PERFORMANCE AUDIT REPORT

ON

SKYROOMS (PVT.) LTD (AIRPORT HOTEL) A SUBSIDIARY OF PIAC

FOR THE PERIOD 2012-16

AUDITOR GENERAL OF PAKISTAN

PREFACE

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973 read with sections 8 and 12 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001 require the Auditor General of Pakistan to conduct audit of expenditure and receipts of the Government of Pakistan.

The Directorate General of Commercial Audit & Evaluation (DG CA&E), Karachi conducted Performance Audit of Skyrooms (Pvt.) Limited (SRL) for the period 2012 to 2016 during February 2017 to April, 2017 with a view to report significant findings to the stakeholders. Audit examined the economy, efficiency, and effectiveness aspects of SRL. In addition, Audit also assessed, on a test check basis, whether the management complied with applicable laws, rules, and regulations in managing the affairs of SRL. The Performance Audit Report indicates specific actions that, if taken, will help the management to realize the objectives. Despite repeated requests the Principal Accounting Officer (PAO) did not convene the meeting of the Departmental Accounts Committee (DAC).

The Performance Audit Report is submitted to the President of Pakistan in pursuance of Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973 for causing it to be laid before both Houses of Majlis-e-Shoora.

Islamabad
Dated:

Javaid Jehangir
Auditor General of Pakistan

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S#	Year	Loss due to less receipt of room rent	Loss due to less receipt of Sales Tax
1	2013	159,939,294	1,378,105
2	2014	161,844,559	4,167,093
3	2015	137,102,777	4,154,103
4	2016	93,825,984	3,758,356
Total Loss		**552,712,614**	**13,457,657**

Year	Passengers in Numbers	Room Rent Received
2013	149,005	163,251,007
2014	146,675	182,841,691
2015	133,953	177,686,773
2016	106,645	156,789,766
Total	**536,278**	**680,569,237**

Room Rent Due	Sales Tax deducted by SRL	Sales Tax due	Loss due to less duduction of Tax
323,190,300	53,564,243	54,942,351	(1,378,108)
344,686,250	54,429,570	58,596,663	(4,167,093)
314,789,550	49,360,121	53,514,224	(4,154,103)
250,615,750	38,846,322	42,604,678	(3,758,356)
1,233,281,850	**196,200,256**	**209,657,916**	**(13,457,660)**

Abbreviations and Acronyms

AGP	Auditor General of Pakistan
BoD	Board of Directors
CAA	Civil Aviation Authority
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CGR	Corporate Governance Rules
CPC	Central Purchase Committee
DAC	Departmental Accounts Committee
DG CA&E	Director General Commercial Audit & Evaluation
GFR	General Financial Rules
GoP	Government of Pakistan
PAO	Principal Accounting Officer
PAR	Performance Audit Report
PIAC	Pakistan International Airlines Corporation
PPRA	Public Procurement Regulatory Authority
SRL	Skyrooms (Pvt.) Limited

EXECUTIVE SUMMARY

Directorate General, Commercial Audit & Evaluation Karachi (DG CA&E) conducted performance audit of Skyrooms (Pvt.) Limited (also called Airport Hotel) for the years 2012 to 2016. Audit was conducted to examine the overall performance of the entity. Audit examined the objectives of establishing the hotel, business plan, management performance, revenue earned, rooms and beds occupancy rate, and scrutinized accounts and procurement contracts.

Skyrooms (Pvt.) Limited (SRL) was incorporated as a limited company in May, 1975 under the Companies Act, 1913 (now Companies Ordinance, 1984). It is a subsidiary of Pakistan International Airlines Corporation Limited (PIAC). The company has paid-up capital of Rs.40.00 million against the authorized share capital of Rs.50.00 million and is 100% owned by holding company i.e. PIAC. SRL owns and manages the 'Airport Hotel' and provides hotel accommodation to PIAC transit passengers, PIAC crew/staff, other airlines transit passengers and walk-in passengers.

On the basis of our review of data, certain irregularities have been highlighted in this audit report. The report was finalized in the light of management's initial replies. The Departmental Accounts Committee (DAC) meeting was not convened till finalization of the report despite request by the audit to the PAO.

a. Key audit findings:

- It was observed that occupancy rate of hotel was very low.

- The management does not have business plan, service rules as well as approved sanctioned strength enabling to run the hotel in proper manner to achieve commercial targets.

- Irregular awards of contracts in violation of PPRA 2004 to the parties for procurement of commodities valuing Rs. 85.52 million.

- Renovation of Airport Hotel in violation of PPRA 2004 valuing Rs. 7.65 million.

- Physical Verification of property, plant, equipment, stores & spares and stock-in-trade amounting to Rs. 47.49 million was not carried out.

- Non recovery of huge receivables Rs.92.73 million.

- Loss to government due to less deduction of sales tax amounting to Rs.13.458 million.

b. Recommendations:

- Efforts should be made to prepare business plan so that revenue of the hotel may be increased by enhancing the occupancy rate of the hotel.

- In order to run the hotel on efficient grounds, service rates, effective operating rates may be prepared.

- Efforts for early recovery of all outstanding amounts be taken on war footing.

- Compliance of Public Procurement Rules, 2004 may be ensured so that procurements are made in a transparent manner.

