



REPORT

OF THE

PUBLIC ACCOUNTS COMMITTEE

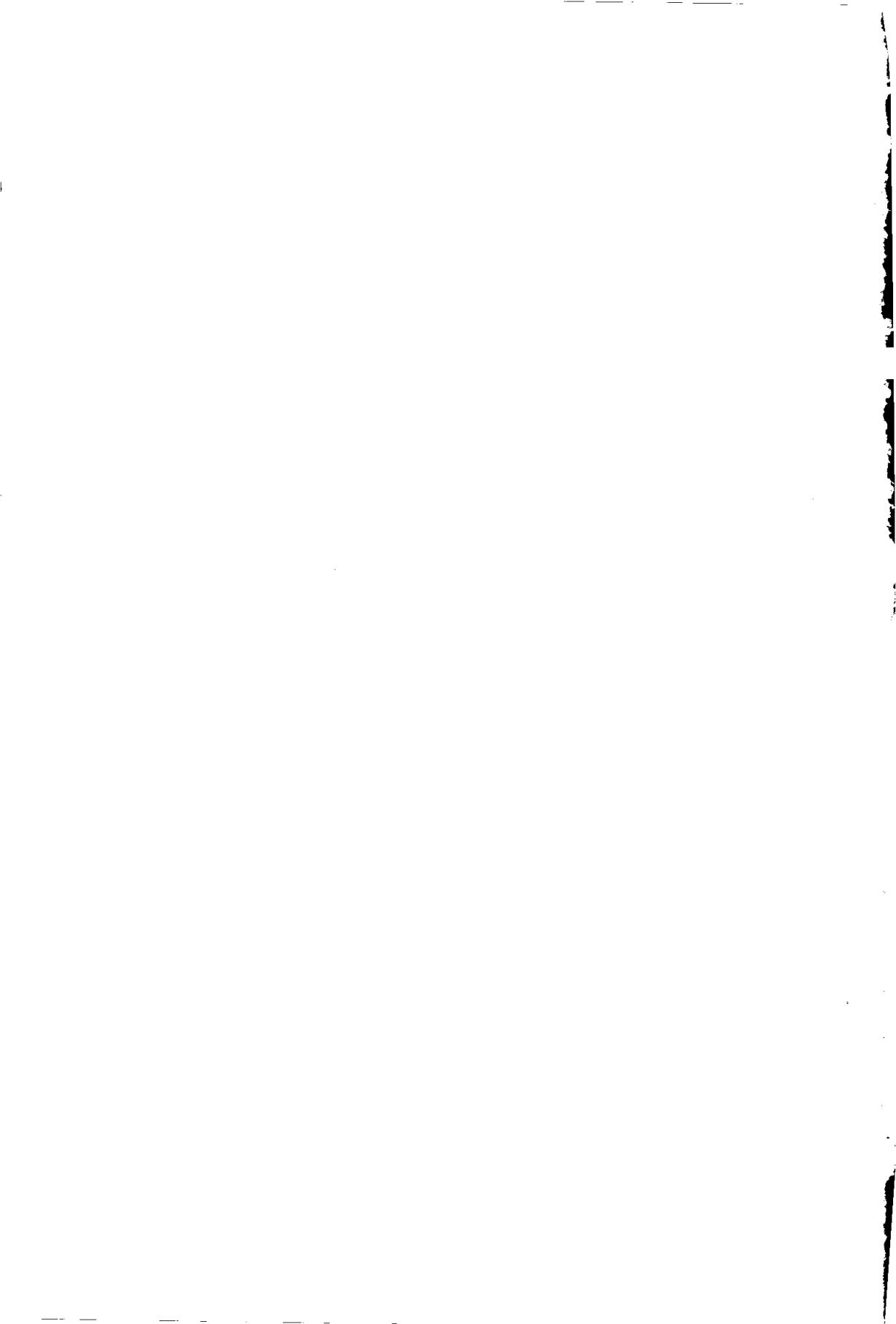
ON THE

ACCOUNTS OF THE

GOVERNMENT OF PAKISTAN

FOR THE YEAR

1978-79



بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

NATIONAL ASSEMBLY SECRETARIAT

REPORT OF THE AD-HOC PUBLIC ACCOUNTS COMMITTEE ON THE ACCOUNTS OF THE FEDERAL GOVERNMENT FOR THE YEAR 1978-79

Introductory

This Report of the *Ad-hoc* Public Accounts Committee on the Federal Accounts is the ninth since it started functioning on October 4, 1978. The Committee had then before it the stupendous task of examining the Federal Accounts for 1970-71 (part) and the succeeding six years. Between October 4, 1978, when it met first, and its last meeting on April 16, 1981, the Committee held 13 sessions stretching over 65 meetings on as many days. By the end of its last session, it had completed the examination of the Federal Accounts for 1978-79, bringing itself fully up-to-date.

2. On September 2, 1977, the Secretary General-in-Chief had made a policy statement requiring the Auditor-General to assess and analyse, according to sound commercial and business standards, the performance and efficiency of the operating results of public sector enterprises. The aim of this exercise was not only to ensure greater accountability, but also to help in the formulation of sound policies, in order to improve the performance of this increasingly important sector. The Auditor-General was asked to furnish his reports to the Government in the Ministry of Finance as well as to the Public Accounts Committee. This meant one more function for the Committee, in addition to those set out in the Notification of March, 1978.

Contents of this Report

3. In view of the foregoing, this Report has been divided into two parts, namely :—

PART I.—Relating to the Federal Accounts for 1978-79.

PART II.—Dealing with the Auditor General's Reports (Volumes I, II and III) for 1980 on the performance evaluation of public sector enterprises.

PART I. THE FEDERAL ACCOUNTS FOR 1978-79

Meetings and Proceedings of the Committee

4. The *Ad-hoc* PAC held its twelfth and thirteenth sessions, for six days each, in the National Assembly Secretariat, Islamabad, from February 14 to 19 and April 11 to 16, 1981 respectively, to examine the Appropriation and other Accounts of the Federal Government for 1978-79. The proceedings of the Committee's meetings, which also contain the recommendations and observations made by it therein, are appended at Annexure I. As in the case of Reports on the Accounts for the previous years, the said proceedings should be deemed to form part of this Report.

5. The Committee would like to record its thanks to the Auditor-General, his officers and staff and the officers and staff of the National Assembly Secretariat for the help rendered to it by them in getting through this work.

6. The Committee has been repeatedly impressing upon the Principal Accounting Officers (Secretaries and Additional Secretaries Incharge) the necessity of their appearing before it personally at the time of examination of their Accounts. It has, regretfully, to be pointed out that a few of the Principal Accounting Officers have, so far, consistently abstained from attending any meeting of the Committee, when the Accounts of their Ministries for 1970-71 to 1978-79 were being examined. The Committee would recommend that the Government take a serious view of this and issue a firm directive that none of the Principal Accounting Officers should, without convincing grounds, fail to appear before the Committee, when the Accounts of their Ministries are being examined by it.

APPROPRIATION ACCOUNTS (CIVIL) FOR 1978-79

7. The original schedule of Authorised Expenditure for 1978-79 comprised 193 grants (excluding those for the Defence Services, Railways and the Pakistan Post Office and Telephone and Telegraph Departments), amounting to Rs. 30,495,195,000. In addition, appropriations for Expenditure, charged on the Federal Consolidated Fund and amounting to Rs. 102,089,713,000, were included in the Schedule. Besides, during 1978-79, Supplementary Grants of the order of Rs. 7,366,901,000, to meet authorised expenditure, and Supplementary Appropriation of Rs. 15,649,919,000, to meet the expenditure charged on the Federal Consolidated Fund, were authorised by the President under the Budgetary Provisions Order, 1978 (P. O. 8 of 1978).

