period of one-year w.e.f 25-01-2022 to 24-01-2023 with rise of salary of Rs. 400,000. However, the permanent employees

of PSM did not get rise of salaries since 2010-2011 to date but contract employees are getting every year considerable increase in salary.

Audit was of the view that the management extended undue favour to the incumbent multiple times by rise in salary, which was irregular and unjustified.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC directed the management to provide to audit relevant documents, BOD minutes / decisions as the salary increased with the approval of Board. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.27 Loss due to fire incident in bus - Rs. 3.000 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.

During audit of Pakistan Steel Mill for the year 2021-22, it was observed that PSM management sustained a loss due to burning of bus vide Token No.1950. The value of such bus was Rs. 3,000,000 The incident was occurred on 26-05-2022 near CP-II Steel Town. The management constituted enquiry committee on 27-5-2022 in the convenorship of Mr. Muhammad Younis Abro.

Audit was of the view that despite having a full-fledged fire department and security department, fire tender (vehicles) the burning of buss of PSM reflected poor monitoring and control which resulted in heavy financial loss to Corporation.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC pended the Draft Para with the direction to management to finalize /share the finding of de-novo inquiry with audit and take actions accordingly. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### 9.4.4.28 Loss due to theft of various items - Rs. 2.127 million

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Mills (PSM), for the year 2021-22, it was observed that management sustained a loss of Rs.2.127 million due to theft incidents of various items. Detail is given below: -

S#	Case#	Description	Occurrence Date	Value Rs.
1	-	Theft of Conductor of 132KV line TTP-2	25-07-2021	1,672,500
2	FIR NO392/21 Dated 18-09-2021	Incident occurred at Billet Mills, HSM and CRM	6/9/2021	266,915
3	-	Theft of Battery (12v 27) vehicle No .KD -165	8/7/2021	25,000
4	-	Theft incident occurred at CB Stores (II & III)	19-09-2021	117,615
5	-	Theft of material/equipment at 110 MGR of BWS D	22-01-2022	44,600
6	FIR NO.159/22 Dated 26-04-2022	Theft of scrap material at skull breaking yard	29-04-2022	--
7		Theft of condemned platinum crucibles from PSM's Process Lab.	13-06-2022	-
<b>Total</b>				<b>2,126,630</b>
<i>(Source: Pakistan Steel Mills)</i>				

Audit was of the view that despite having a full-fledged security department having officers and guards, the theft of reported valuable assets of PSM reflected poor monitoring and control which resulted in heavy financial loss to Corporation.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC directed the management for provision of following record to audit i.e. Copy of FIR and Copy of inquiry/investigation already made. DAC further directed the management to review security arrangements and pursue court cases. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.29 Irregular award of contract for procurement of high-pressure lamps - Rs. 1.998 million**

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

During audit of Pakistan Steel Mills (PSM) for the year 2021-22, it was observed that the management purchased 961 No's of High-pressure Lamps in year 2015 at cost of Rs.1.998 million from M/s Danish Internationals. The above items were purchased on single offer bid without Tender / Quotations in violations of PPRA Rules 2004. Payment has been made in financial year of 2021-2022 instead of 2015-2016 years which reflected the malafide intention of management and undue favor extended to the supplier by awarding the contract on single offer.

Audit was of the view that management violated the PPRA rules and purchased lamp without fulfillment the codal requiemnts and competative rates/tender process which was irregular and unjustified.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. The management informed that procurement process was duly followed. DAC directed the management for provision of following record to audit for further audit comments i.e. Tender documents i.e. Advertisement, Bids received, Bids analysis (Technical & Financial) and Rate analysis. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.30 Non-production of auditable record**

Section 14(1)d. & (3) of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001, the officer in charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition. Any person or authority hindering the auditorial functions of the Auditor General regarding inspection of accounts shall

be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person.

During audit of Pakistan Steel Mills (PSM) for the year 2021-22, it was observed that the management failed to produce the auditable record despite reminders and several verbal requests (Annex-92).

Audit was of the view that due to non-production of requisite record and restricting access to audit evidence, audit team was unable to assess and examine the material area of working as well as 10 billion theft of material from stores (as reported in press and electronic media) which had limited the scope of audit coverage.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC pended the Draft Para with the direction to management to provide requisite record to audit. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

#### **9.4.4.31 Non-preparation of annual accounts**

Rule 10 of Public Sector Companies (Corporate Governance) Rules, 2013, states that every Public Sector shall, within one month of the close of first, second and third quarter of its year of account, prepare a profit and loss account for, and balance sheet as at the end of that quarter, whether audited or otherwise, for the Board's approval.

During audit of Pakistan Steel Mills (PSM) for the year 2021-22, it was observed that the annual accounts for the year 2021-22 has not been prepared so far. In fact, the management is far behind from timely preparation of accounts required as per schedule as no accounts were published & prepared.

Audit was of the view that due to weaknesses in underlying accounting system caused delay in timely preparation and completion of accounts.

The matter was reported to the management on September 30, 2022. The irregularity was discussed in the DAC meeting held on January 26, 2023. DAC

pended the Draft Para with the direction to management to prepare annual audited accounts and share the same with audit after approval of the Board. However, no record was produced by the management till finalization of this report.

Audit recommends implementation of the DAC directives.

Muhammad Imran Shahid  
Asstt Programmer  
Monday, 24 February, 2025, 3:29:21 PM

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Asstt Programmer  
Monday, 24 February, 2025, 3:29:21 PM

## 9.5 National Fertilizer Corporation (Pvt.) Limited

### 9.5.1 Introduction

National Fertilizer Corporation of Pakistan (Pvt.) Limited (NFC), is a Private Limited Company incorporated in Pakistan on 11th August, 1973 under the Companies Act, 1912, (now the Companies Act, 2017). The Company is wholly owned by the Government of Pakistan. The Company's main source of income includes dividend from investment in subsidiary companies and return on bank deposits and other investments.

Registered office of the Company is situated at 1st Floor, Alfalah Building Shahrah-e-Quaid-e-Azam, Lahore.

### 9.5.2 Comments on Audited Accounts

9.5.2.1 The working results of the National Fertilizer Corporation of Pakistan (Pvt.) Limited for the year 2021-22 as compared to the previous years are given below:

(Rs. in million)

	2021-22	% Inc / (Dec)	2020-21	% Inc / (Dec)	2019-20	% Inc / (Dec)	2018-19
<b>Income:</b>							
Dividend	7.702	48.34	5.192	-15.2	6.123	-26.37	8.316
Profit on bank deposits	500.912	24.85	401.195	-37.16	638.421	46.55	435.632
Other Income	0.507	-99.40	83.869	357.48	18.333	-20.44	23.044
<b>Total Income</b>	<b>509.121</b>	<b>3.85</b>	<b>490.257</b>	<b>-26.04</b>	<b>662.878</b>	<b>41.94</b>	<b>466.993</b>
<b>Expenses</b>							
Administrative Expenses	138.692	1.65	136.436	-7.98	148.272	-24.14	195.45
Financial Charges	0.031	0.00	0.031	-44.64	0.056	-18.84	0.069
<b>Total Expenses</b>	<b>138.723</b>	<b>1.65</b>	<b>136.467</b>	<b>-8</b>	<b>148.328</b>	<b>-24.136</b>	<b>195.519</b>
Profit before taxation	370.398	19.95	308.789	-39.99	514.549	89.54	271.473
Taxation	106.152	19.25	89.02	-40.02	148.416	90.172	78.043
<b>Profit after taxation</b>	<b>264.246</b>	<b>20.24</b>	<b>219.769</b>	<b>-39.98</b>	<b>366.133</b>	<b>89.29</b>	<b>193.43</b>

Source: (Annual Audited Accounts)

9.5.2.2 The management recorded the investment in Pak China Fertilizers Limited of Rs. 18.800 million at cost instead of at fair value which is in contravention of IFRS-9 "Financial Statement". Recording of investment at cost in

Pak China Fertilizers needs to be revalued at fair market value to depict true picture of the investment.

**9.5.2.3** The company current ratio stands at (134:1) against a standard of (2:1) which means company failed to utilize its assets efficiently and blocked its funds in short term deposit. Huge cash balance was retained to earn profits on bank investments/deposits which was not the primary objective of the company. The management needs to revisit its current asset and meet the standard of (2:1). Audit stresses that the management may prepare a business plan and present it to the BOD for efficient utilization of company assets and cash resources.

**9.5.2.4** No income has been generated through any operational activity as NFC has closed down its operations for last many years. Audit emphasizes that the management may take-up the matter with Government for assigning some functions to the Company or otherwise liquidate the company.

**9.5.2.5** The management has charged a loss of Rs 45.00 million on disposal of subsidiaries in operational expenditure resulting into overstatement of expenditure in 2020-21. Management needs to depict true picture of the affairs of the company. The losses other than operational activities should be set off against other income.

**9.5.2.6** The actual operational expenditure has increased from Rs 136.436 million in 2020-21 to Rs 138.692 million in 2021-22. In the absence of any operational activity, the management needs to slash its operational expenditure. Presently 64 employees are working without any ongoing business plan. The management needs to rationalize the strength of the staff according to its operational activities.

**9.5.2.7** Under Note-10, the management has shown staff's retirement benefits which constitute Pension Fund and Gratuity Fund. Audit has noted that Pension Fund has reduced from Rs 32.696 in 2020-21 to Rs 16.043 million in 2021-22 showing a decreased of 50.91%. Likewise Gratuity Fund has reduced from Rs 2.176 million in 2020-21 to Rs 1.326 million in 2021-22 showing a decrease of 39.06%. Audit suggests the management to justify these decreases and utilization of funds.

**9.5.2.8** The Management has shown the provident funds under Note-28 which decreased from Rs 41.557 million to Rs 38.509 million in the year 2021-22. The

management has given note that investments out of provident fund have been made in accordance with the provision of the Section-218 of the Companies Act 2017 and the rules formulated for this purpose. Audit suggests that the management should justify the decrease and also provide details of investments made under said rules.

