PERFORMANCE AUDIT REPORT

ON

NATIONAL FERTILIZER CORPORATION (NFC), LAHORE

AND

NFC INSTITUTE OF ENGINEERING & FERTILIZER RESEARCH (IEFR), FAISALABAD

FOR THE YEARS 2011-16
AUDIT YEAR 2016-17

AUDITOR GENERAL OF PAKISTAN

PREFACE

The Auditor General conducts audits under Articles 169 & 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with Sections 8 & 12 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. The Performance Audit of National Fertilizer Corporation (NFC), Lahore and NFC Institute of Engineering & Fertilizer Research (IE&FR) Faisalabad was carried out accordingly.

Director General, Commercial Audit & Evaluation (North) Lahore conducted Performance Audit of NFC Lahore and NFC Institute Faisalabad from April to May, 2017 covering the period from 2011-12 to 2015-16 with a view to reporting significant findings to stakeholders. Audit examined whether economy, efficiency and effectiveness aspects were observed by the management in achieving the set targets and goals. In addition, Audit also assessed, on test check basis, whether the management complied with applicable laws, rules and regulations in managing the affairs of the Corporation & its Institute. The Audit Report contains recommendations that, if considered, will help the management to realize its objectives and improve formulation and implementation of its policies and plans. The observations included in this report have been finalized in the light of discussions in the Departmental Accounts Committee meeting.

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 the Parliament (Majlis-e-Shoora).

Islamabad
Dated:

(JAVAID JEHANGIR)
Auditor General of Pakistan

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ABBREVIATIONS AND ACRONYMS

BBA	Bachelor in Business Administration
BoD	Board of Directors
BOQ	Bill of Quantities
CEO	Chief Executive Officer
GOP	Government of Pakistan
HEC	Higher Education Commission
HEI	Higher Education Institution
IE&FR	Institute of Engineering & Fertilizer Research
IET	Institute of Engineering & Technological Training
INTOSAI	International Organization of Supreme Audit Institutions
IT	Information Technology
MBA	Master of Business Administration
MIS	Management Information System
MoU	Memorandum of Understanding
NFC	National Fertilizer Corporation of Pakistan
PAC	Public Accounts Committee
PEC	Pakistan Engineering Council
PM	Prime Minister
PPRA	Public Procurement Regulatory Authority
PSC (CG) R	Public Sector Companies (Corporate Governance) Rules
PSR	Preliminary Survey Report
R&D	Research & Development
SBM	School of Business Management
UET	University of Engineering & Technology
UG	Under Graduate
UNIDO	United Nations Industrial Development Organization

EXECUTIVE SUMMARY

Director General, Commercial Audit & Evaluation (North) Lahore conducted Performance Audit of National Fertilizer Corporation of Pakistan (NFC) Lahore and NFC Institute of Engineering and Fertilizer Research (NFC-IEFR) Faisalabad from April to May, 2017 covering the period from 2011-12 to 2015-16. The main objectives of Performance audit were:

a. To review efficiency and effectiveness of management;
b. To review if the benefits accrued to the targeted population as per Vision, Mission and Objectives by observing the principles of economy, efficiency and effectiveness;
c. To verify if the companies have formulated and implemented any viable plans for their progress and development as per their Memorandum of Association and Articles of Association;
d. To examine if the companies have an efficient and effective monitoring system and internal control framework; and
e. To examine the compliance with applicable rules and regulations.

The audit was conducted in accordance with the INTOSAI Auditing Standards.

NFC is owned by Government of Pakistan and was incorporated as private limited company in August, 1973. At that time, it consisted of three small plants. It took steps for modernization of the existing plants and established three more plants in next two decades. Subsequently all the manufacturing units were privatized by the Privatization Commission.

NFC is presently operating one fertilizer marketing company and two educational, research and training institutes. As a holding company, it directs, co-ordinates and controls the group activities, lays down guidelines for economic and technical development of the Corporation and coordinates the plans for their implementation.

The key audit findings and recommendations are as follow:

Audit Findings

i. Public Sector Companies (Corporate Governance) Rules, 2013 had not been completely implemented. Resultantly, proper monitoring and evaluation system at each level could not be devised to ensure good governance.[1]

ii. Non-follow up of the case regarding establishment of NFC Institute as an Independent University.[2]

iii. Unproductive expenditure on operations of NFC due to non-winding up of its units after privatization - Rs 716.051 million.[3]

iv. Irregular reappointment of employees who availed VRS - Rs 10.793 million[4]

v. Irregular payment of PhD allowance along with Technical pay - Rs 3.295 million[5]

vi. Irregular appointment and payment of meeting fee to members of BOD -Rs 4.985 million[6]

vii. Poor maintenance of accounting record at NFC Lahore.[7]

viii. Non-existence of internal audit system at NFC IE&FR Faisalabad.[8]

ix. Non-availability of compulsory PhD faculty.[9]

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[1] Para No 4.1.3, 4.1.4, 4.1.5, 4.1.6
[2] Para No 4.1.8
[3] Para No 4.1.10
[4] Para No 4.1.16.1
[5] Para No 4.2.4
[6] Para No 4.1.1
[7] Para No 1.1.14
[8] Para No. 4.1.15.1
[9] Para No 4.1.18.1

x. Loss due to less admission in Engineering & BBA program - Rs 31.635 million[10]

xi. Poor performance of R&D department - Rs.54.981 million[11]

xii. Purchase of water logged land for the establishment of Institute in Naushero Feroze - Rs 42.00 million[12]

xiii. Irregular and unfair procurement of Computers Equipment& Chemicals - Rs 9.892 million[13]

xiv. Irregular award of civil work and non-completion of works by contractors - Rs 10.631 million[14]

xv. Non-transparent award of renovation work - Rs 1.947 million[15]