Summary Statement of Appropriation Accounts (Civil)

8. The following Table summarises the Appropriation Accounts for the year 1978-79 :—

Appropriation.	Original Grant/ Appropriation.	Supplementary Grant/ Appropriation.	Final Grant/ Appropriation	Expenditure.	Expenditure as compared with the Final Grant/Appropriation. Excess+ Saving—	
1	2	3	4	5	6	
Expenditure met from Revenue	Charged	361,125,000	679,000	361,804,000	305,727,505	+183,566,769 -239,643,264
	Other than Charged	11,657,824,000	2,759,266,000	14,417,090,000	11,745,854,497	+300,694,692 -2,971,930,195
Expenditure met from Capital.	Other than Charged	11,567,798,000	4,143,626,000	15,711,424,000	12,313,832,221	+306,982,152 -3,704,573,931
Loans and Advances by the Federal Government.	Charged	2,904,217,000	21,646,000	2,925,863,000	2,889,040,757	-36,822,243
	Other than Charged	7,269,573,000	464,009,000	7,733,582,000	5,364,443,883	-2,369,138,117
Repayment of Debt	Charged	98,824,371,000	15,627,594,000	114,451,965,000	108,937,780,457	-5,514,184,543

9. Appended as Annexure II to this Report are the following statements, pertaining to the Appropriation Accounts (Civil, Defence, PT&T and Railways) 1978-79 and representing the findings of Audit in respect thereof :—

(1) Summary of the Results ;

- (2) Analysis of savings and excesses by main Departments ;
- (3) Analysis of savings and excesses under the heads of Revenue, Capital and Loans and Advances ;
- (4) Excesses over grants, which require to be regularised ;
and
- (5) Excesses over ' Charged ' Appropriations, which require to be regularised.

OBSERVATIONS ON APPROPRIATION ACCOUNTS (OTHER THAN CIVIL)

(1) Appropriation Accounts (Defence)

10. The Schedule of Authorised Expenditure for the year 1978-79 relating to Defence Services amounted to Rs. 10,185,800,000. A Supplementary Grant of Rs. 284,200,000, was obtained during the course of the year. The final grant, therefore, stood at Rs. 10,470,000,000. The actual disbursement from the consolidated fund amounted to Rs. 10,470,000,000.

11. *Review of Expenditure of the Military Engineering Services.*—The Appropriation Accounts did not include any review on the expenditure of the Military Engineering Services for the year 1978-79 as, till the preparation of the Appropriation Accounts, complete material about it had not been received.

12. As reported by Audit, no review of the M.E.S. expenditure had been carried out beyond the year 1975-76. Special and prompt steps by the Ministry are, therefore, required to be taken to bring the position up-to-date.

(2) Appropriation Accounts (Pakistan Railways)

13. The Original Schedule of Authorised Expenditure for the year 1978-79 comprised—

	<i>Rs.</i>
(i) Grants for expenditure	3,174,200,000
(ii) Appropriation for expenditure charged on the Federal Consolidated Fund	284,394,000

14. During the year 1978-79, Supplementary Grants amounting to Rs. 190,730,000, to meet the authorised expenditure, and Supplementary Appropriation of Rs. 4,146,000, to meet the expenditure charged on the Federal Consolidated Fund, were sanctioned, but these were not included in the Authorised Schedule of Supplementary Grants by the Finance Division.

15. *Financial Results of Pakistan Railways.*—Compared with the year 1977-78, which had closed with a net loss of Rs. 158.4 million, envisaged in the budget, the financial results of the working of Pakistan Railways for the year 1978-79 showed a net loss of Rs. 315.2 million as against a profit of Rs. 47.3 million estimated in the budget.

16. *Revenue Receipts.*—The total revenue receipts during the year 1978-79 amounted to Rs. 2,273.6 million. Though this involved an increase of Rs. 75.9 million over the actual receipts for the preceding year, it fell short of the budget estimates for 1978-79 by Rs. 45.4 million.

17. *Revenue Expenditure.*—The total revenue expenditure for the year 1978-79 amounted to Rs. 2,416.9 million. This meant an increase of Rs. 214.9 million over the previous year and also exceeded the budget estimates for the year under report by Rs. 299.1 million.

EXPENDITURE INCURRED IN EXCESS OF GRANTS/ APPROPRIATIONS

18. The Appropriation Accounts of Pakistan Railways showed excesses of Rs. 24,559,851 and Rs. 9,826,914 against Grant No. 106—“Expenditure charged to Railway Revenue” and No. 133—“Other Capital Expenditure of Pakistan Railways”, respectively. According to the department, the main reason for the excesses against both the grants was that Supplementary Grant, amounting to Rs. 134,730,000 and sanctioned by the competent authority, was omitted to be included in the Authorised Schedule of Supplementary Demands, by the Finance Division. On reference, the Finance Division clarified that, in this particular case,

the Supplementary Grant should not form part of the Final Grant in the Appropriation Accounts. This resulted in an excess expenditure, which had, in fact, been duly authorised. (Paras 1275-76/Annexure I).

(3) Appropriation Accounts (Pakistan Post Office Department)

19. The Original Schedule of Authorised Expenditure for the year 1978-79 comprised two grants relating to the Pakistan Post Office Department, which amounted to Rs. 310,464,000. In addition, an Appropriation for expenditure, charged on the Federal Consolidated Fund and amounting to Rs. 14,023,000, was included in the Schedule. A Supplementary Grant amounting to Rs. 3,300,000, to meet the voted and Authorised Expenditure, was also authorised by the President under the Budgetary Provision Order, 1978 (P. O. 8 of 1978). Funds to the extent of Rs. 17,624,600, voted and authorised, and Rs. 584,000 (charged on the Federal Consolidated Fund), were surrendered in compliance with the Ministry of Finance No. I (i)-BI/79-113, dated 16-1-1979, as economy cut.

20. The total budget provision for the charged and authorised expenditure was increased by 1.06 per cent under the Supplementary Schedule of Authorised Expenditure. However, the actual expenditure fell short of the aggregate Budget by 6 per cent.

(4) Appropriation Accounts (Telegraph and Telephone Department)

21. *Financial Results of the working of the Department.*—The results of the working of two branches of the department for three years may be seen as below :—

(Figures in thousands of Rupees)

Branch	Profit (+) or Loss (—)		
	1976-77	1977-78	1978-79
	Rs.	Rs.	Rs.
Telegraph	(+)33,764	(—)165,062	(—)186,620
Telephone	(+)488,926	(+)568,995	(+)1025,217
Total for the Department ..	(+)522,690	(+)403,933	(+)838,597

22. The accumulated surplus at the end of the year 1977-78 amounted to Rs. 2,297,452,000. During 1978-79, the Department actually earned a profit of Rs. 838,597,000. The Department's surplus at the end of 1978-79 thus stood at Rs. 3,136,049,000, on which the Department will earn interest in the form of rebate, while adjusting interest payable to Government on the Capital Outlay during the next year.

REVIEW OF REVENUE AND EXPENDITURE

23. (a) *Revenue*.—The revenue for the year was Rs. 1,565,382,000. It increased by Rs. 519,851,000 as compared with the Revenue of the previous year viz. Rs. 1,045,531,000. The increase was due to revision in the T&T Tariff and recovery of outstanding dues.

(b) *Expenditure*.—Gross expenditure, including interest and depreciation charges, amounted to Rs. 759,266,000 against Rs. 706,648,000 in the previous year, involving an increase of Rs. 52,618,000.

DEFECTS OR IRREGULARITIES IN ACCOUNTING AND FINANCIAL MANAGEMENT AND UNSATISFACTORY EXPLANATIONS THEREFOR

24. Accounting deficiencies, due to non-reconciliation and non-booking of expenditure, incorrect postings, delayed passing of debits and/or belated adjustments etc., continued, as in the past, to recur in the Accounts under review, though with a lesser incidence. Similarly, instances of financial mis-management and laxity of financial discipline were not very infrequent. What made it worse was that, in a number of cases, the explanations offered by the departments were far from satisfactory. The Committee had, therefore, to ask for revised explanations in each such case *vide* paras 260, 364, 366, 664, 701, 705, 708, 814, 931, 947 and 1041 of Annex I.

25. The Ministries have, in view of the above, been again reminded to furnish, in future, full and complete explanations on the points raised by Audit, so that the finalisation of their Accounts

does not become a long-drawn-out process due to their consideration having to be deferred for fresh explanation. Some instances of the above-said defects are discussed in the succeeding paragraphs.

I. ACCOUNTING DEFECTS OR IRREGULARITIES

(1) Non-reconciliation of Accounts

26. As a result of the Committee's relentless pursuit, a notable improvement was witnessed in the reconciliation of Accounts for 1978-79. With a few exceptions, Ministries seemed to be realising, in a growing measure, the importance and usefulness of timely reconciliation of departmental figures with those of Audit. The progress of reconciliation, as seen in the statements furnished by each Ministry at the time of examination of their Accounts, and confirmed by Audit, was generally encouraging. The Committee would, however, like to stress the necessity of a continued and persistent effort by all concerned for timely reconciliation of departmental figures with those of Audit. By corroborating the correctness of their booked figures or otherwise, these reconciliations help save much of the Committee's valuable time when it is examining the concerned Accounts.