- Action may be taken against the persons who are responsible for receiving less revenue and depositing less tax into government treasury.

1. INTRODUCTION

Directorate General of Commercial Audit& Evaluation (South) Karachi conducted performance audit of Skyrooms (Pvt.)Limited to examine the overall performance of the company managing airport hotel for five financial/calendar years i.e. 2012 to 2016. This audit was included in the Audit Plan 2016-17.

PIA established a subsidiary company Skyrooms (Pvt.) Limited in 2012 to 2016 for managing the Airport Hotel. The prime objectives of hotel were providing hotel accommodation to PIAC and other airlines transit passengers, crew/staff and walk in passengers.

The hotel has an area of 30,468 square yards comprising open space of 21,442 square yards and covered area of 9,026 sq. yards. In the year 1983-84 four new blocks comprising 244 Rooms, Reception, Shops and Dining Hall facilities were added to the hotel. In the same year, the then management of the hotel decided to close down the old wing consisting of 100 rooms due to their dilapidated condition and unsafe accommodation. Subsequently out of 100 closed rooms, 67 rooms were renovated and opened for business. At present, the hotel has 310 rooms having 538 beds.

The management provided the audited accounts for the year 2012 and unaudited accounts for the years 2013, 2014 & 2015 and account for the years 2016 & 2017 was not provided. The comparison of assets, expenses and accumulated losses for the year 2011and 2015 as under:

Sr. No.	Description	2011	2015	% Increase/ (Decrease)
		(Rs. in million)		
1.	Property Plant & Equipment	61.144	44.364	(27.44)
2.	Trade debts of the hotel	49.431	95.669	93.54
3.	Staff retirement gratuity	64.956	155.688	62.14
4.	Accumulated loss	133.080	155.688	16.99

2. AUDIT OBJECTIVES

Audit objectives were to:

a. Examine the performance of the company with a view to ensure the effectiveness, economy and efficiency in the operations of the Company.

b. Review compliance with the objectives for establishing the Company.

c. Examine the adequacy of internal controls.

d. Review compliance with the applicable laws for procurement.

e. Examine the functioning of company (Airport Hotel) in compliance with rules and regulations.

3. AUDIT SCOPE AND METHODOLOGY

The assigned task of performance audit of SRL for the period 2012 to 2016 was carried out as per following scope and methodology:

AUDIT SCOPE:

A period of 5 years 2012-2016 was covered in the Performance Audit exercise.

METHODOLOGY:

a. Check and scrutinize the record on random basis for the audit period.

b. Visit of hotel and conduct interviews with concerned authorities of SRL.

c. Conduct physical examination of assets and other relevant material of the company.

d. Review of important documents (Accounting Data, Procurement Files, Contract Agreements Contractors' Bills, Approvals of Payments and minutes of the Board of Directors')

e. Examine the documents of civil work to ensure compliance with the applicable laws for procurement.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.2 Organization and Management

4.1.1 Irregular payment of salaries & remuneration to officers & staff of Airport Hotel in absence of sanctioned strength and recruitment rules - Rs. 843.137 million

Establishment Division's O.M. No.11/1/81-R.5 dated 20-8-1981 says that (i) Appointments (by promotion, transfer or direct recruitment) to the posts for which recruitment rules do not exist or have not been finalized in consultation with Establishment Division/FPSC, may not be made in the absence of recruitment rules. (ii) Recruitment rules for all posts sanctioned with the concurrence of the competent authority, if not in existence, should be framed/ finalized within three months of the issue of this circular. Further, Sl. No. 76 (i) of Establishment Division OM. No. 3/1/92-R.2, dated 2-1-1992 states that Booklet of vacancies, other than those falling in the purview of the FPSC, will be printed by the concerned Ministries/Divisions in respect of their Departments/ Subordinate Offices/Autonomous Bodies/Corporations in December and June each year and will be made available on payment.

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that the organization does not have approved recruitment rules and sanctioned strength of posts. Presently, the Skyrooms(Pvt.) Limited has one Chief Executive Officer, one Executive Director, one General Manager, one Deputy General Manager, nine Managers and two Incharges of the departments. Similarly, there are other posts of Deputy Managers, Assistant Mangers, Guest Relation Officers (GSO), Incharge Shift Officer. Besides, there are staffs employed on contract by the hotel as well as through third party contract **(Annex-1)**. Moreover, the Skyrooms (Pvt.) Limited does not have a 'Booklet of Vacancies' printed by its controlling ministry/division. It manifests that management has the freedom to run affairs at its sweet will.

Audit is of the view that in absence of sanctioned strength of officers & staff and recruitment rules, the salaries & remuneration from 2012 to 2016 amounting to Rs. 843,137,148 of Airport Hotel stood as irregular.

Matter was reported to the management in June 2017. The management in its reply dated January 29, 2018 stated that SRL has its own approved sanctioned strength of 483 number of employees, but no documentary evidence was provided to audit in support of reply. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

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

4.1.2 Irregular composition of Board of Directors of Skyrooms (Pvt.) Ltd

As per clause-4(4) of the Corporate Governance Rules 2013the Board shall elect its chairman from amongst the independent directors so as to achieve an appropriate balance of power, increasing accountability, and improving the Board's capacity for exercising independent judgment. Clause 4(1) the office of the chairman shall be separate, and his responsibilities distinct, from those of the chief executive. Clause 5(2) says that Board shall evaluate the candidates based on the fit and proper criteria and the guidelines specified by the Commission for appointment to the position of the chief executive, and recommend at least three individuals to the Government for appointment as chief executive of the Public Sector Company. Further, as per clause-3, the Board shall consist of executive and non-executive directors, including independent directors.