Recommendations

i. Public Sector Companies (Corporate Governance) Rules, 2013 should be implemented in letter & spirit to ensure good governance.

ii. Take up the case regarding establishment of Institute as an independent university at appropriate forum.

iii. The shares of the subsidiaries may be transferred to them and process of winding up of NFC may be started without delay.

iv. Matter regarding re-employment of VRS opted employees may be got regularized from BOD and evolve a policy in this regard.

v. Payment of PhD allowance may be stopped.

vi. Overage members of BoD may immediately be replaced.

vii. Accounting record may be streamlined and manual system be replaced with computerized accounting system.

viii. Internal audit department may be strengthened.

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[10] Para No 4.2.5
[11] Para No 4.2.6
[12] Para No 4.3.1
[13] Para No 4.3.3
[14] Para No 4.4.2, 4.4.4
[15] Para No 4.4.1

ix. Hiring of new PhD faculty, where required, may be made.

x. Make efforts to increase the number of admissions by changing the admission policy for Computer Science& BBA.

xi. A well knitted marketing plan be devised and required manpower be provided to achieve it and R&D should be upgraded to provide research and development support to all the engineering students.

xii. Defective land may be disposed-off and better land be purchased on main road for establishment of Institute in Naushero Feroze.

xiii. The bidders who were involved in fraudulent practices should be blacklisted and tender evaluation committee may be penalized for not scrutinizing the tender documents properly.

xiv. Complete the leftover work and conduct inquiry for irregular award of civil work regarding UTM lab.

1. INTRODUCTION

Director General, Commercial Audit & Evaluation (North) Lahore conducted Performance Audit of National Fertilizer Corporation of Pakistan (NFC) Lahore and NFC Institute of Engineering and Fertilizer Research (NFC-IEFR) Faisalabad from April to May, 2017 covering the period from FY 2011-12 to 2015-16 with a view to reporting significant findings to stakeholders.

NFC is owned by Government of Pakistan and was incorporated as private limited company in August, 1973. The Corporation was managing six fertilizer plants in the past. However, under the privatization policy of Government of Pakistan, all six manufacturing units of NFC were privatized by the Privatization Commission (one unit was privatized in 1992 and rest were privatized during 2002 to 2008). Presently, NFC acts as holding company of one fertilizer marketing company and two educational, research and training institutes at Faisalabad & Multan. In its capacity as holding company, it directs, coordinates and controls the group activities, lays down guidelines for economic and technical development of the subsidiary companies and oversees the plans for their implementation.

1.1 The Structure of the Auditee Formation

Controlling Ministry of the NFC is Ministry of Industries & Production Islamabad. NFC is presently operating one fertilizer marketing company and two educational, research and training institutes as given below:

- National Fertilizer Marketing Limited (NFML), Lahore.
- NFC Institute of Engineering & Fertilizer Research (NFC IEFR), Faisalabad.
- NFC Institute of Engineering & Technology (NFC IET), Multan.

1.2 The Objectives of the Corporation & Institutes

The main role and objectives of the Corporation& Institutes as stated in Memorandum &Articles of Association are:

- To enhance fertilizer production capacity in the country.
- To make the fertilizers available throughout the country at uniform prices.
- Contribute to the economic and social development of the country by providing employment to the people in fertilizer industry.
- Keep adequate stocks of fertilizers in consumption areas to overcome any possibility of artificial shortage.
- To carry out educational and research & development activities.

1.3 Financial highlights

Financial highlights of National Fertilizer Corporation of Pakistan (Pvt) Ltd. for the FY 2011-12 to 2015-16 are given below:

(Rs in million)

	2015-16	**2014-15**	**2013-14**	**2012-13**	**2011-12**
Income					
Dividend	1098.89	1.81	2.56	3.22	508.12
Profit on bank deposits	513	918.20	932.97	976.46	955.31
Other income	5.51	0.705	0.69	0.58	1,779.51
Total	**1,617.41**	**920.715**	**936.21**	**980.26**	**3,242.93**
Expenses					
Administrative expenses	139.53	150.502	110.85	133.32	161.40
Finance charges	0.156	0.119	0.13	0.04	20.00
Total	**139.68**	**150.621**	**110.98**	**133.36**	**181.41**
Profit before taxation	**1,477.72**	**770.094**	**825.23**	**846.91**	**3,061.52**
Taxation	314.146	261.941	322.00	303.00	902.00
Profit after taxation	**1,163.577**	**508.145**	**503.23**	**543.91**	**2,159.52**

(Source: Annual Accounts)

Financial highlights of NFC Institute of Engineering & Fertilizer Research, Faisalabad for the FY 2011-12 to 2015-16 are given below:

(Rs in million)