27. However, some instances of variations, possibly due to non-reconciliation and leading to savings or excesses, may be seen in paras 23, 33, 113, 248, 252, 255, 584, 657, 703, 811, 814, 1216 and 1397 of Annex I.

(2) Non-inclusion of Sanctioned Supplementary Grants in the Schedule of Book of Supplementary Demands

28. The Committee was surprised to note that, in several cases, supplementary grants applied for and agreed to in time by the Finance Division's Expenditure Wing, were not included in their Budget Wing's printed Book of Supplementary Demands. Such approved Supplementary Demands were, therefore, not adjusted by Audit against expenditure, resulting in avoidable excess and, thereby, a distortion of the Accounts, purely for technical reasons.

In the cases cited in paras 1013-14, 1118, 1129, 1158-59, 1161-62 and 1356 of Annex I, the Audit's reports of excesses over sanctioned allocations were entirely the outcome of this serious omission.

29. The Finance Division should instruct their Expenditure and Budget Wings to co-ordinate with each other closely on Supplementary Demands, so that no such grants are sanctioned after the prescribed date and there is sufficient time for their being included in the Schedule of Supplementary Demands by the Budget Wing.

30. The Committee would also like to observe that if, to include them in the printed Book of Supplementary Demands, the Finance Division want to receive the Schedules of Supplementary Demands from the Ministries by any set date, they must also make sure that decisions on all the requests made to them for Supplementary Grants come forth well before the said deadline. Without timely sanctions and communication thereof to the Ministries concerned, even sanctioned demands are likely to escape inclusion in the Book, causing many subsequent accounting and regulation problems.

31. For quicker decision on supplementary demands, the Committee would suggest that the Finance Division may also consider issuing guidelines to their concerned officers about when a Supplementary Grant, asked for, should not be ordinarily refused, e.g., grant of supplementary funds required for the payment of salaries to sanctioned staff or in consequence of an upward revision of their salaries and allowances. (Para 1277/Annex I).

(3) Excesses due to belated adjustments

32. As pointed out by the Auditor-General in para 4 of his Report, an overall excess of Rs. 39,191,064 occurred due to belated adjustments of expenditure in five instances. Such technical excesses are preventible with prompter attention by the department and adjusted by Audit.

(4) Non-surrender of Savings

33. The Committee noted that, despite numerous instructions by the Ministry of Finance, for early surrender of savings, savings were, in most cases, being surrendered on June 30 (*vide* paras 344, 346, 1118 and 1198/Annex I). The Committee wondered whether such late surrenders were serving much useful purpose for ways and means operations. On the other hand, if the dead-line of June 30 for surrenders was pre-dated to March 31 or another suitable date, one could expect the Ministries to make a more realistic assessment of their expenditure for the year well in time and also afford the Government some relief in the tackling their ways and means problem. It is, therefore, suggested that the Ministry of Finance may review this matter for arriving at a well-considered conclusion.

(5) Non-surrender of economy cut formally

34. Despite categorical Government instructions and direction of the Committee, several Ministries still failed to surrender, formally, the amounts of compulsory economy cuts, applied by the Government on their sanctioned allocations. This avoidable omission created many accounting problems as, in the absence of a formal surrender order, Audit did not find it feasible to allow any reduction in the final appropriation accounts on account of this 'Cut'. Some instances of problems arising on this score may be seen in paras 52, 135, 462, 585, 657, 700, 707, 812, 1119, 1428 and 1458 of Annex I.

35. In the future, Ministries etc. must be made to ensure that economy cuts, if any, ordered by the Government on sanctioned allocations, are invariably surrendered under a formal letter to Audit and the receipt thereof by Audit duly placed on their records.

II. DEFECTS OR IRREGULARITIES IN FINANCIAL MANAGEMENT

(1) Poor standard of Budget estimation

36. In para 31 of its Report on the Accounts for 1977-78, the Committee had pointedly drawn attention to the deteriorating

standards of budgeting. The position did not appear to have much improved in the Accounts under review, as indicated in the succeeding paras. In a large number of cases, actual receipts and expenditure for the year reflected large variations over the original estimates. In many instances, Supplementary Grants proved to be wholly or partially unnecessary. This clearly denoted a failure on the part of Ministries to approximate expenditure to most likely needs, at the initial stage of budget preparation.

(2) Unwarranted Supplementary Demands

37. In the cases cited in paras 261, 466 and 1360 of Annex I, Supplementary Grants obtained by the Ministries concerned were found to be far in excess of their requirement, under-scoring the necessity of a more realistic estimation of Supplementary Demands by the Ministries and a greater and closer scrutiny of the requests for such Grants by the Finance Division.

(3) Injudicious surrenders

38. In the case of Grant No. 81, an injudicious surrender from the sanctioned allocation resulted in an excess of Rs. 2,10,874 (Para 1156 of Annex I). Similarly, the uncalled for surrender, made under Grant No. 110, converted the savings into an excess of Rs. 1,87,260 *vide* paras 1013-14 of Annex I. A similar situation obtained under Grant No. 77.

(4) Excessive Savings

39. Likewise, instances of excessive savings abounded *vide* paras 51, 293, 655, 657, 668, 672, 703, 706, 713, 718, 814, 817, 818, 1123, 1379, 1381, 1385, 1388, 1391, 1440 and 1465 of Annex I, under-scoring the lack of proper budgeting and over-estimating the likely requirements in these cases.

(5) Heavy excesses in expenditure beyond sanctioned allocations

40. In a number of cases, the excess expenditure registered *vis-a-vis* sanctioned allocations was inordinately high, *e.g.*, the excess against Grant No. 37 was of the order of Rs. 1,361,885

(para 1038 of Annex I). Similarly, an excess of Rs. 1,645,754 was reported against Grant No. 12 (para 1054 of Annex I). Other notable instances of similar large excesses may be seen in paras 151, 343, 663, 665, 1056, 1118, 1156, 1161, 1165, 1166, 1388 and 1391 of Annex I.

41. 42 instances of expenditure, totalling Rs. 825,630,378 and incurred during 1978-79 in excess of the sanctioned Grants or Appropriations, call for regularisation under the Budgetary Provision Order, 1978. Such excesses during 1977-78 amounted to Rs. 1,244,506,023. The Committee is loath to observe a tendency among the Ministries to incur expenditure without legal authority. One reason for it may be that those indulging in this serious financial indiscipline have been mostly getting away with it. While the detailed list may be seen in the statement No. 4 at Annex II, some of the larger excesses were as below :—

	Rs.
(1) Commerce Division	1,216,686
(2) Other expenditure of Commerce Division	184,973,268
(3) Capital Outlay of Commerce Division	6,750,000
(4) Education Division	34,198,884
(5) Other expenditure of Environment and Urban Affairs Division	11,200,000
(6) Other expenditure of Ministry of Information and Broad- casting	8,818,496
(7) Pakistan Railways	34,386,765
(8) Ministry of Religious Affairs and Minority Affairs ..	1,062,062
(9) Investment in Rice Milling Corporation	30,300,000
(10) Capital Outlay on purchase of News Print	73,741,737
(11) Capital Outlay on Industrial Development	189,622,239

42. Such huge excesses are a clear pointer to the prevailing financial indiscipline in Ministries and Departments and would seem to be defeating the object of the arduous exercise, undertaken each year for the preparation of Budget and making Budgetary allocations. They may also be signifying the failure of the Accounting

Officers in exercising proper and effective control over expenditure and a defective system of keeping the accounts up-to-date and presenting them periodically to the latter.

43. Looking to the big excess expenditure by the Pakistan Railways, the Committee had directed the Ministry of Railways to have the position examined in order to find out as to why was this allowed to occur? A few flagrant violations of rules in this behalf must be dealt with sternly to set an example to others for the future. Audit were also requested to take up one or two important cases to indentify as to how were the amounts of excess expenditure, involved in them, allowed to be incurred?

44. The responsibility for over-spending must, however, primarily rest on the spending agencies because, under the law, no authority is empowered to incur expenditure beyond the provisions in the Budget. The Committee would strongly urge that ways and means should be devised for curbing this tendency. To begin with, a Committee, consisting of suitable representatives, from the Ministry of Finance, Audit and the Ministries, who may be the biggest defaulters in this field, be set up to study the problem thoroughly and make their recommendations to the Government.