During Performance Audit of Skyrooms (Pvt.) Limited (SRL) Karachi for the years 2012 to 2016, following irregularities were observed in composition of Board which was against the Corporate Governance Rules 2013.

- The last re-composition of board was made on 25.03.2015 whereby the CFO-PIA was nominated as Chairman as well as the CEO of Skyrooms (Pvt.) Limited, which was in violation of above rules.
- The board remained non-functional for more than three years. Since Board's 55th meeting was held on 10-03-2010 and the next meeting on 19-06-2013. Hence, the Directors also expressed their displeasure in 56th meeting on lack of interest shown by the PIAC management and over the non-appointment of CEO of Skyrooms (Pvt.) Limited.
- The Board of Directors of SRL were not independent as well. The composition of directors was not maintained as per the rules, which stated that there should be more than half independent directors in the Board.

- The post of Chairman has been held by a non-independent Director. Annual General Meeting has not so far been held, in violation of company's Articles of Association.
- The annual report of the entity did not specify the Non-executive, Executive and Independent directors as required by the rules.

The matter was reported to the management in June 2017. The management in its reply dated January 29, 2018, stated that composition of Board of Directors and nomination of its Directors was approved by PIA Board, but no documents were provided in support of reply. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

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

4.1.3 Non-availability of Business Plan, Human Resource and Promotion Policy, Service Rules and SOPs

Board of Director in its 58th, 61st and 64thmeetings held on January 03, 2014, May 28, 2015 and June 30, 2016 respectively directed the management of SRL to develop business plan to make SRL profitable by analyzing the possibility to enter into Joint Venture by hiring the best human resource and industry experts and also decided that the company should have its own service rules like other organizations.

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that hotel management did not formulate Business Plan, Human Resource Policy and Standard Operating Procedures. There were no service rules and job descriptions of officers/officials of Airport Hotel were also not available. The whole entity is running on the Schedule of Administrative, Financial, Miscellaneous and Standing Committee's Powers 2013 which only describe the limits of sanction to authorized persons.

Audit is of the view that the management’s failure to implement BoD’s decision as per above directives show weak and in effective internal control.

The matter was reported to the management in June 2017. The management in its reply dated January 29, 2018, stated that business plan was being prepared and would be provided to audit. However, no progress was made till finalization of this report. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

Audit recommends fixing of responsibility on the person(s) at fault, besides ensuring compliance with the BoD’s decision.

4.2 Financial Management

4.2.1 Non-recovery of huge receivables - Rs. 92.73 million

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

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that an amount Rs.93.00 million was lying outstanding on account of receivable, as per details **Annex-2.**

Audit is of the view that the management failed to recover huge amount Rs.92.729 million since 2014 which shows inefficiency and weak internal controls.

Matter was reported to the management in June 2017. The management in its reply dated January 29, 2018 stated that major part of receivable had been received. However, no documentary evidence was produced to audit. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

Audit recommends efforts may be made for earlier recovery besides fixing of responsibility on the person(s) at fault.

4.2.2 Non-finalization of annual accounts by the management since 2013

According to Section-233 of the Companies Ordinance, 1984 the company shall prepare the annual accounts within four months after closing the date of accounts for the specific year.

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that Skyrooms did not finalize and provide the audited accounts for the years 2014 to 2016 till the finalization of this report in violation of above rules.

Audit is of the view that non-implementation of above referred directives is a sheer violation of framed rules.

The matter was reported to the management in June 2017. The management in its reply dated January 29, 2018, stated that accounts of 2013 were under process of signature of Chartered Accountants and would be submitted after due signature. However, no progress was reported till finalization of this report. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

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

4.2.3 Business loss due to less receipt of revenue - Rs.552.714 million

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

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that management incurred huge business loss of Rs.552.714 million on account of less charging of room rent from passengers. The management did not provide the detail of revenue earned during 2012. However, other years' detail is as under:

(Amount in Rupees)

Year	No. of Passengers	Room Rent Received	Rate	Room Rent Due	Loss
	1	**2**	**3**	**(1 x 3) =4**	**5**
2013	149,005	163,251,007	2,169	323,191,845	(159,940,838)
2014	146,675	182,841,691	2,350	344,686,250	(161,844,559)
2015	133,953	177,686,773	2,350	314,789,550	(137,102,777)
2016	106,645	156,789,766	2,350	250,615,750	(93,825,984)
Total	**536,278**	**680,569,237**	**-**	**1,233,283,395**	**(552,714,158)**

The matter was reported to the management in June 2017. The management in its reply dated January 29, 2018, stated that amount calculated @ Rs. 3,000 was not correct and we have different rates of PIA transit and other passengers as per agreement. In the light of reply, the para was revised and the amount was reduced as per rate of agreement. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