Description	2015-16	2014-15	2013-14	2012-13	2011-12
Income					
Tuition fee	215.488	200.219	180.134	172.81	146.72
Other income	87.171	77.979	71.426	59.87	51.12
Total	**302.659**	**278.198**	**251.56**	**232.68**	**197.84**
Expenses					
Research & development	14.049	20.89	17.434	15.56	14.2
Admin & general expenses	76.21	70.721	67.223	49.45	42.39
Teaching expenses	187.083	163.278	154.032	157.29	130.49
Total	**277.643**	**254.89**	**238.69**	**222.3**	**187.08**
Excess of income over expenditure	**25.016**	**23.308**	**12.87**	**10.38**	**10.76**

(Source: Annual Accounts)

2. AUDIT OBJECTIVES

The audit objectives were:

a. To review efficiency and effectiveness of management;
b. To review the benefits accrued to the targeted population as per Vision, Mission and Objectives of the companies by observing the principles of economy, efficiency and effectiveness, if any;
c. To review the strategic planning process in the companies and to verify if the companies have formulated and implemented any viable plans for their progress and development as per their MoA and AoA in economic and efficient manner.
d. To verify effectiveness of funds utilized for the teaching, training, learning and research equipment, library, computers, etc.;
e. To verify progress/achievement in starting new programs;
f. To examine if the companies have an efficient and effective monitoring system and internal control framework; and

g. To examine the compliance with applicable rules, regulations and procedures.

3. AUDIT SCOPE AND METHODOLOGY

The Performance Audit covered scrutiny of record at NFC Head Office, Lahore and NFC Institute of Engineering and Fertilizer Research, Faisalabad for the period 2011-12 to 2015-16. The audit methodology performed to achieve audit objectives was:

i. Examination of relevant files and reports.
ii. Interviews with the management.
iii. Focused group discussions.
iv. Visits of various departments of NFC-IE&FR
v. Analysis of provided data.
vi. Vouching, where necessary.

4. Audit Findings and Recommendations

Audit findings framed with respect to NFC Lahore and NFC Institute of Engineering &Fertilizer Research, Faisalabad are given hereunder:

4.1 Organization and Management

4.1.1 Irregular appointment of Chairman & Member BOD and payment of meeting fee - Rs 4.985 million

As per Cabinet Division's D.O letter dated 9th October, 2007, a member shall cease to hold office on attaining the age of 65 years or the expiry of his term in the office whichever is earlier.

During Performance audit of NFC, Lahore, for the FY 2011-12 to 2015-16, it was observed that Board of Directors of NFC was constituted on 12th February 2015 vide MOI&P notification No.12-5/2000-NFC. Age of the two members of BoD at the time of appointment was more than 65 years and as per above referred criteria they were not eligible to be appointed as members BoD. These members were still present on the BoD and management paid Rs 4.985 million to them on account of meeting fee which was considered irregular.

Audit was of the view that a person who was above the age of 65 could not be appointed as a member of the Board of a public sector company. Therefore, the appointment of both members was in contravention of the direction of the Cabinet Division. Hence, it was unjustified and considered irregular *ab initio*.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that Directors on the Board of NFC were appointed by the Government vide MOI&P's notification No. 12-5/2000-NFC dated February 12, 2015. The reply of the management was not tenable as members were appointed in violation of the government instructions. DAC in its meeting held on March 02, 2018 directed the management to constitute the new Board strictly in accordance with the instructions on age limit for Chairman and Members of BOD.

Audit recommends compliance of the decision of DAC besides making amendments in the Memorandum & Articles of Association in line with the instructions of Cabinet Division. Moreover, recover the amount in question from concerned or get regularize from Cabinet Division.

4.1.2 No approved Strategic Plan and Vision/Mission Statement

As per Rule-5(6) of the Public Sector Companies (Corporate Governance) Rules 2013, "The Board shall adopt a vision or mission statement and corporate strategy for the Public Sector Company."

During Performance audit of NFC-IE&FR, Faisalabad for the FY 2011-12 to 2015-16, it was observed that the Institute was operating without approved strategic plan to guide its operations. The management only provided a single page document which vaguely described vision and mission statement. Nothing could be found on the record to suggest the approval of a vision and mission statement and corporate strategy by the BoD.

Audit was of the view that approving the strategic direction of the organization was a primary responsibility of the board of directors which was very important for effective corporate governance. The Strategic plan is prepared by the management and presented to the board for approval. The BoD evaluates and assesses the plan and satisfies itself with the strategic direction of the entity articulated in the strategic plan before approving it. In the absence of an approved long term planning framework (strategic plan) and a Vision/Mission statement, decisions taken to achieve entity's objectives may be uncoordinated and would be difficult and costly to achieve.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that Strategic plan and Vision/Mission statement are approved and incorporated in the prospectus of the Institute every year. The reply of management was not tenable as it failed to provide proof of a properly devised and approved strategic plan during verification. DAC in its meeting held on March 02, 2018 directed the management that vision / strategic plan be got approved from BoD.

Audit recommends compliance of the decision of DAC.

4.1.3 Improper composition of Board of Directors and appointment of members having irrelevant skills and competence

As per Rule- 3(1) of Public Sector Companies (Corporate Governance) Rules 2013, "The Board shall consist of executive and non-executive directors, including independent directors and those representing minority interests with the requisite range of skills, competence, knowledge, experience and approach so that the Board as a group includes core competencies and diversity considered relevant in the context of the Public Sector Company's operations."

(2) "The Board shall have forty percent of its total members as independent directors within the first two years of this notification, which shall be raised to a majority of independent directors in the next two years, and the majority shall be maintained subsequently."