(6) Expenditure incurred on works in anticipation of technical sanction

45. As per rules, no work should ordinarily be started, unless its detailed estimate has been sanctioned by the competent authority. Despite this, an expenditure of Rs. 339.49 million, without technical sanctions for these estimates, was incurred by the Pakistan Public Works Department (PPWD) on 521 works during 1978-79 as compared to 134 works, involving an amount of Rs. 143.34 million, during 1977-78 and 201 works, costing Rs. 213.67 million, during 1976-77. The Committee fully endorses the stance of the Auditor-General that, in the absence of technical sanctions, it is not practically possible to vouch that the works were feasible, technically sound and executed at the minimum possible cost. The growing tendency in the departments to incur expenditure, without technical

sanctions, cannot be too strongly deprecated. A halt must be called to this practice henceforth. The Ministry should ensure and carefully watch that the departmental technical sanctions for all the works, undertaken up to 30-6-1980, are given by the 31st December, 1981 and that future expenditure on works takes place strictly according to the rules. (Paras 525—27/Annex I).

(7) Undercharges in traffic earnings

46. Audit had reported that undercharges in traffic earnings on the Railways outstanding for recovery at the end of 1978-79, amounted to Rs. 3,547,747 as against Rs. 4,100,955 at the end of the preceding year. The departmental representative informed the Committee that the up-to-date outstandings had since been brought down to only Rs. 2,047,093 and efforts were afoot to reduce the same further.

47. This was, however, a problem, which could be taken lightly only by risking a much greater financial loss later. It, therefore, called for continued close attention. The Committee also requested the Audit to look into the nature of these transactions, to see if any *mala fides* were involved in them. (Paras 1328-29/Annex I).

(8) Incorrect reflection of Financial Results of the Pakistan Post Office Department in their Accounts

48. According to the departmental certificate attached therewith, the Accounts of the Post Office Department for the year were shown to have closed with a net surplus of Rs. 47,032,000 against an anticipated loss of Rs. 55,846,000. The increase of Rs. 102,878,000 in income was ascribed to an increase of Rs. 89,328,000 in the Gross Receipts and decrease of Rs. 13,499,000 and Rs. 51,000 in Ordinary Working Expenses and Interest charges respectively.

49. The Committee was pleasantly surprised to see the reported surplus, duly certified by the D. G., Post Offices himself, as it was rather unusual for the Post Office Department to make a profit. However on a cursory probe, it came to light that, like the previous years, there was in fact, a loss of about Rs. 40 million

against the purported profit of about Rs. 47 million. Obviously, the certificate showing a profit was issued without any checking of the Accounts by the D. G., Post Offices and also the A. G., Post and T&T. The Committee directed that the Ministry should look into this case, locate responsibility and ensure that there is no recurrence of such serious negligence in the future. (Paras 738—40/Annex I).

III. LOSSES TO GOVERNMENT

50. The Committee came across numerous instances of major and minor financial losses, discussed in detail in the proceedings at Annex I and suffered by the Government for different reasons. Some instances of losses due to infructuous expenditure, risk purchase, non-acceptance of favourable offers, inadmissible payment etc., are dealt with below.

(1) Non-recovery of amounts of risk purchase due to defective contracts

51. Audit had pointed out 7 cases in which considerable amounts, on account of risk purchases, were recoverable from defaulting firms since 1972. Non-recovery of risk purchase amounts in these cases could be ascribed to one of the following factors:—

- (a) Initial inadequate verification, in the beginning, of the reliability and financial status of the firms who were given contracts.
- (b) Obtaining inadequate security deposit from the suppliers. Under the existing rules, security deposit up to 10 per cent of the tendered value is to be taken but, in practice, it is generally limited to 2 per cent and, in the case of registered firms, no security deposit is obtained at all.
- (c) Not taking timely action to effect recoveries.
- (d) Non-holding of independent investigations to ascertain causes of non-recovery and fix responsibility for departmental lapses or for writing off the losses.

- (e) Non-adherence to legal advice to either issue fresh contracts promptly, in order to mitigate the losses that could be caused due to default in supplies or to secure proof of the prevailing market prices of stores at the time of breaches of contract, for determining the losses. In many instances, there was a considerable time-lag between the dates of breaches of contract and actual purchases, making it difficult to enforce recovery in courts of law.
- (f) Non-existence of proper and effective procedures for processing cases of risk purchase in the departments.

The Committee was informed that a revised purchase manual, taking care of the above, had been prepared and was being circulated. It was further confirmed that cases of risk purchase were now to be registered centrally in the departments, to keep track of them.

52. As for the quantum of security deposit discussed in Para 51 (b) above, it is suggested that this matter may be reviewed, in consultation with the Auditor-General, and with due regard to the practical difficulties being experienced by the departments. (Paras 400—06|Annex I).

(2) Loss of Rs. 3,266,777 due to supply of defective stores

53. In the opinion of the Committee, it was a very bad case of loss to Government. The department was asked to submit a fresh explanation, keeping in view the points brought out in the Audit para, though a recovery of loss at this stage was hardly possible. (Para 1650|Annex I).

(3) Non-recovery of Government dues from Airlines

54. It was pointed out by Audit that prompt steps were not being taken by the office of Airport Manager, Karachi to realise Government dues relating to landing, housing, electricity, water charges and rent from various parties. The outstanding dues amounted to Rs. 22,145,347 in 1973-74. By 1978-79, they had

rocketed up to Rs. 48,275,689. The department, on the other hand, stated that most of the outstanding had since been recovered and, as on 30-9-1980, only Rs. 18,134,377 remained to be realised. However, the overall accumulation of dues on 16-4-1981 was of the order of Rs. 99 millions, most of which was payable by PIA. The recovery of an outstanding amount of Rs. 1.6 million was also due from the other Airlines.

55. The above position would appear to be far from satisfactory. It is, therefore, recommended that extra effort be made for the recovery of the abovesaid Government dues, before they become irrecoverable. Undue delay in the submission of bills by the department to the Airlines should also be prevented at all cost. (Paras 1551-52|Annex I).

(4) Non-recovery of Rs. 297,939 from a Contractor as cost of services and supplies made available to him

56. The Aviation Division at Karachi made supplies and rendered services to a contractor during February to June, 1975 to the tune of Rs. 297,939. No steps, however, were taken to recover the amount. The recovery had been pending since 1975. The departmental representative was, accordingly, directed to try to have the full recovery of the outstanding amount effected by June 30, 1981. (Paras 1562—64|Annex I).

(5) Fraudulent payment to a quarry contractor

57. The Committee noted that this six-year old case was still lingering on. Neither disciplinary action against the Ballast Inspector, Assistant Engineer and Divisional Engineer, initiated in March, 1979, had been completed nor the exact quantity of shortages finally determined. The only action, which the department seemed to have taken in the matter, so far, was to have issued a show cause notice to the Divisional Engineer and others. The department was asked to submit a fresh explanation, with the relevant supporting documents. Such half-hearted action, coupled with inordinate delay in pursuing and finalising it, is bound to result in rendering the whole exercise infructuous. (Para 1349|Annex I).

(6) Financial loss of Rs. 17.5 million due to non-supply of 120 trucks contracted and paid for in 1967 by the Defence Production Division.

58. In January, 1967, a purchasing agency placed orders on M/s. Gandhara Industries (now M/s. National Motors) for 882 trucks, consisting of 2 types of vehicles, numbering 432 and 450 each and valued at Rs. 20.392 million. The Financial authorities noted in November, 1970 that payment for the 882 units were made in advance in 1967. While 432 units of the first category were duly delivered, only 330 units of the other category could be supplied by March, 1969. The balance of 120 units were, on inspection, found to be unacceptable and rejected in April, 1970. Instead of replacing the rejected units, the firm resorted to arbitration in April, 1971, claiming Rs. 3.739 million on account of storage charges etc. in respect of them. The purchasing agency refuted the above claim and preferred a counter-claim of Rs. 10.75 million against the firm. The Arbitrator awarded Rs. 3.12 million in favour of the purchasing agency, but the firm have challenged the award and the case is still pending in the High Court. Thus Rs. 17.5 millions of the amount paid to the firm during 1967 in advance, seems to have been all but lost to the Government in this transaction. (Para 1648|Annex I).

(7) Non-Recovery of rent, amounting to Rs. 71,806

59. In a Division of the Pak P.W.D., an amount of Rs. 81,757 was outstanding against *ex*-Ministers, *ex*-Members of the National and the Provincial Assemblies and high ranking officers of Central and Provincial Governments, on account of rent for the occupation of Chamba House, Lahore, during the period 1972—77. The Committee was informed that recovery of the outstandings was in progress. It was, however, seen that two *ex*-MNAs, from whom a recovery of Rs. 32,372 was due, had gone to court. It is difficult to see as to why were such large amounts of rent in respect of this Government Rest House were allowed to accumulate against individual occupants. The matter should be looked into by the Works Division, for devising more effective procedures and mechanism to

ensure (1) the due payment of rent, immediately after each occupation and, if the duration of stay be long, after the expiry of each week, and (2) persistent follow-up action, without exception, for the realisation of the arrear rent, falling due under the rules. (Paras 557—59/Annex I).