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

4.2.4 Loss to government on account of less deduction of sales tax from transit passengers -Rs. 13.458 million

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

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that government suffered losses during the years 2013 to 2016 on account of less deduction of sales tax on room rent from transit passengers. The management did not provide detail of revenue earned during 2012. However, other years' detail is as under:

(Amount in Rupees)

Year	Passengers in Numbers	Room Rent Received	Room Rent Due	Sales Tax deducted by SRL	Sales Tax Due	Loss of Tax
2013	149,005	163,251,007	323,190,300	53,564,243	54,942,351	(1,378,108)
2014	146,675	182,841,691	344,686,250	54,429,570	58,596,663	(4,167,093)
2015	133,953	177,686,773	314,789,550	49,360,121	53,514,224	(4,154,103)
2016	106,645	156,789,766	250,615,750	38,846,322	42,604,678	(3,758,356)
Total	**536,278**	**680,569,237**	**1,233,281,850**	**196,200,256**	**209,657,916**	**(13,457,660)**

Matter was reported to the management in June 2017. The management in its reply dated January 29, 2018 stated that tax was calculated as per rules, but the reply was not supported with documentary evidence. DAC meeting was not convened by PAO despite request of audit dated August 04, December 07 and December 19, 2017.

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

4.2.5 Non-production of record

Section-14 (2) of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001 states that 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 form as possible and with all reasonable expedition. Further the Public Accounts Committee directives, issued vide OM No.F-10(1)/2000/2004-PAC dated Jun 03, 2004 requires all PAOs Ministry/Divisions to make available all information/record to Audit as and when required by them, otherwise disciplinary action will be initiated against person(s) responsible for the delay under Section-14(2) of the Auditor General's Ordinance No. XXIII of 2001.

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that the record as mentioned was not produced to audit despite repeated requests. The detail is at **(Annex-3).**

Audit was of the view that non-production of record was a violation of Section-14 (2) of the Auditor General's Ordinance, 2001 and the directives of PAC.

This attitude of the management tantamount to concealment of facts and figures from government audit.

The matter was reported to the management in June 2017, but no reply was received. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

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

4.3 Procurement and Contract Management

4.3.1 Irregular purchase of water from M/s. Zain Enterprises and other private parties - Rs. 70.57 million

PPRA Rule 8 says that within one year of commencement of these rules, all procuring agencies shall devise a mechanism, for planning in detail for all proposed procurements and Rule 9 prohibits splitting up of proposed procurement and provides that a procuring agency shall announce through an appropriate manner all proposed procurements for each financial year. Further, PPRA Rule 12(2) says that all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu. Further, as per BoD's directives the management should also approach Karachi Water Board for supply of water.

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that management of Airport Hotel purchased water from M/s Zain Enterprises in piecemeal during 2012 worth Rs 6.87 million without inviting open tender. The management further purchased water amounting to Rs.63.698 million from other private parties. The detail of purchases is at **(Annex-4).**

Audit is of the view that management purchased the water worth Rs.70.57 million without competitive bidding. The management should have also approached Karachi Water Board for supply of water which was also directed by BoD.

The matter was reported to the management in June 2017. The management in its reply dated January 29, 2018 stated that water was purchased through tender process, but they failed to produce any evidence in support of reply. DAC meeting was not convened by PAO despite request of audit dated August 04, December 07 and December 19, 2017.

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

4.3.2 Irregular award of contract for purchase of vegetables / fruits - Rs. 7.54 million

As per Rule 38 of PP Rules 2004 the bidder with the lowest evaluated bid, shall be awarded the procurement contract, within the original or extended period of bid validity. Rule 40 further provides that there shall be no negotiation with the bidder having submitted the lowest evaluated bid or with any other bidder. Further, As per tender terms & conditions of tender documents "Suppliers must be registered with Sales Tax Authorities having GST/NTN; the supplier has to submit 2% Earnest Money along with quotation and food law / regulatory compliance certificate, preferably with Pakistan Standards Quality Control Authority".

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that management negotiated with the contractor and awarded the contract to M/s. Trade & Technique. The bids' details are as under:

Name of Party	No. of Item	Total Value (Rs)
M/s. Trade & Technique	30	4,306,400
M/s. Khan Muhammad	18	3,233,000

Instead of awarding the contract to both of the contractors on the basis of item wise lowest bids, management negotiated with M/s. Trade & Technique and contract was awarded to the said contractor. Audit also observed the following shortcomings;

1. News cutting as well as tender uploaded on PPRA site was not available.
2. Technical Evaluation of bids was not available.
3. The Supplier got registered with Sales Tax Authorities in July 1999, whereas his registration was suspended in June 2013. This indicated that terms of tender were not fulfilled and the contract was awarded.

4. The Supplier deposited earnest money amounting to Rs. 80,000, whereas the Supplier was to submit Rs. 150,788 @ 2% of tender amount.

5. The Supplier submitted rates for 30 items, whereas the rates as well as amount were to be quoted for 48 items as per tender documents.

6. The Supplier provided different business addresses without cogent justification and documentation thereof.

The management was asked to furnish missing documents as pointed out in observation memo, but it was stated that complete case file had been provided to Audit.

Audit is of the view that award of contract to M/s. Trade &Technique was in violation of PPRA Rules 2004.