2 (d) "Independent Director" means a Non-Executive Director who is not in the service of Pakistan or of any statutory body or anybody or institution owned or controlled by the Government and who is not connected or does not have any other relationship, whether pecuniary or otherwise, with the Public Sector Company, its associated companies, subsidiaries, holding company or directors. The test of independence principally emanates from the fact whether such person can be reasonably perceived as being able to exercise independent judgment without being subservient to any form of conflict of interest."

During Performance audit of NFC-IE&FR, Faisalabad for the FY2011-12 to 2015-16, it was observed that the BoD of the institute consisted of four members and the most important basis for electing a director into the board was relationship with the holding company (NFC). Out of the four directors, one member was appointed by virtue of his position as CEO NFC, who also held the post of Chairman BoD. The second member of the BoD was GM finance of the NFC. The third member acted as the only independent director and was from private sector. The Director of the institute acted as the fourth director.

Further, with the exception of the Director of the institute, none of the board members including the only independent member had the requisite range of skills, competence, knowledge and relevant experience to conduct the core operations of the institute, namely imparting engineering education and fertilizers research and development.

Audit was of the view that in the absence of members with required core competencies and without the majority of independent members, it was not possible for the board to perform its functions efficiently and effectively.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that the Nomination Committee of NFC Board in its meeting held on 25th October, 2017 had recommended the re-constitution of the Board which would compose of seven members including three independent directors. The recommendations had been sent to the Ministry for approval. The reply of the management was not tenable as the Board had not been reconstituted yet. DAC in its meeting held on March 02, 2018 directed the management for constitution of new Board in accordance with Corporate Governance Rules 2013.

Audit recommends compliance of the decision of DAC.

4.1.4 Non- formation of Board Committees

As per Rule-12(1) of Public Sector Companies (Corporate Governance) Rules 2013, the Board shall set up the following committees to support it in performing its functions efficiently, and for seeking assistance in the decision making process, namely;

a. Audit committee
b. Risk Management committee
c. Human Resources Committee
d. Procurement Committee
e. Nomination Committee

During Performance audit of NFC-IE&FR, Faisalabad for the years 2011-12 to 2015-16, it was observed that the BoD of the institute failed to form any of the committees prescribed under the rules. The board committees serve as an important mechanism for actively involving all board members in the entity's work and for board leadership to emerge. Committees are the engine of the board and without their functioning the board will not achieve its objectives. All board activities are performed through committees and results are presented and vetted by the entire board.

Audit was of the view that the failure of the BoD to form committees had contributed to the inability of the board to deliver on key corporate governance responsibilities under the law.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that it had been decided to reconstitute the Board of IEFR which would compose of 7 members including 3 independent Directors. The Board Committees would also be constituted to comply with Public Sector Companies (Corporate governance) Rules 2013. The reply of the management was not tenable as no Board committees were formed yet. DAC in its meeting held on March 02, 2018 directed the management for constitution of BOD and its committees in accordance with the provisions of Corporate Governance Rules 2013.

Audit recommends compliance of the decision of DAC.

4.1.5 Irregular appointment of Chairman of BoD of the Institute

As per Rule- 4(4) of Public Sector Companies (Corporate Governance) Rules 2013, "The 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."

During Performance audit of NFC-IE&FR, Faisalabad for the FY 2011-12 to 2015-16, it was observed that Chairman of the BoD was not appointed as required under the above referred instructions of Government. As per practice, the Chief Executive Officer of the NFC (Holding Co.) acted as the Chairman of the BoD at Institute which was against the rules.

Audit was of the view that the board had to elect its chairman from amongst the independent directors as required by Corporate Governance Rules.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that as per amended Rule- 4(4) of Public Sector Companies (Corporate Governance) Rules 2013, "the Chairman of the Board shall be elected by the Board of Directors of the Public Sector Company. However, this provision shall not apply where Chairman of the Board is appointed by the Government." The reply of the management was not tenable as the chairman of BoD of IEFR was not appointed by Government. DAC in its meeting held on March 02, 2018 directed the management for constitution of BOD and its committees in accordance with the provisions of Corporate Governance Rules 2013.

Audit recommends compliance of the decision of DAC and to elect the chairman of BoD in accordance with the provisions of Corporate Governance Rules 2013.

4.1.6 Absence of a dedicated Board secretary in the Institute

As per Rule- 14(3) of the Public Sector Companies (Corporate Governance) Rules 2013, "The company secretary shall be responsible for ensuring that Board procedures are followed, and that all applicable laws, rules and regulations and other relevant statements of best practice are complied with. Where the company secretary is not separately appointed, the role of company secretary may be combined with chief financial officer or any other member of senior management.”

During Performance audit of NFC-IE&FR, Faisalabad for the FY 2011-12 to 2015-16, it was observed that Mr. Muhammad Saghir, who was serving as Deputy General Manager (Accounts) in the NFC, the holding company of the institute, was designated as the secretary to the Board in violation of the rule. A Board secretary is necessary for the smooth running of the Board. He assists the Board in ensuring that all procedures are complied with and in compiling reports and following up implementation of Board decisions The Board secretary also ensures that Board and committee charters are kept up to date; prepares and circulates Board papers; elicits responses, input, feedback for Board and Board committee meetings; ensures preparation and circulation of minutes of Board and committee meetings and assists with the evaluation of the Board, committees and individual directors.