### 9.5.3 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
2010-11	08	06	02	11.3.1, 11.13.2.5	75
2013-14	04	03	01	8.22.2.2,	75
2019-20	04	01	03	7.16.4.1, 7.16.4.2, 7.16.4.3,	25
<b>Total</b>	<b>132</b>	<b>121</b>	<b>11</b>		<b>92</b>

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

### 9.5.4 Audit Paras

#### 9.5.4.1 Non-utilization of assets of associated company M/s Corporation House (Pvt.) Limited - Rs 1,054.425 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 and confidential information by directors, executives and employees and claiming of expenses.

During the audit of National Fertilizer Corporation (NFC), Lahore for the year 2019-20 to 2021-22, it was observed that NFC owned 25% shares in its associated company namely M/s Corporation House (Pvt.) Limited (CHL) which was incorporated as a private limited company on April 27, 1976. Other three shareholders also 25% shares each which are M/s Pakistan Industrial Development Corporation (PIDC), M/s Pak-Arab Refinery Limited (PARCO) and M/s National

Engineering Services Pakistan (NESPAK). The paid-up Capital of Corporation House Limited is Rs.8.00 million (800,000 ordinary shares of Rs.10 each).The Corporation House (Pvt.) Limited owned a piece of land, measuring 14 Kanal, 1 Marla & 42 sq.ft. (14.059 kanal).The plot was situated at 13-Egerton Road, Lahore opposite to Faletti's Hotel and surrounded by Avari Hotel, PIA House & Transport House Building. The revaluation of the land of CHL was carried out in March 2016. The evaluator had assessed the financial value of land as Rs. 1,054.425 million (Rs.75 million per Kanal). NFC has never received any dividends on its investment in Corporation House (Pvt.) Limited.

Due to weak assets management this precious land had been lying vacant for the last 46 years without any utilization.

Audit was of the view that non-utilization of land resulted into revenue losses which could have been generated by productive use of land. NFC Head Office was located nearby in rented building for which huge rent expenses were paid. This land could be used for construction of office building where rent income could also be generated. NFC management having 25% representation in BOD of CHL, failed to take any imitative for utilization of land.

The matter was reported to the management on November 01, 2022. During DAC meeting held on January 20, 2023, the management agreed with Audit point of view and explained that NFC was holding 25% shares and NOC from Archeology Department was needed. DAC directed the management for assessment of value of land and preparation of business plan for its utilization.

Audit recommends compliance of DAC directives.

Para-1 (NFC – 2019-21)

#### **9.5.4.2 Avoidable unproductive expenditure - Rs. 615.159 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 and confidential information by directors, executives and employees and claiming of expenses.

According to Clause-III of Memorandum of Association of the NFC, the corporation has to carry out the business of manufacturing, buying, selling, exporting and importing all type of chemicals and fertilizers.

During audit of National Fertilizer Corporation (NFC), Lahore for the years 2019-20 to 2021-22, it was observed that all the manufacturing units of NFC had been privatized by the Privatization Commission from 1992 to 2008. Further, Cabinet Division vide its notification dated December 23, 2019 approved the merger of National Fertilizer Marketing Limited (NFML) with TCP and transferred of Institute of Engineering & Fertilizer Research, Faisalabad and Institute of Engineering, Multan from Ministry of Industries & Production to Federal Education & Professional Training Division (FE&PTD). In this scenario, NFC had not been involved in any operational activities. An expenditure of Rs.615.159 million during 2018-19 to 2021-22 was incurred as administrative and general expenses without any operations.

Due to weak financial management and non-rationalizing the staff strengths according to reduced operations, NFC had to bear heavy administrative expenses.

Audit was of view that the Corporation's operations had been closed after 2008 but the management did not rationalize its staff costs according to its current operational needs which resulted into unjustified and wasteful expenditure of Rs. 615.159 million.

The matter was reported to the management on November 01, 2022. During DAC meeting held on January 20, 2023, the management agreed with Audit point of view. DAC directed the management to rationalize the staff strength.

Audit recommends compliance of DAC directives.

Para-3 (NFC – 2019-21)

#### **9.5.4.3 Irregular sales of shares of Sanofi Aventis – Rs 867.264 million**

According to Rule 5(7)(h) of the Public Sector Companies Corporate Governance Rules 2013, the Board shall be responsible to formulate significant policies regarding acquisition or disposal of fixed assets and investments.

According to 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 Act 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 the audit of NFC for the period 2019-22, it was noted that total 1080,000 shares were transferred to NFC on liquidation of Federal Chemicals & Ceramics Corporation Pvt. Limited in June 2003. In August 2011, a private broker M/s Dossani approached Chairman NFC and offered to purchase of shares of Sanofi Aventis held by NFC. Ministry of Industries also intervened and directed to sale out the shares held by NFC. On these directions, a resolution was passed through circulation to BOD and out of total 1080000 shares, the management of NFC sold 824,300 shares at rate of Rs 160 per share to M/s Dossani Securities Pvt. Limited. It is pertinent to mention here that Chairman NFC Board approached through a DO letter to the Ministry of Industries wide its letter No. NFC/ DO/ 614/ 15 dated 24.08.2011 for clearance of sale of said shares bypassing the BoD. Later on the share value of Sanofi Aventis was appreciated as the shares were being traded in stock market at the rate of Rs 1,068 per share in June 2022. Similar kind of offer was received in 2022 from a private company, but the BOD refused to sale the current holding of 255,700 shares of Sanofi Aventis on the plea that the company had been paying heavy dividends. Due to lack of independent decision making, a very lucrative investment held by NFC was sold through a private transaction with a broker company instead of through some competitive process.

Audit was of the view that the management did not exercise due care and diligence which resulted into loss to the company. The capital gain loss was assessed to be Rs 748.464 million (Rs 160 share sale price less Rs 1068per share current market price in June 2022= Rs 908 x 824300 shares sold = Rs 748.464 million). Sanofi Aventis had been paying high dividends. In 2011 when shares were disinvested, Sanofi Aventis gave a dividend of Rs 10.800 million. Loss assessed on account of dividend receipts was Rs 118.800 million (10.800 million per year x 11 years since 2011= 118.800 million). Total loss assessed was Rs 867.264 million (Rs 748.464+ Rs 118.800). Audit asked for policy to sale of

investments held by NFC in 2011, but nothing was available thus sale of shares of Sanofi Avantis was held irregular and without due diligence resulting into heavy losses to NFC.

The matter was reported to the management on November 01, 2022. During DAC meeting held on January 20, 2023, the management explained that decision was taken by BOD. Audit explained that no justification was provided for sale of directorship shares through a transaction with a private broker without any competitive process to ensure transparency. DAC directed to hold an inquiry at ministry level.

Audit recommends compliance of DAC directives.

Para-6 (NFC – 2019-21)

#### **9.5.4.4 Loss due to procurement of water logged land in Naushero Feroz – Rs 39.526 million**

According to Rule 2A of Public Sector Companies Corporate Governance Rules 2013, “For the purposes of these rules, the following shall be the criteria for sound and prudent management of a Public Sector Company, which shall be bound to comply with it at all times namely: -(a) the business of the Public Sector Company is carried on with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities;

During the audit of NFC for the years 2019-22, it was observed that company had purchased a piece of land of 51 acres with a total cost of Rs 39.526 million on March 14, 2016 in the name of NFC Institute of Engineering and Technology Naushero Feroz sub campus of NFC-IET Multan. Scrutiny of relevant file revealed that the said land was 2 Km away from the National Highway and land was marshy/water logged normally flooded with water in rainy season. UET although declared this land constructible but with special treatment and methods. Six years has been elapsed and proposal to construct sub-campus of Multan institute has been cancelled.

Due to weak internal controls and poor business planning company purchased useless land.

Audit was of the view that land was procured without due diligence and care which resulted into wastage of resources.

The matter was reported to the management on November 01, 2022. During DAC meeting held on January 20, 2023, the management explained that at the time of procurement, land was not water logged but later on it was severely affected by water logging. Audit explained that after procurement of land in 2016, a team of NFC visited the site and reported that land was marshy and water logged. DAC after detailed deliberations ordered to hold an inquiry at ministry level.

Audit recommends compliance of DAC directives.

Para-8 (NFC – 2019-21)

#### **9.5.4.5 Un-utilized reserves appearing in the books for last many years – Rs 850.182 million**

According to Section-73 of the Companies Act 2017, (1) The directors may, before recommending any dividend, set aside out of the profits of the company such sums as they think proper as a reserve or reserves which shall, at the discretion of the directors, be applicable for meeting contingencies, or for equalizing dividends, or for any other purpose to which the profits of the company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of company or be invested in such investments (other than shares of the company) as the directors may, subject to the provisions of the Act, from time to time think fit.

During the audit of NFC for the years 2019-22, it was noted that the management had been showing an amount of Rs 850.182 million in its reserves. This include Capital Redemption Reserve Fund Rs 490.170 million, Reserve on acquisition Rs 54.012 million and Reserve for issuance of bonus shares Rs 306.00 million. These reserved funds were kept pending in books of accounts just to retain cash in the business which resulted into low dividends payments to the Government. Due to weak financial management and poor decision making, huge funds were established which were not utilized for desired objectives of the fund creation.

Audit was of the view that these reserves have been kept in the books of accounts for last many years without any purpose which resulted into blockage of funds.

The matter was reported to the management on November 01, 2022. During DAC meeting held on January 20, 2023, the management agreed with the audit observation. DAC directed the management to place the matter before BOD for closure of unutilized funds according to relevant accounting standards.

Audit recommends compliance of DAC directives.

Para-11 (NFC – 2019-21)

#### **9.5.4.6 Expected loss due to non-recovery of share of land and not making attempts for disposal of shares – Rs 2.235 billion**

According to 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. This provision shall apply to all directors, including ex officio directors.