(8) Cash losses, over-payments and loss of stores in Defence Services.

60. Cash losses, over-payment due to theft, fraud, neglect, claims abandoned as irrecoverable, etc., pertaining to the Defence Services during 1978-79, and reported in Appendix 'A' to the Appropriation Accounts for Defence Services, amounted to Rs. 3,470,819, as against Rs. 3,180,376 during 1977-78. It was time that suitable steps were taken by the Ministry to stop effectively the losses on these accounts.

(9) Loss due to premature failure of re-built engines—Rs. 58,631

61. Engines of certain vehicles, which were rebuilt by a workshop and, under the rules, were expected to cover 12,000 to 14,000 miles run each, were condemned long before the expiry of their expected lives. According to the department, a premature failure of these engines occurred due to sub-standard spares having been used in rebuilding them and running them on rough or hilly tracts of Azad Kashmir. Though the above Audit observation was made in June, 1976, the formation concerned did not seem to have, even after five years, duly investigated this matter, for taking appropriate action. Time being of the essence in such cases, prompt attention and action may have helped rectify the situation and minimise, if not prevent, losses to Government, which did not happen in this case. (Paras 1512-13|Annex I).

(10) Loss of revenue due to inefficient handling of wagons

62. During the local audit of the Faisalabad Railway Station in May, 1979, it was noted that heavy losses of revenue were resulting from inefficient and careless handling of wagon movements. In some cases, wagons in the Faisalabad yard were found detained for

even over 6 months. This was a serious matter, which called for disciplinary action against those responsible for it. It is further recommended that the procedures, and particularly the Card Index System, should be reviewed by the Ministry, in consultation with Audit, for effecting notable improvements in the matter. (Paras 1320—25|Annex I).

(11) Non-realisation of siding charges by Railways

63. It was noted that the outstandings on account of siding charges had gone up from Rs. 173,830 on 30-11-1979, to Rs. 603,930 on 31-1-1981, which belied the departmental claim that regular recoveries of these charges were being made from the parties concerned. The Committee had, therefore, to ask the department to go into the non-recovery of the siding charges and take action against the defaulters. It is further suggested that unnecessary sidings should be closed down, as early as possible. (Paras 1345-46|Annex I).

(12) Embezzlement amounting to about Rs. 350,000 in sale of tickets at station.

64. Though the fraud in this case was pointed out by Audit in February, 1975, two of the employees were allowed to proceed, *w.e.f.* 3-5-1978, on retirement, with full pensionary benefits, although they had reportedly embezzled Rs. 59,000 and Rs. 23,000 respectively. One of the accomplices, whose increment was withheld permanently for two years by way of punishment, was even promoted to be Special Ticket Examiner. No steps appeared also to have been taken to effect the recovery of the amount involved. Doubtlessly, the department moved in the matter too tardily and the actions taken against the offenders were hardly commensurate with the gravity of their defaults. (Paras 1347-48/Annex I).

(13) Losses or Defalcations of public money in the Post Office Department.

65. Ten cases of defalcations or losses of public money in the Post Office Department came to notice during the year under report, involving an amount of Rs. 522,092.

(14) Savings Bank, Money Order and Miscellaneous Frauds

66. Four Money Order frauds, involving Rs. 82,925, and six Miscellaneous frauds, involving Rs. 439,167, took place in the Post Office Department. Departmental employees were, directly or indirectly, responsible for these frauds.

(15) Compensation for losses

67. The net amount of losses on account of payment of compensation by the Post Office Department amounted to Rs. 101,826, as against only Rs. 65,457 during the previous year.

IV. COMMERCIAL ACCOUNTS**(1) PIDC HEAD OFFICE****(i) Loss of Rs. 22,511 on account of Penalty and Wharfage Charges in importing banned goods.**

68. It was pointed out that the PIDC purchased a centrifugal pump from abroad in 1970, although its import was then banned. The Corporation tried to obtain a "No Objection Certificate", which was refused by the Government. The Customs authorities imposed a penalty of Rs. 17,800, in lieu of confiscation. As the consignment could not be cleared within free time, wharfage charges of Rs. 4,711 had also to be paid therefor. A total avoidable expenditure of Rs. 22,511 was, thus, incurred on the import, apparently due to carelessness and negligence in importing a banned item. Ministries should be again advised that they must ensure strict adherence, by all concerned under them, to normal procedures prescribed for imports, so as to obviate avoidable expenditure, like the above, in future. (Para 155|Annex I).

(ii) Sundry Debtors

69. The Committee had directed the departmental representative to furnish a list of Sundry Debtors as on the 30th June, 1978, indicating against each the latest position of outstandings. After scrutinising the list furnished by the Corporation, the Committee

observed that special attention should be paid to this matter and the outstandings of Government departments should be cleared at an early date. Since merely writing letters was not likely to resolve the problem, appropriate strategies should be devised for tackling each case and the same then worked upon relentlessly. The Committee further observed that, where recovery may not be at all possible despite the best possible efforts, writing off the arrears, with the approval of the competent authority, should be duly considered, instead of carrying the unrealistic figures in the books of accounts, *ad infinitum*. (Para 174/Annex I).

(iii) Talpur Textile Mills

70. The Committee had earlier observed that, not being a sound project, the Mills should be considered for liquidation at the earliest possible, to prevent further losses. Though the Mills had since been closed down and its liquidation was under process, there was a new development in that the Income-tax people had sealed the accounts and wanted to auction the Mills. Even on being informed that the Mills did not earn any profit, they had themselves assessed Rs. 50 lakhs as income-tax on it, and fixed a reserve price of Rs. 3 crores for its sale. As the case was now *sub-judice*, the Mills could not be auctioned. An appeal to the Commissioner of Income-Tax was also pending, separately.

71. It may be advisable to explore the possibility of requesting an appropriate court to appoint a liquidator for the Mills immediately. Thereafter, the department will not be held responsible for the liabilities of the Mills, which will become the headache of the liquidator. (Paras 175—76|Annex I).

(iv) Talpur Textile Mills—Amount recoverable from the ex-Managing Agent.

72. The Committee was informed that this case had been pending in the High Court since 1968. The department must, therefore, have spent considerably on it since then. As an economical way out, the Ministry or Organisation concerned should consider striking

a compromise in this, as well as other similar cases, which may be pending in the Courts for a number of years. (Para 164|Annex I).

(2) *HEAVY MECHANICAL COMPLEX*

Loss due to defective contract

73. It was stated that the Consultants had gone to the Court for a large claim, because of some loopholes in the contract, and were not prepared to reduce the same, take the matter to arbitration or arrive at a compromise. This should be a lesson to all the Ministries. All contracts with Consultants must be carefully and unambiguously drafted and properly vetted, to obviate a subsequent litigation and financial loss, because of any defect in them. (Para 165|Annex I).

(3) *PAKISTAN INSURANCE CORPORATION*

Balance sheet as on 31-12-1978

74. The Corporation had depicted, in their Balance sheet, "net assets relating to former East Pakistan" worth Rs. 1.65 crore. The Committee felt that, if the Corporation were not likely to make any recovery of this amount relating to Bangladesh, it might be better to write off this amount against current profits and claim the necessary relief in income tax. In reply, the Corporation representative stated that, since this amount related to capital assets, it could not be written off as a relief against current income. He added that, on the recommendation made by an expert's Committee in 1973 and duly approved by the Economic Coordination Committee of the Cabinet, relief had already been obtained in respect of net current assets amounting to Rs. 80 lac, which were written off in the 1974 Accounts. (Paras 1080—82/Annex I).

(4) *RICE EXPORT CORPORATION LIMITED*

Loss of Rs. 1,170,840 due to repeated out-breaks of fire

75. According to Audit, in a godown of Rice Export Corporation, fires broke out on the 26th February, 1976, 5th July, 1976 and 8th July, 1976. Sizeable stocks of rice gunny bags, tarpaulins

etc., which were in the custody of an Agent of the Corporation at the time, were burnt or damaged. Consequently, the Corporation sustained a net loss of Rs. 1,170,840, as assessed by the surveyor. According to the Agreement with the agent, he was responsible for the proper upkeep of the Corporation's stocks and was also liable to make good any loss or damage. These repeated incidents of fire in the same godown of the same Agent occurred apparently as a result of inadequate precautionary measures, but no action was taken to recover the loss from him. Despite a repetition of the incidents in quick succession, no departmental inquiry was held either.