Audit was of the view that the job of a secretary was a full time affair and could not be efficiently performed as part time. Therefore, the appointment of a part time secretary created a risk that Board was not appropriately advised on a broad range of governance issues. The fact had largely contributed to the ineffectiveness of the BoD.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that as the Board of the Institute was being reconstituted, therefore, new Board would appoint a new company secretary. The reply of the management was not tenable as the Board had not been reconstituted yet. DAC in its meeting held on March 02, 2018 directed the management for constitution of BOD and its committees in accordance with the provisions of Corporate Governance Rules 2013.

Audit recommends compliance of the decision of DAC and to appoint board secretary in accordance with the provisions of Corporate Governance Rules 2013.

4.1.7 Weaknesses observed in accounting software

NFC-IE&FR has accounting software to facilitate its accounting processes. The development of software was outsourced to a private person.

During the analysis of the working of the accounting software, following weaknesses were observed:

1. The Institute had purchased the right of using software (Oracle 10 Developer 6i) from Mr. Saleem, a software consultant. It also pays for yearly maintenance and support for the package.
2. The Software users shared their legitimate concerns about the security of the data. The current as well as the data of previous years was under the control of the consultant. The data was fully accessible by the consultant however, nobody in the institute could access the data unless and until the consultant allowed. Access to the data could be blocked by the consultant any time.
3. The accounting software did not support the closing of financial statements of the preceding accounting period and resultantly opening balances were not carried forward automatically at the start of the next accounting period, which had to be done manually and therefore, there were always chances of errors.
4. The accounting information was only available upto the trial balance. The software did not support making of revised trial balance. There were no balance sheets, income statements or other financial statements which severely restricted the scope of its efficacy and utility.
5. The software did not support automatic import of the data in other programs. Users were making different financial statements in MS Excel by manually entering data.

6. It was observed that in case of a problem, users had to wait for the consultant unnecessarily to fix their accounting software problems.
7. No reports were being generated by the software for the use of middle or higher management.
8. Single account/login was being used by two officers for input of entries in the system.
9. Access to the main server was also available to the consultant, who could add/delete anything from the system online using an application software Team Viewer, which was extremely risky and may lead to data loss/errors/change in accounting records and restriction of accessing the data.
10. No backup of data could be made by the users/staff of the Institute, for this purpose services of the consultant were necessary and the same was also not accessible by the management. In case of any disaster/loss of data and non-availability of the programmer, management could not import data from the backup taken by the consultant, as they didn't have access to the same.
11. Users did not have the right to change their passwords.
12. No log was being maintained in the accounting system to trace any wrong/fraudulent entry made by any unauthorized user.
13. No system Administrator was appointed to authenticate the changes and maintain record in order to secure the system.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that IEFR Board had also noted various weaknesses as highlighted by the Audit. Now the Institute was making arrangements to develop software with the latest features as per requirements of the Institute. DAC in its meeting held on March 02, 2018 directed the management to replace the accounting software as per requirements of the Institute in compliance with recommendations of the Audit.

Audit recommends compliance of the decision of DAC and making arrangement for institute's own system administrator.

4.1.8 Non-follow up of proposal for up-gradation of NFC Institute as Independent University

Fertilizer Research & Development Institute was established at Faisalabad in 1986 with technical & financial assistance of United Nations Industrial Development Organization (UNIDO). In 1998, the Institute was recognized as NFC Institute of Engineering & Fertilizer Research and started B.Sc. Engineering programs with the affiliation of University of Engineering & Technology Lahore.

The up-gradation proposal regarding establishment of NFC Institute of Engineering & Fertilizer Research into an independent university was moved by the Director, IE&FR in 2006. A complete proposal was sent to the Project Director, Higher Education Monitoring Cell, Governor's Secretariat Lahore for up-gradation of the Institute into an Independent University. The Governor of the Punjab approved the constitution of a committee of experts for the up-gradation on Jan 12, 2007 which strongly recommended for the grant of Charter and up-gradation of the IE&FR as an independent University. The name of the proposed university was also finalized by the Chairman NFC as NFC University of Engineering & Technology (NFC-UET) vide NFC letter dated April 30, 2007.

Higher Education Commission vide their letter dated July 18, 2008 desired to submit revised feasibility report and intimated that the Prime Minister of Pakistan was desirous of upgrading the institute to the level of a university. Director NFC-IEFR, submitted the revised feasibility report to the NFC, Head Office on July 24, 2008 for onward submission to the PM secretariat. The PM approved the up-gradation of two Institutes i.e., IET and IEFR as universities on May 31, 2008.

The process was suddenly stalled and no effort was made afterwards. Later on, Ministry of Industries intimated on February 21, 2012, that the Prime Minister's Secretariat had asked to submit comments regarding up-gradation of NFC-IEFR. The comments were submitted by the institute to the NFC, HO on Feb

22, 2012 which stated that the institute was meeting the general criteria/norms of HEC for the establishment of a new university. However, after the retirement of ex-Director IE&FR in 2013, management failed to appoint a regular Director and an Acting Director was working since 2013. During that period, no effort was made for up-gradation of the Institute. This showed lack of interest and failure on the part of the management on the in principle decision of the PM for up-gradation.