During the audit of NFC for the years 2019-22, it was observed that the company owned 1,880,000 shares of Rs 10 each relating to Pak China Fertilizers Ltd (PCFL) as long term investments. Further scrutiny revealed that 90% of PCFL were sold to M/s Schon Group by the Privatization Commission in May 1992 and 10% shares were retained by NFC which were appearing in the books of accounts. Privatization Commission on an inquiry of NFC, informed through its letter dated 26.02.2021 that due to default of purchaser i.e. M/s Schon Group, the matter was sub judice and NFC was advised to safeguard its own interest. M/s Schon Group tried to purchase the 10% shareholding of NFC through its letter dated 15.03.2021 at Rs 28 per share. The factual position was that PCFL owned land about 2,400 kanal at Haripur in KP province along motorway having value of Rs 22.357 billion as per evaluation done by the Schon Group i.e. owner of PCFL. The share of land of NFC was amounted to Rs 2.235 billion and M/s Schon Group offered to purchase shares only for 52.640 million i.e. Rs 28 per share. It is pertinent to mention here that M/s Schon Group vide its letter dated 09.03.2022 requested NFC to take over the physical possession of company assets as various assets of company were being illegally disposed off by local authorities in KP province. Due to weak internal controls and poor decision making, NFC may sustain huge loss on its investment /shareholding in PCFL.

Audit was of the view that the BOD had not fulfilled its fiduciary duties and not acted in best interest of the company. NFC had ownership claim on all the moveable/immovable including land held by Pak China Fertilizers were lying unutilized and attempts were made for illegal disposal. Management of NFC should claim its share without further loss of time.

The matter was reported to the management on November 01, 2022. During DAC meeting held on January 20, 2023, the management explained that SECP had initiated the inquiry and the matter was also taken up with local administration. Audit explained that current aspects highlighted by Audit were not raised before and NFC would have to follow up the matter for final outcome. DAC directed the management to pursue the case with SECP and take all steps to safeguard the interests of NFC.

Audit recommends compliance of DAC directives.

Para-13 (NFC – 2019-21)

## 9.6 Pakistan Stone Development Company

### 9.6.1 Introduction

Pakistan Stone Development Company (PASDEC) is a public company limited by guarantee incorporated under Companies Ordinance 1984 (now Companies Act 2017). The Company is a subsidiary of Pakistan Industrial Development Corporation (Pvt.) Limited (PIDC). The registered office of the Company is situated at Islamabad Chamber of Commerce building, 2nd floor, G-8/1 Mauve Area, Islamabad.

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.

### 9.6.2 Comments on Audited Accounts

9.6.2.1 The working results of the Company for the year 2021-22 as compared to previous years are given below:

(Rs. in million)

	2021-22	% Inc / (Dec)	2020-21	% Inc / (Dec)	2019-20
<b>Description</b>					
Revenue	85.888	15	74.834	(23.35)	97.628
Cost of Sales	(74.036)	11	(66.956)	(6.58)	(71.673)
Gross Income/(Loss)	11.885	51	7.878	(69.65)	25.955
Administrative expense	(80.064)	8	(74.466)	(10.05)	(82.784)
Provision for doubtful debts	(0.687)	92	(8.270)	(53.80)	(17.899)
Impairment on receivable from projects	6.124	113	(46.819)	(56.28)	(107.089)
Reversal on impairment on receivable from MCR	19.385	0	-	-	-
Programme expense	0	0	(0.187)	(63.90)	(0.518)
Other income	16.245	0	16.210	(36.00)	25.303
<b>Net profit/(Loss)</b>	<b>(27.146)</b>	<b>74</b>	<b>(105.654)</b>		<b>(157.032)</b>

(Source Annual Audited Accounts)

The core functions of the company are establishment and support of model quarries, up gradation of existing quarries and establishment of industrial cities. However, the company failed to generate revenue from their core functions which needs justifications.

**9.6.2.2** Administrative expenses Rs. 80.064 million is 93% of the gross revenue of the company. The management failed to effectively manage human resource of the company. The huge administrative cost leads to continuously losses of the company. This needs justification.

**9.6.2.3** The company invested Rs. 583.561 million in quarry projects during the year 2008-14 in line with objectives of the company to demonstrate mechanized mining techniques through establishment of model quarries and up gradation of existing quarries. The investment was recoverable from the venture certain amount per ton from production of stone. However, the company failed to effectively manage their investment and booked impairment loss of Rs. 558.900 million due to slow moving of available stock of these discontinued projects. This need justification.

**9.6.2.4** Capital work in progress of Rs. 26.759 million is appearing the accounts since last two years. Detailed break up and reasons for non-completion of civil may be provided to audit. Moreover, retention money of Rs. 13.652 million is payable since last two years, which needs to be explained.

**9.6.2.5** Trade debts Rs. 66.709 million is declared doubtful which is 79% of the total Trade Debts Rs. 84.486 million. The non-recovery of trade debts needs to be justified.

**9.6.2.6** Advances from allottees against development preparation Rs. 693.529 million was showing at note-12 of the annual accounts, however, possession certificates have not been issued to the allottees despite passing more than 10 years. This need to be justified.

**9.6.2.7** Rs. 44.72 million has been incurred on purchase of land from KP-EZDMC but title of the land has not been transferred in the name of PASDEC which need to be justified.

### **9.6.3 Compliance of PAC Directives**

<b>Audit Year</b>	<b>Total Paras</b>	<b>Full Compliance</b>	<b>Partial Compliance</b>	<b>Pending Paras No.</b>	<b>% of compliance</b>
2013-14	06	0	06	8.16.1, 8.16.2.1, 8.16.2.2, 8.16.2.3, 8.16.2.4, 8.16.2.5, 8.16.4.1	0
2015-16	03	0	03	8.17.1, 8.17.2, 8.17.4.1	0
<b>Total</b>	<b>09</b>	<b>0</b>	<b>09</b>		<b>0</b>

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

## **9.6.4 Audit Paras**

### **9.6.4.1 Impairment loss due to dis-continuation of quarries projects - Rs. 405.036 million**

Rule 02-A (03) of the public sector companies (corporate governance) rules, 2013, states that Public Sector Company shall not be regarded as conducting its business in a sound and prudent manner if it fails to conduct its business with due regard to the legitimate policy objectives and development targets of the Government.

Para 23 of the GFR Vol-I requires 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 and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

During audit of the PASDEC for the year 2019-20 and 2020-21, it was observed that According to the PC-1 of the project “Development of Marble & Granite Sector” duly approved by the competent forum, PASDEC incurred Rs. 340.431 million on the establishment / up-gradation of different quarries in all around the country.

Audit observed that due to failure of the joint venture partners, the activities on these projects were discontinued during the year 2012 to 2114. Actual loss of Rs. 627.999 million was occurred, out of which Rs. 222.962 million was considered as recoverable with a balance of Rs. 405.037 million as irrecoverable as on 30.06.2016 hence treated as impairment loss by the BoD and shown in the financial accounts for the year 2020-21.

Audit observed the following:

1. The technical expert Mr. Rashid Haider, Assistant Director Geological Survey of Pakistan had pointed out in his report that reports of GSP departments did not recommend the sites for mining operations at Model Quarry Chitral and Nawagai, but management approved the sites by giving undue benefit to the lease holder.
2. M/s Baker Tilly Mehmood Idrees Qamar in his performance report also pointed out that impairment loss was occurred due to Ineffective marketing and sale promotion strategy, Unrealistic terms with JV partner, Lack of forecasting and planning, non-monitoring and performance evaluation and non-compliance with benchmarks set by experts.
3. Immediate action was not taken by the Board of Directors for revival of the projects.
4. Responsibility was not fixed on any individual for sustaining loss to the Govt. by the Board of Directors.
5. As PSDP funds were involved, the PASDEC should reported to the federal government for sustaining loss in light of the govt. rules.
6. As all the projects have sustained loss therefore it seems that proper feasibility of the projects was not carried out and the works were executed in hurry to favour some contractors.
7. Project staff was also not hired for the execution of the projects causing loss to the company.
8. Board of directors in their decision has clearly stated that loss was occurred due to negligence of the management but disciplinary action against the concerned officers was taken.

The irregularity occurred due to lack of planning and financial control of the management.

In DAC meeting held on 18.01.2023, management replied that the quarry sites were selected on the basis of prospecting reports of technical team including Geologist and Mining Engineer and approved by the Board.

DAC directed the management to submit a comprehensive report regarding failure of the projects and management involved in the selection of wrong sites for

joint venture projects besides fixing responsibility on the individual's held responsible.

Audit recommends compliance of the DAC directives.

Para-2 (PASDEC – 2019-21)

**9.6.4.2 Non-recovery of PASDEC share of income from joint venture partners - Rs. 199.783 million and non-imposition of penalty - Rs. 19.978 million**

According to Para 08 of the GFR Vol-1, subject to such general or specific rule, Revenue or Administrative Department concerned to see that the dues of Government are correctly and promptly assessed, collected and paid into the treasury.

According to agreements executed with the Joint venture firms, no distribution of profit will be made till the loss if any is adjusted /absorbed. up to the time repaid the entire investment provided by PASDEC, all the withdrawals by the JV from the accounts of joint venture would require due approval by CEO of the PASDEC.

During audit of the PASDEC for the year 2019-20 and 2020-21, it was observed that 05 contract agreements were executed with different joint venture firms for production of the export quality dimensional stone square blocks by developing the quarries all around the country. The quantity of blocks produced were required to be sell out for recovery of the PASDEC share of investment and then distribution of the net profit/ loss between both parties.

Audit observed that out of total sale of the marble blocks, the share of PASDEC up to March 2022 was Rs. 70,159,510, out of which Rs. 19,376,300 has been recovered with an outstanding recoverable amount of Rs. 199,783,210 causing loss to the company. Audit also observed that penalty clause was not included in any contract agreement and thus J/V partners were benefited at the cost of the PASDEC. Audit therefore holds that penalty @ maximum 10 % of the delayed payments amounting to Rs. 19,978,319 may be recovered from the contractor and deposited in to the PASDEC bank amount.

The irregularity occurred due to lack of internal and financial control.

DAC meeting was held on 18.01.2023. Management replied that those projects did not report any profit hence, no distribution of profit was made. The projects were again handed over on per ton basis and not on profit basis sharing. PASDEC had recovered Rs. 1.575 million from M/s Azad. Neither provision for penalty was available in the main contract nor would J/V partners pay it.