76. The Committee was informed that the godown was not covered by insurance and that it was more than 30 years old. When the first fire broke out the case was referred to police and detailed investigations were held by them, but the police reached the conclusion that it was an accidental fire, without motive. However, before their report came, there was another fire in the same premises, which was followed by yet another. In the second inquiry, it was found out that some broken electric poles had caused the fire. Questioned as to why no departmental inquiry was ever held about these fires, the Committee was informed that, since the matter had been referred to police, no need was felt for separate departmental inquiries. The Committee felt that, in such cases and particularly after the first incident, departmental inquiry should have been held, in addition to police investigations, because the police might not have gone into these incidents from the departmental viewpoint. Unless the real causes of such repeated fires were found out, their effective prevention would be extremely difficult. The Corporation should, hence, be extremely cautious about fires in their godowns and the sooner they go into their causes etc., for taking preventive measures, the better for them.

77. The Committee, finally, observed that the Corporation should have held an inquiry into the fire incidents and, as they had failed to do so, directed that they should hold one now and lay

down adequate precautionary safeguards against their recurrence. The Ministry were also requested to look into the matter and obtain a detailed report from the Corporation, for suitable action. (Para 1076/Annex I).

V. MISCELLANEOUS

(1) *COMPILATION AND MAINTENANCE OF ACCOUNTS*

78. The Committee had expressed its concern in para 100 of its previous Report that the accounts of some organisations were either not being prepared with the desired speed or were not being properly maintained or compiled. Though it noted some improvement in this behalf, the position of compilation of accounts in some Organisations has been reviewed in the succeeding paragraphs.

(i) **Printing Corporation of Pakistan**

79. The Committee was informed that the accounts for the year 1977-78 had since been presented to and approved by the Board of Directors. The Accounts for the financial year 1978-79 were being audited and the report thereon was hoped to be presented to the Board soon, for their approval. The departmental representative was asked to get the accounts for 1979-80 also completed by June 30, 1981. (Para 63|Annex I).

(ii) **Deputy Controller, Stationery and Forms, Karachi**

80. It had been pointed out that the Accounts for 1975-76 to 1978-79 had not been compiled as yet. The Committee was informed that the Accounts for the year 1975-76 had since been compiled and audited by the Director, Commercial Audit. The Accounts for the year 1976-77 were under preparation and were to be finalised shortly, while those for the subsequent year would be prepared, after the Accounts for the year 1976-77 had been audited. The Committee observed that, as decided in the case of the Central Publications Branch, the Accounts upto 1978-79 should be finalised by June 30, 1981. (Para 66|Annex I).

(iii) Central Publications Branch, Karachi

81. As reported, the Accounts of the Branch from 1974-75 to 1978-79 had not been compiled as yet. It was explained by the department that the Accounts of the Central Publications Branch, Karachi, for 1974-75 had been compiled and audited by the Director, Commercial Audit, while those for the year 1975-76 were under preparation and expected to be finalised shortly. The Accounts for the subsequent years would also be prepared, after those for 1975-76 had been compiled and audited. (Paras 64-65|Annex I).

(iv) Fair Price Drugs Stores

82. It had been pointed out that the Accounts of Drugs Stores for 1972-73 and 1973-74 had not been completed as yet. The department explained that, out of 14 Commercial Accounts of Fair Price Drugs Stores, ten had been prepared and sent to Audit. Certain clarifications had been sought for by the latter, which were being furnished. The Accounts of Fair Price Drugs Stores, Karachi and Larkana could not be prepared, as the relevant records were with the FIA. Records of the remaining two Stores, namely, those at Hyderabad and Faisalabad, were also being sorted out, for preparing their Accounts. The Committee impressed upon the Department and the Ministry the need for a speedy finalisation of the Accounts of all the Fair Price Drugs Stores, to bring them up-to-date. (Para 1253|Annex I).

(v) Oil and Gas Development Corporation

83. Audit had brought it to the Committee's notice that the Corporation's Accounts for 1977-78 and 1978-79 had not been received by them. The Committee was informed that the Accounts for 1977-78 had since been audited by Chartered Accountants and their Report, along with the Accounts, submitted to Commercial Audit. As for the Accounts for 1978-79, they had also been audited since and the Audit report was expected to be received soon. The Committee was further informed that the Accounts for 1979-80 had been prepared and a preliminary audit thereof by Chartered Accountants was under way. (Para 1602|Annex I).

(vi) Military Dairy Farms

84. *Maintenance of Accounts.*—It had been pointed out that a new accounts format for the Military Accountant General had since been drawn up by Audit, with the assistance of officers of the MAG and the Directorate of Farms, bringing the two Accounts on an identical basis. After the said new format had been introduced, it will be easier to compare the two Accounts. The Committee was informed that concurrence of General Headquarters to the proforma had yet to be obtained. It was suggested to the Department that, if they wanted to bring about a change, the proposed change should be processed quickly, so that it could be introduced from the financial year 1981-82. (Para 1539|Annex D).

(2) LINKAGE OF GOODS

85. Cases were found recurring in which consignees of Defence Department Stores were still not linking the goods received against particular consignments, notified as having been despatched to them, and where it was also not becoming possible for the Internal Audit to satisfy themselves that those consignments had been actually brought to account by the consignees. The Committee directed that the Department should try to clear the back-log and enforce the procedure now prescribed. Fresh directives should be issued by the Ministry for strict adherence to the existing instructions. MAG was also directed to hold meetings with Audit to further review the implementation of instructions about linkage, with a view to simplifying and making them more practicable. (Para 1476|Annex D).

(3) RECORDS LYING WITH FIA FOR UNDULY LONG PERIODS AND DELAYING DEPARTMENTAL ACTIONS

86. The Committee took note of the fact that records of many old cases had been, reportedly, lying with the FIA for long periods, with the result that no departmental action had been or could be

initiated thereon. The Committee advised that the Ministry of Interior may be requested by the Department to consider whether photostat copies of the relevant records of old cases, which were in FIA's custody and required for departmental action, could be obtained from them for making copies thereof or copies thereof could be made in the presence of FIA officials. Departmental action, if any, on these cases would thus not be held up indefinitely for want of records. The Committee decided that this problem be also brought to the notice of the Ministry of Interior directly, for their consideration and suitable instructions. (Para 756/Annex I).

(4) IRREGULARITIES IN ORGANISATIONS LIKE PCSIR.

87. While examining the "Other Expenditure of the Ministry of Science and Technology", the Committee noted that no serious irregularities in Organisations like the PCSIR, had been brought up by Audit for examination by the PAC. The Audit representative confirmed that these bodies were subject to statutory audit, which was being duly carried out. The Committee felt that the conclusions drawn from the audit of accounts of such bodies should be brought to its notice. (Para 1016/Annex I).

(5) AUDIT OF SPECIFIED ORGANISATIONS AND CORPORATIONS.

88. As known, the Audit Department have been carrying out the audit of Government organisations and corporations, as statutorily required of them. There may, however, be certain organizations and corporations which may, in view of the special knowledge of the Ministry of Finance about their working, be needing Audit's special attention. It would be advisable if that Ministry list out, every year, a few such organizations and corporations and convey the same to Audit. Information about the organizations and corporations, so audited, should also be furnished to the Committee. (Para 1016/Annex I).

(6) *DEPARTMENTAL EXPLANATIONS TO BE SATISFACTORY AND DEPARTMENTAL REPRESENTATIVES FULLY PREPARED TO EXPLAIN TO THE COMMITTEE.*

89. In many cases, departmental explanations were not found to be satisfactory and departmental representatives well-equipped to furnish convincing replies about variations in grants etc. to the Committee's queries. The departments had, therefore, to be directed in all such cases to submit fresh explanations. While some instances of ~~this~~ nature are brought out below, it again needs to be impressed upon all the Ministries that such back-references entail avoidable work and delay inordinately the finalisation of their Accounts. The Ministries must, therefore, make sure that their explanations carry all the needed facts and figures and are also not involved, so as to satisfy or convince the Committee. The departmental representatives must also get themselves fully briefed before coming to PAC meetings, to be able to answer satisfactorily the questions most likely to be put by the Committee while examining the departmental Accounts :

- (i) *Surrender of large amounts as against actual excess.*—A detailed explanation was asked as to why an amount of Rs. 1,562,925 was surrendered when there was later to be an excess ? (Para 260/Annex I).
- (ii) *Large saving in Development Expenditure.*—The department was asked to furnish reasons for the huge saving of Rs. 25,627,743 in the Development Expenditure of Tourism Division. (Paras 293—302/Annex I).
- (iii) *Under-filling of bags.*—Wanting to know the present position of under-filling of wheat bags to the extent of 15 per cent, which was allowed in the past and appeared to be too high, the Committee directed the department to submit a detailed report about the losses incurred on this account during the last few years (Para 1193/Annex I).