Audit was of the view that the case regarding up-gradation was in the final stages in FY 2011-12 but it was not properly pursued. It was pertinent to mention that IET, Multan was awarded the charter of Federal Degree Awarding Institute in 2012. The NFC-IE&FR was still affiliated with the UET Lahore and was making huge payment as affiliation fee to UET annually. Furthermore, due to non-up-gradation of institute as a university, it was deprived of the benefits of grants from the HEC.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that as per HEC criteria each department must have at least two Ph.D faculty members. The Institute was constantly making efforts to fulfill HEC criteria. The reply of the management was not tenable as the case regarding up-gradation was in the final stages and could have been finalized with a little more effort it was not properly pursued. DAC in its meeting held on March 02, 2018 directed the management to take necessary steps on fast track to fulfill the requirements of HEC for making NFC-IEFR as independent university.

Audit recommends early implementation of the decision of DAC besides conducting a fact finding inquiry by the administrative ministry to ascertain the reasons for suspending the process of up-gradation of institute as independent university at a time when it was about to mature.

4.1.9 Non-appointment of Chief Internal Auditor

As per Rule- 13(1) & (2) of Public Sector Companies (CGR) 2013, the Board shall appoint a chief Internal Auditor and the appointment, remuneration and terms and conditions of employment of the chief internal auditor of Public Sector Company shall be determined with the approval of the Board.

As per Rule- 22(2) “No person shall be appointed to the position of the chief internal auditor unless he is considered and approved as "fit and proper" for the position by the Audit Committee. No person shall be appointed as the Chief Internal Auditor of a Public Sector Company unless he has five years of relevant audit experience and is (a) member of a recognized body of professional accountants; or (b) certified internal auditor; or (c) certified fraud examiner; or (d) certified internal control auditor; or (e) person holding a master degree in finance from a university recognized by the Higher Education Commission”

During Performance audit of NFC-IE&FR, Faisalabad for the FY 2011-12 to 2015-16, it was observed that the management informed the Board in its 56th meeting held on 12th Oct, 2012 that Mr. Istikhar Ahmed, Dy. Manager (Accounts) had been nominated as Internal Auditor. Afterwards, Chief Executive again informed the Board in its 59th meeting on 15th Sep, 2014 that Mr. Istikhar Ahmed, Dy. Manager (Accounts) and Mr. Saeed Qadir, Asst. Manager (Accounts) had been nominated as Internal Auditors of the institute.

Audit was of the view that rules had provided the procedure for appointment and qualifications of the Chief Internal Auditors. The appointments of Mr. Istikhar Ahmed, Dy. Manager (Accounts) and Mr. Saeed Qadir, Asst. Manager (Accounts) was in contravention of the rules and therefore irregular.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that a Deputy Manager (Accounts) holding Master of Business Administration in Finance was appointed as Internal Auditor.

The reply of the management was not tenable as the said employee had no experience of Audit as required under Rules. DAC in its meeting held on March 02, 2018 directed the management to address the requirement pointed out by Audit and appoint the Chief Internal Auditor in accordance with the rules.

Audit recommends compliance of the decision of DAC.

4.1.10 Unproductive recurring expenditure on NFC after privatization of fertilizer units - Rs 716.051 million

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

As per Prime Minister's directives issued vide MoI&P letter No.7(2)Per.11/2006 dated April 12, 2006, the Prime Minister has been pleased to direct *inter-alia*, that " In view of the expected privatization of the remaining units of NFC necessary downsizing/rightsizing in NFC & NFML will be carried out and NFC will be wound up as soon as possible".

The main role of the Corporation was to enhance the fertilizer production capacity in the country, make the fertilizers available throughout the country at uniform prices, keep adequate stocks of fertilizers in consumption areas to overcome any possibility of artificial shortage and to carry out educational and research & development activities.

During Performance audit of NFC, Lahore for the FY 2011-16, it was observed that by 2008 all six manufacturing units of the Corporation had been privatized under the privatization policy of the Government of Pakistan. Presently, NFC was acting as a holding company and had its own marketing company namely National Fertilizer Marketing Limited (NFML) and two allied educational institutes in Multan & Faisalabad. All three entities had their own chief executives & board of directors. The NFC Institute of Engineering & Technology, Multan was granted degree awarding status in 2012, and is now working independently through its own Vice Chancellor and Board/ Syndicate.

It may be noted that since privatization of the fertilizer units of NFC, the corporation had not initiated a single project as per its objectives and had not done any productive work during the last five years. Recently NFC initiated a project at Naushehro Feroze, Sindh for establishment of a campus of NFC Institute of Engineering & Technology Multan, the same could have been established by the Institute itself. It may further be noted that the main source of income of the Corporation was the dividend received from subsidiary companies and interest earned on investments. A sum of Rs 716.051 million was incurred as administrative expenses during the FY 2011-12 to 2015-16 which was considered unproductive as the operations were discontinued since 2008.

Audit was of the view that all three subsidiary companies had their own boards and were empowered and able to operate independently, hence there was no justification for the continued existence of NFC as the Prime Minister has already directed to wind up NFC vide letter dated April 12, 2006. Thus, all the expenditure incurred after privatization of units was held unproductive and could have been saved by winding up the corporation.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that NFC was a profit making company and all of its expenditure was being met through its own sources. NFC had paid dividend of Rs 7.100 billion to GOP during last three years. The reply of the management was not tenable as the NFC was only doing the investing activities rather than operating activities as per their objectives and the Prime Minister had already directed to wind up NFC. DAC in its meeting held on March 02, 2018 directed the management to redefine the role of the NFC in the post privatization scenario of its production units.