DAC directed the management to recover the amount from the contractors and verify from audit.

Audit recommends implementation of the directives of DAC.

Para-3 (PASDEC – 2019-21)

#### **9.6.4.3 Loss due to non-selling of old stock of blocks at quarries - Rs. 92.914 million**

According to rule 5 (5) of the Corporate Governance Rules 2013, 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:- 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.

Under the head "Model Quarries" of the approved PC-1 of the project "Development of marble & granite Sector" greater value per metric ton of stone will be achieved in the local market. Currently, rough boulders fetch an average of Rs. 1200/ton as opposed to 4,000/ton, the projected value of square blocks.

During audit of the PASDEC for 2019-20, it was observed that According to the agreements executed with different joint ventures of the quarry's firms, the blocks produced by the quarries were required to be sold and its auction amount be credited in to the PASDEC bank account. However, it was observed from the physical stock taking conducted by the internal committee on 30.06.2021, that a quantity of 27,294 of the old stock of blocks approximate valuing Rs. 92,914,100 was lying in different quarries (Annex-93). Audit observed that management of the PASDEC did not sell out the blocks in their year of production i.e. 2013-14 to 2019 and thus the average sale rate of blocks has decreased from the PC-1 rates ranging

from Rs. 1,500 to Rs. 4,000 to Rs. 500 to Rs. 1,800 (According to physical stock taking report) in different queries causing a loss of Rs. 49.835 million to the company. Further, a quantity of 6,940 at the enhanced rates valuing Rs. 43.079 million was also not sold which will reduced its value in the future.

Audit was of the view that due to lack of internal control of the management, company has sustained an overall loss of Rs. 92.914 million due to non- selling of the old stock of blocks immediately after its production (detail attached) therefore held irregular and requires justification.

The irregularity occurred due to lack of internal and financial control.

DAC meeting was held on 18.01.2023. Management replied that advertisements were floated for sale of leftover material. Since the leftover material was not at par therefore could not attract desired price in the PC-1 for management estimates. The entire stock of MQ Khuzdar, warehouse Gaddani etc. had now been sold.

DAC directed to dispose of the available material at competitive rates and approve from the BoD and justify the reasons for non-sale of stocks in time.

Audit recommends implementation of the directives of DAC.

Para-5 (PASDEC – 2019-21)

#### **9.6.4.4 Loss due to non-execution of promissory note and personal guarantee - Rs. 114.114 million**

According to Para 04 of the 1st addendum dated 14th July 2016 and Para 03 of the addendum dated April 2013, executed between the PASDEC joint venture partner Mr. Javed Khan of M/s Javed Khan Mining Company and Mr. Rahim Shah, the lease holders shall execute a promissory note and a continuing personal guarantee in favour of the PASDEC to the tune of an amount equal to the investment, made by the PASDEC in the project.

During audit of the PASDEC for the year 2019-20 and 2020-21, it was observed that PASDEC invested Rs. 58.155 million and Rs. 55.959 million with their joint venture partners Mr. Javed Khan M/s Buner and Mr. Rahim Shah the lease holders of dimensional quarries to develop/upgrade a quarry in the marble and granite sector of Pakistan. According to above agreement's Paras, both Joint venture partners were required to execute a promissory note and a continuing

personal guarantee, equal to their investment with the PASDEC Company but management of the PASDEC failed to obtain the same from the contractors and thus were benefited at the cost of the company.

Audit was of the view that due to non-obtaining the promissory note and personal guarantee, neither the contractors met their obligations for return of the PASDEC share of investment nor PASDEC was able to recover his share from the contractors therefore it was held irregular and violation of the agreement.

The irregularity occurred due to lack of internal and financial controls of the company.

DAC meeting was held on 18.01.2023. Management replied that the joint venture partners had signed an agreement where they promised to make payment against the PASDEC's investment. The contractor was regularly being pursued for recovery.

DAC directed the management to take promissory note from the concerned contractor as per addendum.

Audit recommends implementation of the directives of DAC.

Para-8 & 9 (PASDEC – 2019-21)

**9.6.4.5 Loss due to non-recovery of rent of machinery from contractor - Rs. 12.712 million and non-imposition of penalty on contractor - Rs. 1.271 million**

According to clause 04 (I) of the agreement with M/s Abbasi Mining, Mansehra Quarry owner and PASDEC dated. 20.02.2015, the monthly rent of the machinery/equipment shall be paid in advance at the rate mentioned in schedule-A per month, beginning on the day of delivery to site and on the first day of each succeeding month throughout on the basis of 208 working hours per month the term thereof, at the PASDEC's designated bank account .Any installment /payment not made by the fifth day of the month shall be considered overdue and in addition to other remedies, PASDEC may levy a late payment surcharge equal to one percent (1.0 %) per month on any overdue amount. Rent for any partial month shall be prorated.

Clause 04(v) of the said agreement states that in case of default on account of quarry owner (delay in payment/non- payment) the machinery from the quarry

will be removed immediately and security amount shall be forfeited & legal action According to law will be taken against the quarry owner.

During audit of the PASDEC for the year 2019-20 and 2020-21, it was observed that PASDEC entered in to a contract with M/s Attaullah Abbasi mines for providing machinery on rental basis vide contract agreement dated. 20.02.2015. The said agreement was further extended for another 04 years period w.e.f. 01-10-2017 to 30-09-2021 but contractor failed to give the rent and a sum of Rs. 12.712 million was outstanding as on 30.06.2021

Audit observed the following:

1. PASDEC failed to retrieve the machinery and contractor was benefited at the cost of company.
2. Clause for performance security was not included in the agreement to recover the loss in case of failure of the contractor.
3. Post dated cheques were not presented to the bank for encashment which were found dishonored by the bank but FIR was not lodged against the contractor.
4. Security amount of the contractor was not forfeited.
5. Contractor was allowed to get repair of machinery on behalf of the PASDEC which was violation of the agreement and PPRA 2004.
6. Penalty @ Rs. 1.0 % was not imposed on the contractor and thus benefited Rs. 1.271million.

The irregularity occurred due to lack of internal and financial control.

In DAC meeting was held on 18.01.2023, the management explained that out of total rent of Rs. 12.772 million as on 30th June 2021, an amount of Rs. 11.242 million had been recovered till December 2022.

DAC directed to verify the recovery from the Audit besides recovery of the penalty as per contract agreement clause.

Audit recommends implementation of the directives of DAC.

Para-11 (PASDEC – 2019-21)

**9.6.4.6 Loss due to non-billing to contractor Rs. 12.325 million and non-recovery of Rs. 3.405 million of rent of machinery**

According to clause 06 of the contract agreement No. Nil dated. 01.01.2019 signed between the PASDEC and M/s Shah Khalid of M/s Safi Marble Mining Company Yarakhel Distt. Mohmand, party two also agrees that in case of non-payment within due date (10th of every month) and services of final notice, party one will stop the machines and will start process of retrieval of the machinery. Party two shall be liable to make payment of transit insurance and transportation expenses in lieu thereof. In case of non- payment, party one will complete the process and expenses shall be billed to party two which it shall be liable to pay. According to PASDEC final notice for payment of outstanding dues vide letter No. PASDEC/MP/23831 dated. 27.01.2021, the contractor had agreed for the safe return of machinery and settle the outstanding payment.

During audit of the PASDEC for the year 2019-20 and 2020-21, it was observed that PASDEC entered in to a contract with M/s Shah Khalid for providing pool machinery on rental basis on 01.01.2019. Machinery was handed over to the firm vide issue voucher No. IV/MPR/2019 dated. 29.04.2019, 30.04.2019 and on 07.05.2019, PASDEC has made actual billing of Rs. 13,816,360 from January 2019 to June 2020 with a receivable balance of Rs. 3,405,950 as on 30.06.2020.

Audit also observed that Para 01 of the Arbitration proceeding held between PASDEC and M/s Shah Khalid Mining dated 04.11.2020 and final notice issued to the contractor vide letter dated. 27.01.2021 also shows that machinery was under the possession of the contractor up to 12.08.2021 for which no billing was made by the PASDEC. Audit therefore was of the view that PASDEC has also sustained a loss of Rs. 12.325 million (Annex-94) due to illegal utilization of the machinery by the contractor which may also be recovered from the contractor in addition to the outstanding balance of Rs. 3.406 million.

The irregularity occurred due to lack of internal and financial control.

In DAC meeting was held on 18.01.2023, the management replied that FIR was lodged against the contractor for presenting the dis-honoured cheques. An amount of Rs. 10.20 million was recovered from the contractor from 2018 to June

2020 whereas an amount of Rs. 3.5 million was receivable from the M/s Shah Khalid.

DAC directed to share the log book of the machineries and verify the recovered amount from Audit besides making efforts for the recovery of the remaining amount from the contractor.

Audit recommends implementation of the directives of DAC.

Para-13 (PASDEC – 2019-21)

**9.6.4.7 Non-recovery of outstanding rent, cost of repair and transportation charges - Rs. 12.108 million and loss due to non-imposition of penalty on contractor - Rs. 0.987 million**

According to clause 17 of the contract agreement No. Nil dated. 01.08.2016 signed between the PASDEC (party one) and M/s Pak International Marble Mining Mohmand Agency (Party two), the rented machinery will be kept by the party two for a maximum period of 180 days after which it has to be returned to PASDEC machinery pool (exception might apply but will have to be with consensus of party one). And Clause 15 of the said agreement states that PASDEC may take any action in case of default or in breach of this agreement by party two like lodging of FIR, filling legal suit against party two or any other action suitable to party one to safeguard its interest.

According to clause 08 of the contract agreement No. Nil dated. 09.02.2016 signed between the PASDEC (party one) and M/s Pak International Marble Mining Mohmand Agency (Party two), party one will pay be responsible to conduct routine repair and maintenance of machines.

Clause 10 of the agreement states that party two will pay the transportation charges for both sides and clause 13 of the agreement provides that party two will born the cost of transit insurance.