The matter was reported to the management in June 2017. The management in its reply stated that:

i. a copy of advertisement and its uploading on PPRA is available.
ii. Technical evaluation report was made and available is on file.
iii. Sales Tax is not applicable on vegetables.
iv. Supplier had submitted Rs 80,000 as Earnest Money
v. Yes, it is true that a supplier submitted the 48 items rates its does not affect the contract.

The management did not produce any documentary evidence in support of the reply.

DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

Audit recommends fixing of responsibility on the person(s) at fault, besides regularization of the irregularity from competent forum.

4.3.3 Irregular purchase of chicken from various suppliers – Rs. 3.30 million

PPRA Rule 9 prohibits splitting up of proposed procurement and provides that a procuring agency shall announce through an appropriate manner all proposed procurements for each financial year. Further, as per Section 3 of the Trade Organizations Ordinance, 2007 (LXXI of 2007), the Federal Government granted license to Pakistan Poultry Association on 29.08.2009 till 28.08.2017 as a trade organization within the meaning of clause (q) of Section 2 of the said

Ordinance to represent trade, commerce, industry or service or any combination thereof, in Poultry sector on all Pakistan-basis.

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that management purchased chicken from various suppliers worth Rs. 3.36 million on cash basis by splitting the contract (Rs 1.94 million in 2012 and Rs 1.42 million in 2014).

Audit is of the view that management purchased chicken by splitting the amount and from those who were not registered with Pakistan Poultry Association.

The matter was reported to the management in June 2017, but no reply was received. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

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

4.3.4 Irregular award of contract for purchase of eggs - Rs. 2.96 million

In exercise of powers conferred by Section 3 of the Trade Organizations Ordinance, 2007 (LXXI of 2007), the Federal Government was pleased to grant license to Pakistan Poultry Association on 29.08.2009 till 28.08.2017 as a trade organization within the meaning of clause (q) of Section 2 of the said Ordinance to represent trade, commerce, industry or service or any combination thereof, in Poultry sector on all Pakistan-basis. Further, As per tender terms & conditions of tender documents "Suppliers must be registered with Sales Tax Authorities having GST/NTN; the supplier has to submit 2% Earnest Money along with quotation and the successful tenderers upon award of contract will be required to furnish an amount equivalent to 5% of total tender value.

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that sealed tenders were invited on single stage two envelopes mode through newspapers on May 17, 2015 for various items including the supply of 30,000 doz eggs. In August 2015 the contract for supply of eggs was awarded to M/s. Trade & Technique being the lowest. The detail is as under:

Sr. No.	Name of Supplier	Total Value (Rs)
1.	M/s. Fedcom	2,992,500
2.	M/s. Trade & Technique	2,964,000

Audit observes following shortcomings;

1. The technical evaluation was not carried out as required under Rule 36 (b) (v) of Public Procurement Rules, 2004.

2. The Supplier got registered with Sales Tax Authorities in July 1999, whereas his registration was suspended in June 2013. This indicated that terms of tender were not fulfilled and the contract was awarded.

3. The Supplier did not deposit 2% earnest money and 5% security deposit amounting to Rs. 59,280 and respectively as per tender terms.

4. The Supplier provided different business addresses without cogent justification and documentation thereof.

5. The supplier was not registered with Pakistan Poultry Association as necessitated.

The management was asked to furnish missing documents as pointed out in observation memo, but it was stated that complete case file has been provided to Audit.

Audit is of the view that undue favour was extended to supplier as the contractor did not fulfill the requisite criteria, thus, award of contract was held irregular.

The matter was reported to the management in June 2017, but no reply was furnished. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

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

4.3.5 Irregular purchase of vegetables/fruits without competitive bidding - Rs. 1.15 million

PPRA Rule 9 prohibits the splitting up of proposed procurement and provides that a procuring agency shall announce through an appropriate manner all proposed procurements for each financial year.

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that management purchased vegetables/fruits in split manner from many suppliers worth Rs 1.15 million during 2016 in violation of above rules.

Audit is of the view that management did not devise a mechanism for a yearly procurement and purchase vegetables/fruits worth Rs. 1.15 million in split manner which is irregular.

The matter was reported to the management in June 2017. The management in its reply dated January 29, 2018 stated that vegetables / fruits were purchased from M/s. Metro Pakistan. The reply is not tenable in Audit. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

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

4.4 Construction and Works

4.4.1 Irregular expenditure in split manner on renovation of Airport Hotel - Rs. 7.121 million

PPRA Rule 9 prohibits the splitting up of proposed procurement and provides that a procuring agency shall announce through an appropriate manner all proposed procurements for each financial year.

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that management incurred an amount of Rs. 7.121 million on renovation of hotel in March 2014 on the directives of Advisor to the Prime Minister. It is worth mentioning here that management gave approval for piecemeal work, obtaining three quotations for each work & selected the lowest quoted rate bidder, but most of the quotations were in same handwriting whereas, the bidders were different. This needed to be justified.

Audit is of the view that management did not devise a mechanism for the procurement under PPRA and renovated the hotel and incurred an expenditure of Rs. 7,120,563 in split manner to avoid competitive bidding.

The matter was reported to the management in June 2017, but no reply was received. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

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

4.4.2 Irregular purchase of furniture & fixture - Rs. 0.528 million

PPRA Rule 9 prohibits the splitting up of proposed procurement and provides that a procuring agency shall announce through an appropriate manner all proposed procurements for each financial year.