(7) *SETTING UP COURTS OF INQUIRIES AND FINALISATION OF REPORTS.*

90. In a case involving purchase of defective steel bars valuing Rs. 642,400, the Committee was informed that the demand was placed on an urgent basis in January, 1973, and the total cost was paid in advance. The material was received in June, 1973 but trial was carried out after 8 months in February, 1974. Certain defects (cavities, splits etc.) were obvious, but the Inspection authority did not detect them. It was stated that the case was under process by the Court of Inquiry. Thus, although the defective purchase was pointed out by Audit in August, 1974, the Ministry had not moved, till only recently, to have the matter investigated.

91. Audit have, in fact, been pointing out in other cases also that Courts of Inquiries were not always being set up promptly and, even when constituted, would, at times, take too long to finalise their work. It is recommended that the Ministry of Defence should again direct that, whenever a Court or Committee of Inquiry is warranted, it should be set up promptly. The progress of inquiry should then be followed up closely and it should be ensured that these Courts or Committees submit their Reports expeditiously. (Paras 1634—36/Annex D).

(8) *BULK REGULARIZATION OF IRREGULARITIES*

92. While examining the replies of the Ministry of Defence on the Audit report pertaining to their Accounts for 1978-79, it was noted that 74 of the irregularities, pointed out in the Report, had been regularised by the Ministry, without indicating as to whether those at fault were duly dealt with and the requisite steps taken to prevent their recurrence. The Committee felt that such a bulk regularization of irregularities by the Ministry, without the last named actions, may be conducive to their repetitive committal. It is, therefore, recommended that, before regularising any irregularity, the Ministry should have it looked into closely with a view to taking suitable action against the defaulters and devising measures to prevent its recurrence in future.

(9) *IMPROVING PROCEDURE FOR PASSING LIABILITIES ON ACCOUNT OF FOREIGN LOANS AND GRANTS.*

93. Having found that the accounting of foreign loans and grants in respect of fertilizers left much to be desired, the Ministry of Food and Agriculture were requested to submit a report to the Committee, stating as to how were they dealing with foreign loans and grants relating to food items? The Committee would recommend that the Ministry of Finance may go into the question as to how was the liability on account of foreign loans and grants being presently passed by the Ministries and, as necessary, develop a more fool proof procedure for it, in consultation with those concerned. A note should also be furnished to the Committee on the subject. (Paras 1209—15 and 1218/Annex I).

(10) *CAPITAL OUTLAY ON WHEAT AND THE PROBLEM OF SUBSIDY*

94. Not being clear as to how was the subsidy on wheat being actually worked, the Committee requested the Financial Adviser, Ministry of Food and Agriculture for a note about subsidy on indigenous and imported wheat, indicating therein the opening stocks, purchases and sales made during the year and the profits earned or losses incurred thereon and the balance stock in hand. For a better understanding of the matter, it was suggested, *inter alia*, that any two shipments of wheat be taken and then all the transactions pertaining to them outlined and analysed. (Para 1204| Annex I).

PART II

PERFORMANCE EVALUATION OF PUBLIC SECTOR ENTERPRISES

95. In pursuance of the Government decision *vide* para 2 above, a Performance Evaluation Unit was set up in the Auditor-General's office and the Auditor-General submitted his Performance Evaluation Reports 1980 (Vols. I, II and III) relating to the

following public sector enterprises, among others, to the PAC :—

Vol. I : Production Division :

- (1) Ravi Rayon Ltd., Kalashah Kaku.
- (2) Ravi Engineering Ltd., Kalashah Kaku.
- (3) Ittehad Chemicals Ltd., Kalashah Kaku.
- (4) Pioneer Steel Mills Ltd., Muridke.
- (5) Ittehad Pesticides, Kalashah Kaku.

Vol. II : Industries Division

- (1) Kohinoor Oil Mills Limited, Kalashah Kaku.
- (2) Suraj Ghee Industries Limited, Sheikhpura.
- (3) Universal Oil and Vegetable Ghee Mills Limited, Sheikhpura.
- (4) United Industries Limited, Faisalabad.
- (5) Morafco Industries Limited, Faisalabad.
- (6) Punjab Vegetable Ghee and General Mills Limited, Lahore.

Vol. III : States and Frontier Regions Division

- (1) Bara Cigarette Factory, Bara.
- (2) Matches Manufacturing Factory, Miranshah.

Introduction of the Reports by Auditor-General

96. Introducing his Reports in the PAC meeting held on 15th February, 1981, the Auditor-General said that these were his first compilations in pursuance of the Government policy statement of 2nd September, 1977, which extended public accountability to public sector enterprises. In order to undertake this specialised work, he had not only to secure the services of qualified personnel for the Performance Evaluation Cell in his office but also obtain the assistance of some foreign experts to train up the personnel.

Besides, while developing the required skills and techniques, the staff was specially advised to inculcate a constructive, in-offensive and non-fault-finding approach, so as to make the managements of the evaluated units feel and believe that they and Audit were pulling in one and the same direction and had a unity of purpose. There was, initially, a doubt in certain quarters about the legal competence of the Auditor-General to carry out these studies, but the Law Division clearly ruled that the evaluation would not conflict with the constitutional responsibilities of the Auditor-General.

97. Emphasising that there was no question of any clash between the objectives of the management and the performance evaluator and that some organizations had well-realised that this was so, the Auditor-General said that he looked up to the Committee to provide to the Cell guidance as to the areas of operation of an enterprise which should draw their greater attention and which they should go into more intensively, for the exercise to be amply useful to the management, Government and the Committee. He further pointed out that many a developing and even developed country had, by now, chosen that such evaluations be carried out by their State Audit authorities, instead of consultants, as any performance evaluation of public sector enterprises, undertaken by the State Audit, was deemed to carry more conviction with the general public and thus better serve the ends of public accountability.

Views of Secretary, Production Division

98. The Committee discussed the Reports on the enterprises under the Production Division, on 15th February, 1981 and 13th April, 1981 and, first of all invited the Production Secretary to express his views on the Reports. Recounting the background of the exercise, the Production Secretary said that, as the units were having their own internal and external auditors, it was initially thought that any additional audit might not be productive. Besides, performance evaluation being completely different from normal audit, both the exercises may not, preferably, be undertaken by the

same agency. However, after the Finance Division's advice that external audit by the Commercial Auditors was intended to determine the regularity of expenditure and not the propriety thereof, his Ministry agreed, with the consent of the companies, to subject the units to performance evaluation by the Auditor-General.

99. The Production Secretary added that one of the main justifications for creating his Division was that the latter should be constantly monitoring and over-seeing the performance of public sector enterprises under them. There was, hence, a well-laid-out system of quarterly reviews of the units under their administrative control, presided over by the Minister or an officer of appropriate level. There were 60 companies under their charge, which were thus being kept constantly under review. As a result, the enterprises under the Ministry seemed to be turning the corner during 1979-80 and had done particularly well in fields like cement, fertilizers, automobiles and oil refining. Besides, there was a Special Committee of the Cabinet, which also kept reviewing the performance of public sector enterprises and that Committee was going to be apprised of the measures, so far taken, to evaluate the units and industries that should not be retained in the public sector.

A Managing Director's reaction

100. The Committee then heard the Managing Director, Ittehad Chemicals, as a typical evaluated enterprise, to know more specifically the reaction of the Managements about the approach of the Performance Evaluation Reports and the nature of recommendations made therein. Assessing the Report on his unit, he conceded that, generally speaking, the deficiencies pointed out in it did exist in some manner, though they may not be becoming known for the first time, as the Ministry had also been carrying out periodically quite thorough reviews of the units under them. He assured the Committee that, to improve the situation, they had made note of the weaker areas and, either already initiated or were soon to initiate, remedial measures in line with most of the recommendations in the Report. Maintaining that the efficiency of Ittehad

Chemicals had not gone down after its nationalisation, he clarified that, at the time of taking over, there were 2 factories in the same premises, namely Ittehad Chemicals and Ittehad Pesticides, both of which, in fact, worked as one unit, because the labour for both was common. After the nationalisation, labour in the two factories had been shifted by the management to the Chemicals Factory. Initially, there were 930 workers in the Factory, whose number, as per the Report, was now over 1200.