During audit of the PASDEC for the year 2019-20 and 2020-21, it was observed that PASDEC entered in to a contract with Mr. Imran Khan of M/s Pak international Shah Khalid for providing pool machinery on rental basis w.e.f. 01.08.2016. PASDEC has made actual billing of Rs. 10.316 million from 08.02.2016 to 31.12.2017, against which only Rs. 1.656 million had been paid with an outstanding balance of Rs. 8.660 million up to 31.12.2017. Further, rent for the

period 01.01.2018 to 30.06.2018 amounting to Rs. 1.201 million was also outstanding against the contractor. Moreover, an amount of Rs 2.247 million on account of repair and transportation expenses of machines and excavator were charged but failed to recover the same from contractor. Thus, due to non-payment of rent, transportation expenses and repair, the company sustained a loss of Rs. 12.108 million (Rs 8,660,140 + Rs 1,201,200 + Rs 2,246,574).

Audit observed the following:

1. PASDEC failed to retrieve the machinery According to agreement despite of the fact that contractor was not paying the rent to the company.
2. Agreement was not renewed after the termination of the 1<sup>st</sup> agreement and thus the machinery was utilized without approved contract agreement.
3. Performance security clause was not included in the agreement therefore the contractor was free from any obligation in case of default.
4. FIR was not lodged on the contractor for breach of contract agreement in time which was violation of the clause 15 of the agreement.
5. Security amount of the contractor was not forfeited in the favour of the PASDEC which was violation of the agreement.
6. Contractor was allowed to get repair on behalf of the PASDEC which was violation of the agreement and PPRA 2004.
7. Penalty clause for delay in payment of rent was not included in the contract agreement and thus company sustained a loss of Rs. 986,134 (9,861,340 x 10% maximum)
8. Original log books of the machinery provided to the contractor were not available on record except copy of some pages.
9. Copies of the log book shows that monthly summary was not prepared and signed by the manger concerned.
10. Exact date of return of the machinery was also not known to the audit as no inward and outward register of the machinery was maintained by the company.

The irregularity occurred due to lack of internal and financial control of the management.

In DAC meeting was held on 18.01.2023, the management apprised that court case for recovery of overdue amount along-with damages was decided in favor of PASDEC and its execution was being filed.

DAC directed to recover the amount from the contractor and verify from Audit.

Audit recommends implementation of the directives of DAC.

Para-14 & 19 (PASDEC – 2019-21)

#### **9.6.4.8 Loss due to irregular payment of adjustments by PASDEC to contractor - Rs. 12.415 million**

Clause 06 (i) of the rental agreement between PASDEC and M/s Abbasi Mining contractor dated. 20.02.2015 states that repair of machinery, beyond reasons attributable to quarry owner/bailee/lease owner, will be the responsibility of the PASDEC and Clause 10 of the rental agreement between PASDEC and M/s Abbasi Mining contractor dated. 02.10.2017 states that party one will perform repairs only for engine work, hydraulic system and electronic system of equipment/machinery. All other repair work shall be the responsibility of party two who will ensure that all repair work is carried out in presence of Party One's designated staff and preferably by OEM dealer recommended by Party one. And clause 11 states that party one has discretion to reduce monthly rent by a maximum of 5 days or 20 hours against those bread downs for which the party two is responsible to rectify.

During audit of the PASDEC for the year 2019-20 and 2020-21 and checking the ledger of M/s Abbasi Mining, it was observed that management allowed adjustments of Rs. 12,415,265 in the years 2015-16 to 2019-20 to the contractor on account of repair of machinery, break downs and payment of salaries to the staff of the company.

Audit observed that repair of work of the machineries beyond reasons attributable to quarry owner/bailee/lease owner, was the responsibility of the PASDEC. Similarly, payment of salaries to the staff was also the responsibility of the owner of the quarry and was not covered in both the agreements executed with the contractor in 2015 and 2017. Further no prior approval for the repair work or payment of salaries was taken from the company by the contractor. Repair work

was done without codal formalities causing violations of the PPRA 2004 as well as loss of due taxes to the Govt. Audit therefore was of the view that adjustments of Rs. 12.415million was made in violation of the agreements made with the contractor therefore held irregular and undue favour to the contractor.

In DAC meeting held on 18.012023, the management replied that contractor was paying salaries to ten operators and was requested to release their salaries. PASDEC had adjusted the routine repair cleaning and ancillary maintenance amount.

DAC directed to share SOPs in light of the agreement made with the contractor and recover the adjusted amount besides disciplinary action against the individuals held responsible for violation of the agreement.

Audit recommends implementation of the directives of DAC.

Para-16 (PASDEC – 2019-21)

**9.6.4.9 Non-transfer of ownership title of 100 acres land to PASDEC - Rs. 45.49 million**

Para 16 of the agreement between SDA and PASDEC dated 26.12.2006 requires that consequent PASDEC upon the payment of full cost of land all the interest of the SDA except for the responsibility for any defects whatsoever arising in the title of the land or dispute hereto, shall stand fully divested with all the rights and powers stand therein automatically conferred upon the PASDEC exclusively.

Para 04 of the letter No. SDDA/D(P & I)/M.City/1413 dated. 02/07/2008 states that prior approval of the Chief Minister NWFP will be solicited if M/s PASDEC requests for transfer of 100 acres land on permanent/owner basis, instead of lease.

During audit of the PASDEC for the year 2019-20 and 2020-21, it was observed that management of the PASDEC made payment of Rs. 84.156 million to the Sarhad Development Authority (SDA) now called KP-EZDMC for transfer of 185 acres of land. Accordingly, KPEZDMC transferred title of the ownership of 85 acres of land in favour of the PASDEC up to 2011 but the title of the remaining 100 acres of land costing Rs. 45.49 million has not yet been transferred till date of audit.

Audit observed that that management of the PASDEC did not make efforts for transfer of the title ownership in the name of PASDEC till date of audit, despite payment of all the dues of the KP-EZDMC up to 2011-12.

Audit was of the view that due to non- transfer of the ownership in the name of the PASDEC, the company was unable to further transfer the title of the owner ship in the name of the allottees which has badly affected the activities of the industrialists in the industrial estate at Risalpur therefore held irregular.

The irregularity occurred due to lack of internal and financial control.

DAC in its meeting held on 18.01.2023 directed to share the inquiry report of the Ministry with Audit and make efforts for obtaining the ownership of the 85 Acres of land from KP-EZDMC.

Audit recommends implementation of the recommendations of the DAC.

Para-25 (PASDEC – 2019-21)

**9.6.4.10 Irregular payment of salaries to staff without third party validation and consultation with Finance Division - Rs. 162.621 million**

According to 49th BOD meeting dated 26.04.2018, the board directed to appraise and revise the existing human resource policy through engagement of a consultant, According to Action required of the 34th HR committee in its meeting held on 26th April 2018.

During audit of the PASDEC for the year 2019-20 and 2020-21, it was observed that an expenditure of Rs. 162.621 million (Rs. 84.196 million and Rs. 78.425 million) was incurred on the payment of pay and allowances of the officers and staff respectively in above years. According to above decision of the board, the management hired the services of M/s Baker Tilly and awarded the work for Rs. 245,000 vide letter No. PASDEC /Proc /19953 dated. 03.10.2018. The firm submitted 03 drafts of HR policy but turned down by the management vide email dated. 22.05.2019.

Management approved and revised the first HR policy of the company from the board in the 25th meeting dated 06.08.2014 and then revised in 43rd meeting dated. 23.12.2016 and 25th June 2020. The pay structure and other fringe benefits of the staff of the company were approved accordingly in each HR policy.

Audit observed the following:

1. Pay structure and HR policy of the company was not was revived by the third party which was against the board decision.
2. Consultant's required action was not followed in letter and spirit which seems that the report was against the interest of the management.
3. Being public sector entity Company, consultation from the finance division was not obtained for revision of the HR policy.
4. All appointments were being made on one year contract basis and extension is being granted for another year on the basis of their performance. This shows that employees are not regular hence payment of the gratuity and leave encashment to the contract staff was not authorized.
5. Pay structure of the employees was not approved up to 2020 and appointments were at the discretion of the CEO /Board of Directors which is against the rules.

The irregularity occurred due to lack of interest of the management in the affairs of the company and not following the directions of the BoD

In DAC meeting held on 18.01.2023, the management explained that during execution of the task it was observed that consultant had limited knowledge of government entities and on the other hand the quoted rates of other bidders were higher than the financial capacity of the PASDEC.

DAC directed the management to share the draft reports of the consultant with Audit and refer the case to the Finance and Establishment Division for their decision on the approval of the HR policy by the BoD without their consents and approval.

Audit recommends to intimate the reasons for non-vetting of the HR policy from Finance Division and consultant besides justifying payment of gratuity and leave encashment to the contract staff and pay structure may be revived in light of the fresh govt. orders for the autonomous bodies.

Para-29 (PASDEC – 2019-21)

#### **9.6.4.11 Wasteful expenditure on procurement of machinery and loss due to non-utilization of machinery - Rs. 71.407 million**

Rule 02-A (03) of the public sector companies (corporate governance) rules, 2013, states that Public Sector Company shall not be regarded as conducting

its business in a sound and prudent manner if it fails to conduct its business with due regard to the legitimate policy objectives and development targets of the Government.

According to the revised PC-1 of the project “Development of Marble & Granite Sector” duly approved by the CDWP vide Ministry of Industries & Production letter No. F. 3(24)/2007- Projects dated 03. 03. 2011 requires the construction of the CFT and ware house.

During audit of the PASDEC for the year 2019-20 and 2020-21, it was observed that according to revised PC-1 of the above project, an allocation of Rs. 460.30 million and Rs. 140 million was made for the establishment of the Community facility and training Centre (CFTC) for ware house respectively. Audit observed that 02 Gang Saw machines (made in Italy) and gantry crane machine costing

Rs. 62.348 million (@ Rs. 31,173,893 each) and Rs. 9.059 million total Rs. 71.407 million were procured on 29.12.2012 and 30.06.2012 respectively for operationalization of the Community Facility and Training Centre and Ware House in Risalpur and Gaddani. Both the machineries are lying un-installed and without inspection by the technical team in the machinery yards at Risalpur and Gaddani since its procurement. The value of the machinery of Gang Saw and Gantry Crain after depreciation cost up to 2020-21 comes to Rs. 23.077 million( Rs 11.538 million x 02) each and Rs. 716.592 million respectively.