During Performance Audit of Skyrooms(Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that management purchased furniture &fixture on February 03, 2014 from M/s. Abdul Rehman Furniture & M/s. Duratex Furniture worth Rs. 110,000 & Rs. 418,000 respectively in split manner.

Audit is of the view that management did not devise a mechanism for the procurement under PPRA and purchased furniture & fixture worth Rs. 528,000 in split manner to avoid competitive bidding.

The matter was reported to the management in June 2017, but no reply was received. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

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

4.5 Asset Management

4.5.1 Non-conducting of Physical Verification of Assets Rs. 47.487 million

Rule-151 of GFR provides that the head of an office or any other officer entrusted with stores of any kind should take special care for arranging their safe custody, keeping them in good and efficient condition and protecting them from loss, damage or deterioration. He should maintain suitable accounts and inventories and prepare correct returns in respect of the stores in his charge with a view to preventing losses through theft, accident, fraud or otherwise and to make it possible at any time to check the actual balances with the book balance and the payment to suppliers, etc.

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, physical verification report of assets was called for scrutiny by the Audit team vide Requisition dated 14-03-2107. The same was not produced to audit. An amount of Rs. 47.487 million was shown under the following head of accounts in un-audited account for the year 2015:

Property, plant and equipment	Rs. 44,364,039
Stores and spares	2,902,750
Stock-in-trade	219,931
Total	**Rs.47,486,720**

Audit is of the view that Fixed Assets Register was not prepared by organization, consequently, title, completeness and valuation of certain operating Fixed Assets and rate of depreciation charged thereon for the years under review could not be verified.

The matter was reported to the management in June 2017. The management in its reply dated January 29, 2018 stated that audit observation was not correct, however, no documentary evidence was provided to audit in support of reply. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

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

4.5.2 Non-registration of lease agreement with CAA due to disagreement

During Performance Audit of Skyrooms(Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that prepaid lease payments was made to Pakistan Civil Aviation Authority (CAA) for acquisition of the right to use plot of land and hotel building which are amortized over the period of 30 years on straight line basis. Initial lease agreement was effective from June 3, 1981 for a period of twenty years which expired on June 2, 2001. The agreement was further extended on January 07, 2008 for further thirty years. However, the subject agreement has not yet been registered due to disagreement between the parties over the completion of certain legal formalities.

The matter was reported to the management in June 2017, but no reply was received. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

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

4.6 Monitoring and Evaluation

4.6.1 Non-implementation of PAC directives regarding timely uploading of minutes of board of directors

According to the Public Accounts Committee Wing letter No.F.10 (4&7)/2012-PAC, dated 03.09.2012, whereby the PAC directed to ensure the availability of latest minutes of Board of Directors' meeting on official website of the organization under their respective administrative control.

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that the minutes of Board of Directors' meetings were not uploaded on the official website of the Skyrooms(Pvt.) Limited.

Audit is of the view that non-implementation of PAC directives is a sheer violation.

The matter was reported to the management in June 2017. The management in its reply dated January 29, 2018, stated that audit observation was noted for compliance. However, no progress was made till finalization of this report. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

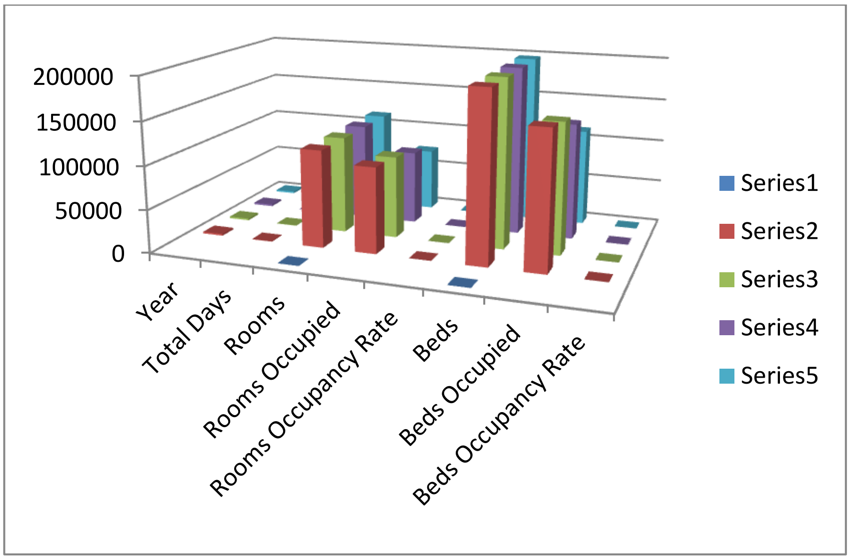
Audit recommends fixing of responsibility on the person(s) at fault.

4.7 Overall Assessment

4.7.1 Decline in occupancy rate of Rooms &Beds in Airport Hotel

During Performance Audit of Skyrooms (Pvt.) Limited Karachi for the years 2012 to 2016, it was observed that management failed to achieve satisfactory occupancy ratio. Detail is as under:

Year	Total Days	Rooms Available	Rooms Occupied	Rooms Occupancy Rate %	Beds Available	Beds Occupied	Beds Occupancy Rate %
2013	365	113,150	99,650	88	196,370	158,922	81
2014	365	113,150	95,628	85	196,370	151,689	77
2015	365	113,150	85,661	76	196,370	135,236	69
2016	366	113,460	72,919	64	196,908	113,397	58



2013 2014 2015 2016

Above table/Graphic depicts declining trend during 2013 to 2016 which requires immediate attention of the management.