Audit recommends compliance of the decision of DAC besides making subsidiaries independent as one Institute has already been recognized as University and being run by their own Syndicate and other two subsidiaries have their own board to run their affairs.

4.1.11 Absence of risk management committee resulting in non-identification & monitoring of Risk

As per Rule- 5(7)(c) of Public Sector Companies (Corporate Governance) Rules 2013, the Board shall formulate significant policies for "the identification and monitoring of the principal risks and opportunities of the Public Sector Company and ensuring that appropriate systems are in place to manage these risks and opportunities, including, safeguarding the public reputation of the Public Sector Company."

During Performance audit of NFC Lahore and NFC-IE&FR, Faisalabad for the FY 2011-12 to 2015-16, it was observed that the board had not developed or approved any risk identification and monitoring policy. The risk assessment committee of the NFC board was formed but nothing on the record showed that it was active to guide and help the board to perform its function of identification and monitoring of the principal risks efficiently and effectively. The risk assessment committee of the institute was not formed. Resultantly, both the NFC and the institute lacked a formal risk assessment process and risk management plan.

Audit was of the view that the board had the ultimate responsibility for risk management and it should have ensured to identify and monitor all risks at board level. Lack of a risk management plan places an institution in a difficult situation because key risks are likely not to be identified and addressed since mitigating factors have not been put in place. The inaction of the board to lay down a proper policy of risk management was a violation rules and had resulted in inability of the board to perform its function efficiently and effectively.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that NFC Board had already formed Risk Management Committee to effectively review the risk functions. The reply of the management was not tenable as Copy of formal policy was not provided during verification. DAC in its meeting held on March 02, 2018 directed the management to constitute a Risk Management Committee as per recommendations of the Audit.

Audit recommends early implementation of the decision of DAC besides approval of a risk management policy by the board wherein all risks are documented and it is ensured that effective risk management systems are in place.

4.1.12 Lack of evaluation mechanism for Board Members

As per Rule- 8(1) of Public Sector Companies (Corporate Governance) Rules 2013, "The performance evaluation of the members of the Board including the chairman and the chief executive shall be undertaken for which the Board shall establish a process, based on specified criteria, and the chairman of the Board shall take ownership of such an evaluation. The committees shall also carry out their evaluation on an annual basis." Rule- 8(2) further states that, "The Board shall monitor and assess the performance of senior management on a periodic basis, at least once a year, and hold them accountable for accomplishing objectives, goals and key performance indicators set for this purpose."

During Performance audit of NFC Lahore and NFC-IE&FR, Faisalabad for the FY 2011-12 to 2015-16, it was observed that the BoD of the corporation & Institute had no framework to conduct performance appraisals of the board members.

Audit was of the view that it is important that public entities have an effective board to scrutinize the entity's performance. A regular performance evaluation promotes positive change and builds a road map to success. It supports management in identifying its strengths and weaknesses and its absence had prevented BoD and the management to perform to its full potential and put in place processes to remedy their weaknesses.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that the Management Manual did not include the performance evaluation of the Board Members and CEO because their performance evaluation had been recently incorporated in Public Sector Companies (Corporate Governance) Rules 2013. The reply of the management was not tenable as the rules had been implemented since 4 years. DAC in its meeting held on March 02, 2018 directed the management for necessary amendments in the existing Management Manual for performance evaluation as recommended by the Audit.

Audit recommends compliance of the decision of DAC.

4.1.13 Absence of Management Information System (MIS) in the Institute

Management Information System (MIS) is basically concerned with the process of collecting, processing, storing and transmitting relevant information to support the management operations in any organizations. Thus, the success of decision-making, which is the heart of administrative process, is highly dependent partly on available information, and partly on the functions that are the components of the process.

During Performance audit of NFC-IE&FR, Faisalabad for the FY 2011-12 to 2015-16, it was observed that the institute had no management information system to support its operations. The management told that the Institute had not engaged any agency or IT based solutions for capturing or compiling such information and there was no plan to install an MIS in the near future. Following observations were also made:

1. The institute had developed accounting software with limited utility.

2. In-house software for the library was being developed by the Computer Sciences Department.
3. The Institute had also not adopted any computer based parameters or rating system enabling inter-departmental and intra-departmental comparison of their performance.
4. There was no software relating to academic, exams, store, and hostels.

Audit was of the view that use of information technology in educational management has rapidly increased due to its efficiency and effectiveness. MIS can provide administrators and teachers with the information required for informed planning, policy-making, and evaluation. It can assist the BoD and top management in determining the aims of the school, formulating strategic plans, distributing resources, and evaluating staff performance as well as organizational success. The lack of an MIS system in an engineering institute speaks volume of non-seriousness of the management as it could have greatly improved the efficiency and effectiveness of the operations.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that an integrated MIS system had been proposed for all the academic departments. All the academic activities i.e examinations, results, students' attendance, students' registration in various courses were being governed by UET Lahore through their online Learning Management System (LMS), which the institute had to follow, being an affiliate. DAC in its meeting held on March 02, 2018 directed the management to comply with the recommendations of the Audit.

Audit recommends compliance of the decision of DAC.