Audit was of the view that due to lack of interest of the management in the affairs of the company, Govt. not only sustained a huge loss of Rs. 71.407 million but the purpose and aim of the establishment of the CFTC. Further, providing training facilities to the community was also not achieved therefore held irregular and violation of the PC-1.

Matter was reported to the management on 19.06.2021 and 22.12.2022 but no response was received.

In DAC meeting held on 18.01.2023, the management was directed to conduct a fact finding inquiry to fix responsibility for non-operationalizing the CFTC and warehouse despite lapse of more than 10 years period. Further it was

also directed to know whether the warranty period of the machineries has expired or not.

Audit recommends implementation of the recommendations of the DAC.

Para-30 (PASDEC – 2019-21)

#### **9.6.4.12 Irregular appointment of the Chief Executive Officer - Rs. 43.056 million**

According to advertisement dated 13.01.2015 issued for vacant position for the post of CEO requires that experience of 10 to 15 years (minimum) at corporate level of which preferably 03 to 05 years minimum relevant experience in marble and granite sector at top management position. Further knowledge of supply chain in marble and granite industry of Pakistan preferably its linkages at international level will be added advantage.

During audit of the PASDEC for the year 2019-20 and 2020-21 it was observed that Mr. Zahid Maqsood was appointed as Chief Executive Officer in PASDEC vide office order No. 1395/DA dated 25.09.2015 for a period of three years Further office order for appointment was issued on 25.09.2015 whereas the officer joined the company on 10.08.2015 vide Para A of the appointment letter.

Audit observed that the officer had an experience of 15 years and 04 months in the investment banks like Trust Investment Bank, Delta Shipping Ltd. and crescent standard Investment banks and that too in lower position.

Audit was of the view that the officer had no experience of marble and granite sector as well as top level management and international exposure due to which the company did not achieve its basic objectives of promoting the mechanized mining of marble and granite in the country and the company sustained a regular loss due to stoppage of the quarries established up to 2011-12.

Audit therefore was of the view that due to appointment of the CEO in violation of the above rules and relevant experience, the company was put in to a loss, thus the Pay & allowances amounting to Rs. 43.057 million (672,758 x 64 months) paid to the officer was held irregular.

The irregularity occurred due to lack of internal control of the management.

In DAC meeting held on 18.01.2023, the management stated that the officer was qualifying the mandatory criteria of 10 to 15 years at corporate level while background from marble & granite sector was not mandatory.

DAC directed to justify the position before PAC.

Audit recommends implementation of the recommendations of the DAC.

Para-31 (PASDEC – 2019-21)

#### **9.6.4.13 Irregular appointment of Chief Finance Officer without advertisement and competition - Rs. 6.566 million**

According to Para 4.3 of the HR policy recommended in the 25th HR committee meeting held on Aug 06, 2014 and approved by the BOD that:

- all vacant or new positions shall be advertised
- In general positions for professional employees shall be advertised in at least one national English language newspaper and may also be placed on the web.

Para 4.1 of the HR policy 2014 and 7.1 & 7.3 of HR policy 2016 states that PASDEC will appoint the qualified candidate on all positions whether the applicant is internal or external.

According to Annexure–I of the HR policy recommended in the 25th HR committee meeting held on Aug 06, 2014 and approved by the BOD, the required qualification for appointment to the post of level II officers is master degree duly recognized by the HEC in management sciences or engineering or financial management/CA/ ACMA /ACCA with 12 years' post qualification, relevant experience.

During audit of the PASDEC for the year 2019-20 and 2020-21 it was observed that Mr. Shahzad Basharat was appointed as Chief Finance Officer (CFO) vide office order No. PASDEC/ISB/6935 dated 14.01.2016 without open competition by advertisement of the post in the daily newspapers in violation of the above criteria. The officer was paid salaries amounting to Rs. 6,566,424 (273,601 p.m. x 24) up to March 2022. The officer had only experience of 07 years and 09 months as Finance and management officer till date of appointment as CFO. HR rules were silent about the required experience for the post of CFO. Audit observed that appointment policy of the PASDEC was not According to H.R.

policy 2014 and appointment of the officer was made directly by the Board without competition which was violation of the said policy therefore held irregular and violation of the rules. Audit further observed that the officer has not claimed the benefit of the previous services at the time of fresh appointment as CFO therefore will definitely claim the gratuity and leave encashment at the higher rates for the whole services including lower grade services as Management and accounts officer in PASDEC.

Audit therefore was of the view that appointment of the CFO without open and healthy competition and having low professional experience in executive grades was held irregular and violations of the HR policy of the company as well as government instructions.

The irregularity occurred due to lack of internal control of the management.

DAC in its meeting held on 18.01.2023 directed to conduct a fact finding inquiry at Ministry level for appointment of the officer without advertisement, competition and approved criteria in violation of the HR Policy. It was also decided to advertise the post within 30 days through open competition in light of the HR Policy of the company and prevailing government rules.

Audit recommends implementation of the recommendations of the DAC.

Para-32 (PASDEC – 2019-21)

#### **9.6.4.14 Irregular promotion to higher grades and appointment as company secretary without advertisement / competition - Rs. 3.75 million**

According to Para 4.3 of the HR policy recommended in the 25th HR committee meeting held on Aug 06, 2014 and approved by the BOD and Para 7.3 of the HR policy 2016,

- all vacant or new positions shall be advertised
- In general positions for professional employees shall be advertised in at least one national English language newspaper and may also be placed on the web.

Para 4.1 of the HR policy 2014 and Para 7.1 of the HR policy 2016 states that PASDEC will appoint the qualified candidate on all positions whether the applicant is internal or external.

During audit of the PASDEC for the year 2019-20 and 2020-21 it was observed that Miss. Rukhsana Iqbal was appointed as Management Associate vide office order No. PASDEC/ISB/HR& T/38/007 dated 23.02.2007 on a monthly gross salary of Rs.20000 per month. The officer has been paid salaries amounting to Rs. 3,754,440 (156,435 PM x 24) for the year 2019-20 and 2020-21 (upto March 2022) for the post of Company Secretary.

Audit observed the following:

1. The officer was promoted as senior management associate vide office order No. PASDEC/IBD/07/1097 dated. 22.09.2007 and pay fixed as Rs. 21,000 P.M. after 07 months of her initial appointment without any solid reason by the management which was violations of the company rules and government instructions.
2. The officer was further granted promotion to the post of Assistant Manager in level IV of the company on monthly gross pay of Rs. 29,265 P.M. vide office order No. PASDEC/IBD/08/ dated 30.07.2008 i.e. after 10 months of her 2<sup>nd</sup> promotion which was undue favour to the officer by the management.
3. The officer was again promoted as Manager Procurement in level EL-1 vide office order No. PASDEC/IBD/HR-16/10620 dated. December 2016 without open competition which was violation of the HR policy 2014.
4. The officer was again appointed as Company Secretary at a gross salary of Rs. 150,000 P.M. vide officer order No. PASDEC/CEO/10912 dated 11.02.2019 without open competition by advertisement in the two newspapers and without having the required professional experience which was violation of the HR policy of the company and government instructions.
5. As the officer has been appointed in the higher grade as company secretary therefore will definitely claim the gratuity and leave encashment of the lower grades service which is against the HR policy and financial rules therefore audit recommends to pay the gratuity and leave encashment According to her pay in the lower grades to avoid overpayment in future.

In light of above, audit was of the view that officer was promoted without fulfilling the required length of service and appointed in higher grades without open completion and required length of service for the subject post therefore held irregular, violations of the HR policy and undue favour at the cost of the company.

The irregularity occurred due to lack of internal and managerial control.

DAC in its meeting held on 18.01.2023 directed to conduct a fact finding inquiry at Ministry level for fixing responsibility on the individuals held responsible for frequent promotions to the higher grade in violation of the approved HR Policy of the company. It was also decided to advertise the post within 30 days by adopting open competition in light of the HR Policy of the company and prevailing government rules.

Audit recommends implementation of the recommendations of the DAC.

Para-33 (PASDEC – 2019-21)

**9.6.4.15 Mis-appropriation of funds - Rs. 89.90 million and loss due to non-recovery of interest - Rs. 4.9 million**

Para 05 (5) of the corporate governance rules states that 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:-

The principle shall be adhered to, especially with respect to the following, namely:-

- handling of public funds, assets, resources and confidential information by directors, executives and employees;

Para 23 of the General Financial Rules Vol-1, requires 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 and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

During audit of the PASDEC for the year 2019-20 and 2020-21, it was observed that cheques worth Rs. 89.900 million were drawn from different bank accounts of the company without pre-audit and retained as pay orders in the name of the PASDEC without any lawful authority. Funds were re-deposited up to

September 2019 in to the relevant bank accounts. Audit further observed that drawl of the funds and retention for more than 10 months period has led to misappropriation of the funds by the CEO and other joint signatories of the bank accounts (all contractual staff) therefore considered as irregular and violations of the financial rules and public funds management. It was further revealed that either the drawl of funds from the bank accounts were not known to the chartered accountant's firm or mis-represented in the financial statements for the year ended on 30th June 2020 as no disclaimer statement was issued to the company.

Audit was of the view that due to drawl and retention of funds from bank accounts, the company had also sustained an interest loss of Rs. 4.924 million which may also be recovered from the concerned officers.

The irregularity occurred due to lack of internal and financial control.

DAC in its meeting held on 18.01.2023, directed to conduct inquiry at the Ministry level for fixing responsibility on the individuals held responsible for drawl of the amount from banks besides recovery of the interest amount from the concerned officers.

Audit recommends implementation of the recommendations of the DAC.