The matter was reported to the management in June 2017, but no reply was received. DAC meeting was not convened by PAO despite request by audit dated August 04, December 07 and December 19, 2017.

Audit recommends responsibility may be fixed on the person(s) at fault.

4.7.2 Ratio Analysis:

In order to assess the overall performance of Skyrooms (Pvt.) Limited it was imperative to undertake a threadbare ratio analysis of its audited accounts; audit selected following ratios based on their relevance to the task at hand and deciphered the results analytically:

A) Liquidity Ratios:

i) Current Ratio = Current Assets/Liabilities

Current ratios indicate a measure of liquidity *(Ideally this ratio should be between one and two)*; a current ratio greater than one indicates that the company has enough short-term assets (defined as cash, short term investments, accounts receivable, prepaid expenses, and inventory) to meet its short-term financial obligations.

Skyrooms (Pvt.) Limited Current Ratio's:

Year	Current Ratio
2015	0.785
2014	0.705
2013	0.604
2012	0.608

(Source: Annual Accounts of Skyrooms (Pvt.) Limited)

The current ratio of Skyrooms(Pvt.) Limited for all four years depicted above is well below the ideal benchmark which is "one", the above shows Skyrooms(Pvt.) Limited's current obligations exceed the ability to pay for them. This signifies a potential cash flow problem for the hotel, and exposes to a high risk of default while striving to meet short term debt obligations.

Liquidity ratios measure the solvency, or the ability of management to convert current assets to cash in order to meet short term financial obligations; and in order to obtain a more realistic position of Skyrooms' liquidity it would be prudent to scrutinize its quick ratio:

ii) Quick Ratio = $\frac{\text{Current Assets - Stores and Spares - Stock-in-Trade - Taxation}}{\text{Current Liabilities}}$

Skyrooms (Pvt.) Limited Quick Ratio:

Year	Quick Ratio
2015	0.351
2014	0.336
2013	0.188
2012	0.242

(Source: Annual Accounts of Skyrooms (Pvt.) Limited)

The quick ratio above *(Ideally this ratio should be one)*; was used to assess Skyrooms' ability to convert current assets into cash in a short period of time, in order to meet the current financial obligations of the hotel as they become due. These ratios are particularly significant to the creditors and potential lenders, because they determine the ability of hotel to meet current payments of debt. From the above analysis it is evident that Skyrooms(Pvt.) Limited is on high risk and this will severely hamper hotel's ability to secure loans from financial lending institutions and any loans that it does manage to obtain will entail higher than market interest rates;.

iii) Debt to Equity Ratio = $\frac{\text{Total Debt}}{\text{Owners Equity}}$

Skyrooms (Pvt.) Limited Debt to Equity Ratio:

Year	Debt to Equity
2015	*
2014	*
2013	*
2012	*

During the performance audit of Skyrooms (Pvt.) Limited, Audit observed for the year ended 2013, that the hotel had Reserves (Accumulated Losses) amounting to Rs. 151.791 million, while the share capital (paid up and advance against equity) amounted to Rs. 77.042 million of the hotel, this has resulted in the hotel having a negative equity balance of Rs. 113.715 million including an amount of Rs. 38.966 million allocated for postretirement benefits obligation. The equity in negative balance is a severe cause for concern as it will affect entity's operations in the future. Furthermore based on these facts audit is unable to calculate the debt equity ratio of the hotel as it cannot be calculated for an entity having a negative equity balance. It is further pointed out, that this scenario poses a serious going concern issue as the entity will be unable to meet its debt requirements and other liabilities payable as at the year end.

In conclusion if the hotel continues to perform operations while suffering such losses in the future as well, which does seem highly probable as is evident from the hotel's current and past financial statements and spiraling costs, the hotel will have to completely rely on holding company to support and sustain its existence, thereby causing an onerous financial burden on the holding company, which economic state is also bad.

B) Profitability Ratios:

Profitability Ratios show how successful a company is in terms of generating returns or profits on the investment that it has made in the business. If a business is liquid and efficient it should also be profitable.

i) Return on Sales or Profit Margin (%) = (Operating Profit/Net Sales) x 100

ROS is a financial ratio that calculates how efficiently a company is generating profits from its top-line revenue. It measures the performance of a company by analyzing the percentage of total revenue that is converted into operating profits. Investors, creditors and other debt holders rely on this efficiency ratio because it accurately communicates the percentage of operating cash a company actually makes on its revenue and can provide insight into potential dividends, reinvestment potential and the company's ability to repay debt.

Skyrooms (Pvt.) Limited Return on Sales:

Year	**Net Revenue Rs.**	**Net Profit/(Loss) Rs.**	**Return on Sales %**
2013	322,697,087	(11,028,745)	(3.42)
2012	291,726,019	(7,681,815)	(2.63)
2011	284,819,235	(9,747,558)	(3.42)

(Source: Annual Accounts of Skyrooms (Pvt.) Limited)

ii) Return on Assets (%) = (Net Profit / Total Assets) x 100

The Return on Assets is a financial ratio that shows the percentage of profit a company earns in relation to its overall resources. It determines its ability to utilize the assets employed in the company efficiently and effectively to earn a good return.