101. During the discussion which followed, the Production Secretary admitted that a few nationalised industries may have been suffering from mis-management, in the sense that, while they might have been earning profits under the private management like the Pioneer Steel Mills, they might have gone into red after the take-over. To improve the performance of such units, a management appraisal was carried out last year, as a result of which action was taken against certain Managers and some Managing Directors were changed. Due to these measures, the situation had now begun to register an improvement. During the last 3 years, total production had gone up, though the level of employment had remained the same.

Processing of the Reports

102. Explaining as to how should the Reports be processed and who should decide upon actions to be taken on them, the Auditor-General said that, so far as he was concerned, he had fulfilled his prescribed duty by submitting the Reports to the Ministry of Finance, the administrative Ministry and the PAC. Since high-level decisions and co-ordinated actions will be needed on some of the measures suggested, the Economic Co-ordination Committee of the Cabinet appeared to be the most appropriate forum for taking decisions on major or inter-related issues in them. However, the responsibility for final action upon the recommendations in the Reports, on their own or after obtaining decisions from the ECC, where necessary, should rest with the Ministry concerned.

Comments of Secretary, Industries Division

103. When considering the Evaluation Reports on 6 vegetable ghee units, the Committee invited Secretary Industries, to offer his frank opinion on them and how useful such exercise could be for the units and the Ministry. His initial reaction was that the Audit evaluation seemed to be, practically, a duplication of the work already being done internally by the enterprises, since almost every unit was preparing a detailed monthly report on its performance. He, however, subsequently conceded that the Auditor-General's Reports may be found useful by his Ministry and the Ministry of Finance in cross-checking the periodical internal reports from the Ghee Corporation.

Action on Agreed recommendations

104. Intervening, the Auditor-General cautioned that the managements of the units and the Ministry concerned should not wait for the Reports to be first examined by the PAC, as the latter met only periodically. Instead, they should proceed to take action on whatever recommendations therein were agreed to and deemed beneficial. They should bring before the PAC the up-to-date position of the implementation status of the conclusions and recommendations in the Reports.

105. Secretary Industries further observed that the Evaluation work could be doubly useful if the evaluation officers could induce the management, by their helpful approach, to come up before the evaluators, on their own, with their genuine problems, so as to blend accountability with a touch of self-assessment. There should be a frank discussion between the evaluators and the management about the weak areas identified and the remedial measures proposed, before the same were finalised and put in the Report. Where necessary, the evaluators should have the authority to write directly to the Ministries of Finance, Commerce, etc., who may be holding solutions to the basic problems of the units.

106. Concluding, the Secretary Industries suggested that a National Efficiency and Finance Audit Corporation should be created for public sector enterprises, to combine in itself the role of Commercial Auditors and the Government Audit. The Corporation might appoint their own evaluation officers or sub-contract the work to Chartered Accountants. The reports issued by the Corporation should ultimately be placed before the PAC for final consideration. Asked as to what was the Government policy on the Performance Evaluation Reports, Secretary Industries said that they were being examined in the Ministries concerned extensively, as there were not only the financial but many other aspects to be gone into.

Revised comments of Ministries concerned asked for by Committee

107. Having heard the Auditor-General and the Secretaries, Production and Industries, the Committee felt that, for carrying out a meaningful examination of the Reports and formulating appropriate judgements on the performance of the units reported upon, it was necessary for the concerned Divisions to deal with the conclusions and findings contained in an Evaluation Report as a composite whole and not take them up individually as isolated issues. In submitting their revised and co-ordinated comments they should, *inter alia*, furnish information on the following :—

- (i) *Criteria for performance evaluation.*—The criteria used by the management themselves for evaluating different aspects of their unit, as distinct from those adopted by the Auditor-General.
- (ii) *Areas of agreement with the Auditor-General's conclusions and recommendations.*—Where there was agreement with the conclusions and recommendations of the Auditor-General, it may be indicated as to whether and to what extent had action been taken in respect thereof and what plans or proposals had been formulated or were proposed to be formulated to implement them.

- (iii) *Areas of disagreement with the conclusions and recommendations of the Auditor-General.*—The areas of disagreement with the conclusions and recommendations of the Auditor-General should, likewise, be clearly specified, giving due justification therefor and indicating whether and what alternative actions or steps were called for to bring about notable improvements in the performance of the evaluated units and to, at least, ensure their sound working.
- (iv) *Areas not covered by the conclusions and recommendations of the Auditor-General.*—If the Reports were found to have omitted any material steps in their conclusions and recommendations and which were considered necessary to put the performance of an evaluated enterprise in top gear, the same may also be spelt out clearly, with full justification therefor. Any other proposals, for further improving the efficiency and performance of the enterprises, like cost reduction etc., may also be incorporated in the comments.

Final detailed discussions on the Reports

108. Revised comments on the Performance Evaluation Reports from the Ministries of Production, Industries and States and Frontier Regions, on the above lines, were received and again discussed with the representatives of the said Divisions and those of some of the units, corporations concerned and the Federal Area Tribal Authority. The record of the above-said detailed discussions may be seen in paras 195—241, 436—55, 1257—68, 1445—50 and 1668—74 of Annexure I.

Suggestions and recommendations in the Reports

109. The Committee went carefully through the main conclusions and recommendations contained in the Auditor-General's Evaluation Reports. A gist of the main conclusions and recommendations relating to 5 units under the Production Division, 6

units under the Industries Division and 2 units under the States and Frontier Regions Division may be seen at Annexures III, IV and V respectively. It was re-assuring to find that the areas of weaknesses in all the evaluated units had been, by and large, identified and appropriate remedial measures suggested. The Secretaries of the Ministries and Managements of the units concerned, displayed due awareness of the draw-backs pointed out in the Reports and were, reportedly, either already taking the required corrective steps, or were on the way to initiating actions in respect thereof.

Committee's conclusions and recommendations on the Reports

110. Clear cut and quantified performance criteria had yet to be identified by the Ministries as earlier requested by the Committee. However the evaluation pattern adopted by Audit seemed to be broadly on the right lines. It would be the speed and sincerity with which the needed steps, recommended in the Reports and agreed to, with additional remedial measures, if any, deemed necessary by the management and the Ministry, are taken, that will ultimately determine the usefulness or otherwise of this whole exercise. A close follow-up action at all levels and on the part of everyone concerned shall, therefore, be absolutely imperative. The Committee has impressed this, with all the emphasis at its command, upon the representatives of the Ministries and the enterprises in question during the discussions referred to above.

111. It will, however, be only after an earnest pursuance of this matter on the above lines and the development of clear cut criteria that the result of performance evaluations may be expected to emerge in a visible form within a reasonable time, say about a year. The results may then be considered in detail for deciding upon what further measures were warranted. The Committee, therefore, deemed it premature, at this stage, to make specific recommendations on their own and would, for the time being, be

content with making the following suggestions :—

- (1) Time being of the essence in this case, and as a number of conclusions and recommendations in the Reports may tend to become somewhat out-of-date if not attended to promptly, the Ministries concerned should lose no time in examining and processing the same for obtaining decisions and also ensuring a speedy implementation of those decisions. The managements of the units concerned should also go ahead quickly with actions on the conclusions and recommendations about which there may be no dispute and for which specific decisions may not be required from the Government.
- (2) It is imperative that a follow-up system be set up by the Ministry concerned, for reviewing the actions taken on the conclusions reached and recommendations made in an Evaluation Report. The outcome of these reviews should be reported to the Government as well as the PAC, to enable them to see the direction in which the enterprises in question may be moving and to consider the desirability of adopting further steps, if any, to put them on even stronger keel.
- (3) The Auditor-General may select a good mix of public sector enterprises, for the purpose of performance evaluation, to facilitate comparison and formulation of a balanced view as to the performance of public sector enterprises as a class. It is, however, understandable that, for sometime to come, a large number of weaker and problem-ridden units would continue to attract his prior attention.

FINAL RECOMMENDATIONS

112. While submitting this Report to the President, it is finally recommended that :—

- (i) the suggestions and recommendations made by the Committee in the foregoing paragraphs and in Annexure I be accepted, and

- (ii) the excess in expenditure, contained in the statements referred to in para 9 (4) and (5) above and appended to the Report as Annexure II, be regularised, in accordance with the provisions of the Constitution.

M. A. HAQ,
Secretary,
National Assembly Secretariat.

A. G. N. KAZI,
Chairman.

MASSARRAT HUSSAIN ZUBERI,
Member.

ABDUL QADIR,
Member.

YUSUF BHAI MIAN,
Member.

Islamabad :