Para-34 (PASDEC – 2019-21)

#### **9.6.4.16 Irregular payment of salaries to casual / daily wage staff - Rs. 41.761 million**

According to HR policy of the PASDEC duly approved by the board of directors on 25th June 2020, Company may hire a person in case of emergency on casual basis for a period of three months. In exceptional cases such employees may be retained for longer period, subject to need of the company/project. Such employee will be entitled for lump sum salary only. And company and projects may hire employee on daily wage basis for maximum period of 75 days.

During audit of the PASDEC for the year 2019-20 and 2020-21, it was observed that management has hired 61 casual staff/ daily wage and internee employees in different departments and expenditure of Rs. 41.761 million had been incurred on their pay in above two years. The staff had been hired since long and still working without any solid reason in support thereof which is against the above policy of the company. Casual staff was regularly working without any gap in their

service therefore may claim all their service benefits in future. The management had no clear policy for fixing the pay for casual staff and different employees had been paid according to the will and wish of the authority.

Audit further observed that some casual staff appointed against different closed projects / non- functional projects, therefore retention of the casual staff without requirements against such projects is a burden on the company. Similarly, the management had retained the casual staff in the Gaddani office which was almost non-functional since 2019 therefore considered as giving undue benefit to the dear ones at the cost of the company.

Audit therefore was of the view that retention of the casual staff after 03 month and daily wage employees after 75 days was considered as irregular and violation of the HR policy.

The irregularity occurred due to lack of internal and financial control.

DAC in its meeting held on 18.01.2023 directed to conduct a fact finding inquiry at Ministry level for fixing responsibility for retention of the casual / daily wage staff above the maximum period of 75 days in violation of the HR Policy.

Audit recommends implementation of the recommendations of the DAC.

Para-35 (PASDEC – 2019-21)

#### **9.6.4.17 Loss due to non-investment of funds - Rs. 151.862 million**

According to Para 07 and 08 the Finance Division notification No. F.4(1)/2000-BR-II dated. 02.07.2003, the Principal Accounting Officer of the ministry concerned will be responsible for the implementation of the instructions regarding investment of the surplus funds by the PSEs/local/autonomous bodies under his control. The Chief Executive of PSE/Local/Autonomous body will be required to issue a certificate on annually basis that the above instructions are being followed in respect of the working balance and surplus funds of the organization.

Para 08 states that all the PSEs/local/autonomous bodies under the administrative control of the PAO may please be directed to keep their working balances and invest their surplus funds in accordance with the above-mentioned policy instructions.

During audit of the PASDEC for the year 2019-20 and 2020-21, it was observed that surplus funds to the tune of Rs. 60.815 million and Rs. 91.047 million were available in the different bank accounts of the company on 30.06.2019 and 30.06.2020 respectively (Annex-95) total Rs. 151.862 million but management failed in proper planning of the determining the working balances for the year and investment of the surplus funds in different banks According to Finance Division investment policy to earn a higher profit on the funds available with the company. The company has sustained an interest loss of Rs. 11.122 million in above two years

Due to poor financial management, company was deprived of the expected higher income of Rs. 11.122 million therefore held irregular and violations of the Govt. instructions.

The irregularity occurred due to lack of internal and financial control.

DAC in its meeting held on 18.01.2023 directed to inquire the matter for non-investment of the surplus funds and sustaining loss to the company.

Audit recommends implementation of the recommendations of the DAC.

Para-36 (PASDEC – 2019-21)

**9.6.4.18 Irregular expenditure on marble city without approval of competent forum - Rs. 655.303 million**

According to clause 3(3.3) of the guidelines for project management dated August 2008, it is mandatory that the projects of Infrastructure Sector and Production Sector costing Rs. 300.00 million and above should undertake proper feasibility studies before the submission of PC-I. According to Clause 3.7 of the guidelines:

<b>Approving Authority</b>	<b>Cost Limit Departmental Development</b>
Working Party (DDWP)	Up to Rs.40 million
Central Development Working Party (CDWP)	Up to Rs.500 million
Executive Committee of National Economic Council (ECNEC)	More than Rs.500 million
Provincial Development Corporations and Autonomous Bodies/CDA Working Party (PDWP)	Rs.5000 million
Corporations and Autonomous Bodies/CDA	No Limit *

\*with 100% self-financing with no government guarantee and involving less than 25% foreign exchange/foreign assistance.

Clause 3(3.11) states that the autonomous organizations whether commercial or non-commercial having Board by whatever name called, are competent to sanction their development schemes with 100% self-financing with no government guarantee and involving less than 25% foreign exchange/foreign assistance, subject to fulfillment of certain conditions which are given at Annex-VII.

During audit of the PASDEC for the year 2019-20 and 2020-21, it was observed that Economic Coordination Committee granted approval for obtaining loan of Rs. 400 million from banks at market rate of interest with GoP guarantee vide case No. ECC-126/13/2008 dated. 26.08.2008. Accordingly, the management obtained a loan of Rs. 400 million from Emirates Global Islamic bank and settled the principal sum along-with the interest thereon up to 2016.

Work on the construction of the marble city was started without fulfillment of the codal requirements and awarded to the contractors/consultants without approval of the competent forum i.e. ECNEC.

(Rs. in million)

S #	Scheme/Work	Contractor/Consultant	Estimated cost of	Actual cost of work up to date of audit
1	Infrastructure work/Civil Work	M/s Abid Brothers	441.861	522.126
2	Supervisory consultant	National Industrial Parks & MC	-	14.938
3.	Design consultant	Pervaiz Iqbal & Associates	-	11.779
4.	Grid Station	PESCO	125.834	106.46
	<b>Total :-</b>			<b>655.303</b>

Audit observed the following:

- 1 Feasibility study/report for the complete work of the Marble city Risalpur was not prepared or shown to audit.
- 2 PC-1 of the project was not prepared from the competent forum i.e. ECNEC, which was violation of the project management guidelines.
- 3 Technical Sanction of the civil work was not obtained.
- 4 The company did not initiate the works according to the loan obtain from bank causing delay in the work resulting in to cost over- run of the project.
- 5 Annual financial planning/phasing of the project was not made and liability created causing time and cost over-run of the project.

- 6 Due to non- availability of the required funds, M/s Abid Brothers was given the plots in exchange of his running bill with the approval of the BoD which was violation of the by-laws of the marble city project Risalpur.
- 7 Technical project team was not appointed for establishing the marble city project and work was awarded without technical team and proper planning.

The irregularity occurred due to lack of internal and financial control.

DAC in its meeting held on 18.01.2023 directed to fix responsibility for execution of the work without approval of the competent forum. It was also decided to justify the allotment of the plot to the contractor against his contractor bill.

Audit recommends implementation of the recommendations of the DAC.

Para-37 (PASDEC – 2019-21)

#### **9.6.4.19 Irregular expenditure on salaries and others - Rs. 25.956 million**

According to para 11 of GFR Volume 1, each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers

During audit of the PASDEC for the year 2019-20 and 2020-21, it was observed that management of the PASDEC has incurred expenditure of Rs. 25,956,307 on payment of salaries and non-salaries expenditure of the machinery pool Gaddani and Karachi, Quetta and CFTC offices. The record revealed that Gaddani office has a machinery pool comprising of 04 excavators, 03 loaders, wire saw, 08 generators, Chainsaw and other costly machinery but management failed to rent out the machinery to the contractors and thus failed to earn a single penny from this office. Similarly, the Karachi office was neither given any specific task by the management nor performed any work.

Audit therefore was of the view that both offices are burden on the PASDEC but management has not taken any corrective measures for either increasing the revenue or closing these offices to avoid further loss to the company. The costly machinery available in Gaddani machinery pool may either be rented out on emergent basis to the contractors or be shifted to other places for earning revenue for sustainability of the company. The existence of the other offices like Karachi and Quetta meant for coordination purpose without any actual

performance also needs to be justified to save the company from huge recurring loss in future.

The irregularity occurred due to lack of internal and financial control.

DAC in its meeting held on 18.01.2023 directed to submit the performance report, revenue collected by these offices and expenditure incurred on it for deciding the future of the offices.

Audit recommends implementation of the recommendations of the DAC.

Para-38 (PASDEC – 2019-21)

## 9.7 Small and Medium Enterprises Development Authority

### 9.7.1 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 is primarily working as an apex policy making 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.

### 9.7.2 Comments on Audited Accounts

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

(Rs. in million)

	2019-20	%Inc / (Dec)	2018-19	%Inc / (Dec)	2017-18
<b>Income</b>					
Grant	254.920	3.41	246.502	3.48	238.221
Income from services	3.774	46.51	2.576	(39.10)	4.230
Income from projects	42.637	134.15	18.209	655.56	2.410
Other income	9.335	363.74	2.013	75.04	1.150
<b>Total income</b>	<b>310.666</b>	<b>15.36</b>	<b>269.300</b>	<b>9.47</b>	<b>246.011</b>
<b>Expenditure</b>					
Salaries, wages and other benefits	179.279	4.06	172.284	14.02	151.104
Traveling and vehicle running	33.976	0.46	33.822	14.24	29.607
Repair and maintenance	3.322	(14.67)	3.893	(5.28)	4.110
Depreciation	3.034	(17.01)	3.656	(15.88)	4.346
Rent Rates and taxes	28.816	11.29	25.893	10.08	23.522
Projects expenditure	32.175	316.94	7.717	205.50	2.526
Provision for staff gratuity	28.338	17.66	24.085	(6.64)	25.799
Other expenditure	30.856	(8.25)	33.631	(3.91)	35.001
<b>Total expenditure</b>	<b>339.796</b>	<b>11.42</b>	<b>304.981</b>	<b>10.49</b>	<b>276.015</b>
(Deficit) / surplus of income over expenditure	(29.130)	-	(35.681)	-	(30.004)

(Source: Annual Audited Accounts)

Income of the authority increased from Rs. 269.300 million during 2018-19 to Rs. 310.666 million registering an increase of Rs. 41.366 million. Whereas, the deficit was decreased from Rs. 35.681 million to Rs. 29.130 million registering decrease of Rs. 6.551 million only. This scenario indicates that despite increase in revenue, the management failed to control its expenditure resulted proportionately less decrease in deficit.