Year	**Net Profit/(Loss) Rs.**	**Total Assets Rs.**	**Return on Assets %**
2013	(11,028,745)	268,251,386	(4.11)
2012	(7,681,815)	278,969,367	(2.75)
2011	(9,747,558)	268,297,282	(3.63)

(Source: Annual Accounts of Skyrooms (Pvt.) Limited)

5. CONCLUSION

From the above scenario it is quite evident that all key financial indicators of Skyrooms (Pvt.) Limited are in undesirable range and are depicting lack of liquidity, negative profitability and return on equity and its debt to equity mix is heavily reliant on debt which has increased its financial risk. Skyrooms needs massive doses of equity injection so the hotel can rectify its short term debt position. The hotel needs to take corrective measures to increase efficient utilization of its assets and reduction in its cost of operations, if corrective measures are not adopted and implemented soon the ability of the entity to proceed as a going concern will be in jeopardy.

ACKNOWLEDGEMENT

We wish to express our appreciation to the management and staff of Skyrooms (Pvt.) Limited for the assistance and cooperation extended to the auditors during this assignment.

Annexes

Annex-1

(See Para No.4.1.1)

Detail of payment of salaries & remuneration to officers & staff

Cost of Services (Rupees)

	2012	2013	2014	2015	2016
Salary & Allowances	107,081,140	104,944,907	97,163,552	101,949,357	100,327,606
Staff welfare and benefits	35,909,471	38,579,131	45,741,741	43,020,181	34,593,088
Sub Total	**142,990,611**	**143,524,038**	**142,905,293**	**144,969,538**	**134,920,694**

Administrative Expenses (Rupees)

	2012	2013	2014	2015	2016
Salary & Allowances	14,601,974	14,310,669	13,249,575	13,902,185	13,681,037
Staff welfare and benefits	4,896,746	5,260,791	6,237,510	5,866,388	4,717,239
Sub Total	**19,498,720**	**19,571,460**	**19,487,085**	**19,768,573**	**18,398,276**

Managerial Remuneration (Rupees)

	2012	2013	2014	2015	2016
Executive Director	1,579,693	2,649,472	0	0	0
Executive	3,669,922	2,459,054	0	0	0
Sub Total	**5,249,615**	**5,108,526**	**0**	**0**	**0**
Grand Total (each year)	**167,738,946**	**168,204,024**	**162,392,378**	**164,738,111**	**153,318,970**
Grand Total					**816,392,429**

Annex-2

(See Para No. 4.2.1)

Detail showing the non-recovery of outstanding dues

Sr. No.	Description	Amount in Rupees
1.	Receivable from Guests	70,123,852
2.	Receivable Rent from Shop	10,076,156
3.	Receivable from Employees	8,340,201
4.	Receivable from Others	4,188,421
	Total	**92,728,630**

Annex-3

(See Para No. 4.2.5)

Detail of non-production of record

Requisition No. 1 Dated 27.02.2017	Remarks
Payroll of officers and staff	Not provided for the year 2016.
Budget verses actual expenditure statement	Not provided.
All schedules 2012 to 2016	Not provided for the year 2016. Figures of 2012 to 2014 were not matched with accounts.
Trial balance	Not provided - 2015 & 2016.
General ledger of accounts 2012 to 2016	Not provided 2015 & 2016.
Copies of all agreements in process, cancelled, completed and newly started	Partial record was provided.
Guest inward and outward statement	Not provided.
Cost statement	-do-
Detail of facilities provided to guests	-do-
Room's occupancy and vacant position	Provided incomplete.
Detail of rent recovered and outstanding	Not provided.
Log Books & Registration Books of all vehicles	-do-
Detail of theft, inquiry, Police, NAB, FIA, Court and litigation cases	-do-
Requisition No. 1 Dated 27.02.2017	**Remarks**
Detail of tax received, deducted, deposited and adjusted	-do-
Internal Audit Reports	Not provided.
Letter to the management by Chartered Accountant on disclosures	-do-
All tender files	Provided 2014 & 2015 incomplete. (2012, 2013 and 2016 not provided.
List of cheques issued, received, cancelled, pending and dishonored	Not provided.
Cash Books	-do-

Annex-4

(See Para No. 4.3.1)

Statement showing detail of purchase of sweet water

Year	Account Code	Description	Amount (Rs.)
2012	C18-028	Sweet Water Tanker 6000 gallon	8,157,605
2012	C18-029	Sweet Water Tanker 5000 gallon	1,260,563
2013	C18-028	Sweet Water Tanker 6000 gallon	9,605,430
2014	C18-028	Sweet Water Tanker 6000 gallon	9,315,150
2015	C18-028	Sweet Water Tanker 6000 gallon	6,685,836
2015	C18-029	Sweet Water Tanker 5000 gallon	10,874,325
2016	C18-028-29	Sweet Water Tanker 5000 & 6000 gallons	17,800,000
2012	Purchased from M/s Zain Enterprises in piecemeal		6,870,000
Total			**70,568,909**