**9.7.2.2** Income from projects was increased from Rs. 18.209 million during 2018-19 to Rs. 42.637 million registering an increase of 134.15%. Whereas, project expenditures were increased from Rs. 7.717 million to Rs. 32.175 million registering an increase of 316.94%. This scenario indicates that the increase in project expenditure was more as compared to projects income.

**9.7.2.3** The accumulated deficit was increased to Rs. 139.834 million upto June 30, 2020 due to increase in deficit from year to year basis. This indicates that the company is incurring expenditure beyond the resources. So on, the employees benefit obligations was also increased to Rs. 181.710 million upto June 30, 2020. Against this liability, the company has assets of Rs. 126.365 million only as on June 30, 2020. This picture raised serious questions on the viability of the authority by keeping in view the going concern of the business. The management should make a plan in order to curtail its expenditure and to make the authority viable.

**9.7.2.4** The authority disposed off different assets during 2019-20 and obtained gain on sale of assets valuing Rs. 3.196 million. The detail of assets sold out along with complete detail of bidding process may be provided to audit for scrutiny.

**9.7.2.5** The funds valuing Rs. 32.525 million was lying in current bank account as on June 30, 2020. The management should ascertain the requirement of working capital and surplus funds should be placed in saving bank account in order to earn profit.

**9.7.2.6** The other liability under head "Trade and other Payables" was increased from Rs. 0.003 million during 2018-19 to Rs. 3.937 million registering an increase of 131,133.33%. The huge increase in other liability needs to be explained.

**9.7.2.7** The authority was established to provide support and develop the small and medium business. To achieve the objectives, the authority has executed numerous projects since its inception. Currently, different projects namely;

National Business Development Program (NBDP), Sports Industrial Development Centre (SIDC), Product Development Centre (PDC) for Composite Based Sports Goods, Industrial Stitching Units (ISU), Sialkot Business & Commerce Centre (SBCC), Fruit De-hydration Unit (FDU), Fruits, Vegetables and Condiments Processing Centre (FVCPC), Small & Medium Enterprises Facilitation Centre (SMEBFC), Business Skills Development Center for Women (BSDC-W), etc. are being executed by the authority. However, during review of annual accounts for the year 2019-20, it was noted that the annual audited accounts of these projects were not included in the annual audited accounts of the SMEDA. The management should prepare the individual accounts of each project and then these accounts should be consolidated with SMEDA annual accounts in order to obtain the true and fair view of the funds received from Government of Pakistan but the management failed to do so. The management may be explained the reasons for non-consolidation of annual accounts of the projects with the accounts of SMEDA and in future, the annual accounts of all projects shall be consolidated with SMEDA annual accounts.

### 9.7.3 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	09	06	03	114.4, 114.5, 114.6	67
2015-16	04	0	04	8.26.1, 8.26.2, 8.26.3, 8.26.4.1	0
<b>Total</b>	<b>21</b>	<b>10</b>	<b>11</b>		<b>48</b>

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

## **9.8 State Engineering Corporation (Pvt.) Ltd**

### **9.8.1 Introduction**

State Engineering Corporation (Pvt.) Ltd. (SEC) was incorporated in 1973 under the Companies Ordinance 1913 (now Companies Act 2017) with a paid up capital of Rs. 836 million fully subscribed by the Federal Govt. The Corporation is working under the administrative control of Ministry of Industries and Production. As at June 30, 2019, the company has fully paid up Capital of Rs. 889.96 million. Moreover the company also has Govt. Equity Fund of Rs. 2,249.76 million (Rs. 2,249.76 million on June 30, 2018) representing the funds available for issue of shares to GoP.

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 Corporation manages and controls important segments of Engineering Industry of Pakistan. The industrial units are dealing in designing, engineering, manufacturing and supply of light, medium and heavy engineering plants and machinery.

The core objectives of the Corporation are as follows:

- To promote Industrial Self-reliance and build a sound technical/Industrial base in the country.
- To upgrade facilities for maximum possible indigenization and maintenance of technological edge over other domestic competition.
- To induct local and foreign Private Sector Partners, whenever possible, to promote joint ventures with them for achieving higher operational efficiencies.

## 9.8.2 Comments on Audited Accounts

9.8.2.1 The working results of the Corporation for the year 2021-22 as compared to previous years are given below:

(Rs. in million)

Description	2021-22	% Inc / (Dec)	2020-21	% Inc / (Dec)	2019-20
<b>Income</b>					
Service charges	30.000	(14.286)	35.000	(36.360)	55.000
Interest income	6.118	90.711	3.208	(29.650)	4.560
Total income	<b>36.118</b>	<b>(5.470)</b>	<b>38.208</b>	(35.850)	<b>59.560</b>
<b>Expenditure</b>					
Operating expenses	(35.593)	(8.033)	(38.702)	(21.370)	49.220
<b>Operating Profit/(loss)</b>	<b>0.525</b>		<b>(0.494)</b>		<b>10.340</b>
Profit/(loss) before Taxation	<b>0.537</b>		(0.501)		<b>10.490</b>
Taxation	<b>(2.400)</b>	<b>(14.286)</b>	(2.800)	(36.360)	4.400
Profit / (loss) after Taxation	<b>(1.863)</b>	<b>(43.563)</b>	<b>(3.301)</b>	(154.090)	<b>6.090</b>
Accumulated profit/ (loss)	<b>(1,227.953)</b>		<b>(1,226.090)</b>		<b>(1,222.790)</b>

(Source: Annual Audited Accounts)

Total income of the corporation decreased by 5.470% from Rs. 38.208 million to Rs. 36.118 million due to decrease in service charges which reduced by 14.28% from Rs. 35.00 million in 2020-21 to Rs. 30.00 million during 2021-22. Due to decrease in income, the corporation sustained a net loss of Rs. 1.863 million in 2021-22 as against the loss of Rs. 3.301 million in 2020-21. Accumulated loss of the Corporation has grossed up to Rs. 1.863 million over the years, continuous trend in losses raised doubts about the corporation's ability to run as a "Going Concern".

9.8.2.2 The Corporation has increased interest income by Rs. 90.71% from Rs. 3.208 million in 2020-21 to Rs. 6.118 million during 2021-22. Although it is a good sign for the corporation, however, the procedure of investment through TDR, advertisement, bidding process may be provided to audit for scrutiny.

9.8.2.3 Long Term Loans include an amount of Rs. 915,000/- to Heavy Mechanical Complex (Private) Limited, carrying markup of 10% per annum. Heavy Mechanical Complex (Pvt.) Limited has neither made payment of principal nor 10% markup amount since 2009. Audit was of the view that it shows serious negligence of the management. Hence, present status and reasons for non-recovery of loan by the corporation is required from the management.

**9.8.2.4** Loan from Government has increased from Rs. 208.283 million in 2020-21 to Rs. 233.283 million in 2021-22 registering an increase of Rs. 12.00%. This represents loan received from Ministry of Finance / Industries & Production for annual operational expenses, new induction and expansion in future. Terms and conditions of this loan were not settled. Finance Division had claimed repayment of loan but no amount was paid. Audit would stress the management to settle the terms and condition and repayment schedule with the Government.

**9.8.2.5** Operating Expenses show an increase in respect of Director's fee by 133.33% from Rs. 0.60 million in 2020-21 to Rs. 1.40 million during 2021-22. Provide justification alongwith supporting documents for such a huge increase in the subject expenditure.

**9.8.2.6** Operating Expenses shown an amount of Rs. 0.875 million paid on account of Zakat. Whereas, under Zakat and Ushar Ordinance, 1980, (XVIII of 1980) the corporation was not liable for payment of zakat. The same has also highlighted by the Chartered Accountants in the "Report on other legal and regulatory requirements".

Chartered Accountant has given qualified opinion on the following basis:-

**9.8.2.7** During the year, the corporation revalued its land measuring 1,746 Kanal and 09 Marlas using market price valuation method which resulted in a revaluation surplus of Rs. 3,492 million. Out of total land, 800 Kanal area of land is in the possession of Pakistan Atomic Energy Commission under a joint venture agreement dated May 17, 1992 and 850 Kanal area of land is in the possession of Heavy Mechanical Complex (Private) Limited. Resultantly, the Corporation, without having clear possession, cannot utilize all of the economic benefits associated with the land as the land in the possession and use of above mentioned government entities cannot be used or sold in active market. Therefore, this land cannot be revalued using market price valuation method as the external auditors have given their qualified opinion in this regard. Audit would stress to resolve the issue with its associated undertaking for valid valuation of its land assets.

**9.8.2.8** The Company has recorded provision for gratuity as per management's estimates instead of actuarial based valuation as per requirements of IAS 19- 'Employee Benefit'. The management's estimates did not account for financial,

demographic and other actuarial assumptions for calculation of present value of the provision against gratuity. The impact of difference of provision from actuarial valuation cannot be quantified. Audit would require the management to adopt standard method of valuation in consultation with their external audit firm.

**9.8.2.9** Due from associated undertakings include balance of Rs. 5.885 million receivables from Heavy Electrical Complex (Private) Limited being unreconciled against payable balances shown in the financial statements of Heavy Electrical Complex (Private) Limited.

### 9.8.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1996-97	05	04	01	163	80
1998-99	04	03	01	257	75
1999-00	06	0	06	319, 320, 321, 322, 323, 324	-
2000-01	05	04	01	296	80
2002-03	03	01	02	89 & 90, 90.2	33
2003-04	05	02	03	102, 102.1, 102.4	40
2005-06	06	02	04	129.1, 129.2, 129.4, 130	33
2008-09	05	04	01	120.1	80
2009-10	04	03	01	129	75
2013-14	07	01	06	8.17.1, 8.17.2.1, 8.17.2.2, 8.17.2.3, 8.17.2.4, 8.17.2.5, 8.17.2.6	14
2015-16	09	0	09	8.18.1, 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	0
<b>Total</b>	<b>59</b>	<b>24</b>	<b>35</b>		<b>41</b>

The compliance of the PAC directives was not satisfactory which need attention of the PAO.