4.1.14 *Absence of Management Information System (MIS) and poor maintenance of accounting record in NFC*

As per Rule- 14 (1) of Public Sector Companies (Corporate Governance) Rules 2013, the chief financial officer shall be responsible for ensuring that appropriate advice is given to the Board on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control. Further as per Rule- 21(6-i) the terms of reference of the audit committee may also include “ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective”.

Management Information System (MIS) is basically concerned with the process of collecting, processing, storing and transmitting relevant information to support the management operations in any organizations. Thus, the success of decision-making, which is the heart of administrative process, is highly dependent partly on available information, and partly on the functions that are the components of the process.

During Performance audit of NFC, Lahore for the FY 2011-12 to 2015-16, it was observed that the corporation had no management information system to support its operations. The accounting record was being maintained on manual hand written registers and vouchers which were not easily readable. There were also chances of tempering and changes in the accounting record. The Corporation was operating since many decades but there was no computerized accounting system available in the Corporation.

Audit was of the view that MIS and computerized accounting system can provide management the information required for informed planning, policy-making, and evaluation. It can assist the BoD and top management in determining the aims of the organization, formulating strategic plans, distributing resources, and evaluating staff performance as well as organizational success. The lack of an

MIS system and computerized accounting showed non-seriousness of the management as it could have greatly improved the efficiency and effectiveness of the operations.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that they had already considered adoption of computerized systems for its financial and operational matters. DAC in its meeting held on March 02, 2018 directed that explanation given by the management was not satisfactory. DAC pended the para till the Management Information System was designed and put in place.

Audit recommends compliance of the decision of DAC.

4.1.15 Internal Audit Mechanism

Internal auditing is an independent, objective assurance and consulting activity that is designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. Internal auditing is a catalyst for improving an organization's governance, management controls and risk management by providing insight and recommendations based on analysis and assessments of data and business processes.

4.1.15.1 Non-existence of Internal Audit in Institute

As per Rule- 22(1) of Public Sector Companies (Corporate Governance) Rules 2013, "There shall be an internal audit function in every Public Sector Company. The chief internal auditor, who is the head of the internal audit function in the Public Sector Company, shall be accountable to the audit committee and have unrestricted access to the audit committee."

As per Rule- 22(4), “The internal audit function shall have an audit charter, duly approved by the audit committee”.

During Performance audit of NFC-IE&FR, Faisalabad for the FY 2011-12 to 2015-16, it was observed that the audit committee of the board was not formed and the institute had no system of internal audit. It was found that the BoD in its 55th meeting held on Nov 23, 2011 observed that no internal audit system was functional and desired to set up a proper internal audit system and to prepare Internal Audit Report regularly and submit the same to the Chairman, NFC. The management informed the Board in its 56th meeting, held almost after one year, on 12th Oct, 2012 that Mr. Istikhar Ahmed, Dy. Manager (Accounts) was nominated as Internal Auditor but Internal Audit Report would be prepared after confirmation of Minutes of 55th Board meeting. Nothing was discussed about Internal Audit in 57th Board meeting. The management again informed the Board in its 58th meeting, on 17th Dec, 2013 that Mr. Istikhar Ahmed, Dy. Manager (Accounts) was nominated as Internal Auditor but Internal Audit Report would be prepared after confirmation of Minutes of 55th Board meeting. Chief Executive again informed the Board in its 59th meeting on Sep 15, 2014 that the internal audit system had been established. Mr. Istikhar Ahmed, Dy. Manager (Accounts) and Mr. Saeed Qadir, Asst. Manager (Accounts) had been nominated as Internal Auditors of the institute and internal audit reports had been prepared and would be submitted to the Chairman NFC.

Audit was of the view that the there was no audit committee of the board to guide and help it in audit matters efficiently and effectively. Resultantly, though the Board asked to set up an internal audit system on 23rd Nov, 2011, the establishment of the mechanism of internal audit was intentionally delayed by the management. Furthermore, the appointment of the internal auditors was made in violation of the prescribed procedure and was considered irregular.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that the Chief Executive established internal audit system as per directions given by Board of Directors in its 55th meeting held on 23rd November 2011. The reply of the management was not tenable as the employees working in accounts department were nominated as internal auditors and 1st internal audit was conducted in 2015, after 4 years of the directions of the board. DAC in its meeting held on March 02, 2018 pended the para till the setting-up and putting in place of Internal Audit System.

Audit recommends compliance of the decision of DAC.

4.1.16 Human Resource Management

During audit following weaknesses of HR Management came to notice.

4.1.16.1 Irregular re-appointment of employees who availed VRS - Rs 10.793 million

According to Voluntary Retirement Scheme (VRS) offered to the employees of NFC and NFML on vide notification No. NFC (Persl)/831-840 dated June 14, 2007, the main purpose of the scheme was to affect economy in expenditure and bring operational efficiency. The option for VRS once exercised was final.

As per section 11 of the Recruitment, Annual Increment and Transfer Policy and Procedure of NFC, form No. 6.5 was required to be issued to contractual executives, which requires that a lump sum consolidated package to be paid to the contractual employee.

During Performance audit of NFC, Lahore for the FY 2011-12 to 2015-16, it was transpired that VRS was announced on June 14, 2007 for necessary rightsizing/downsizing after privatization of Fertilizer Units of NFC. Nine (9) employees of the NFC opted for VRS and their options were accepted. Detail of amount disbursed to them under VRS was as under:-

Sr.No	Name	Amount
1.	Mr. Muhammad Saghir Khan, DGM Accounts	3,663,225
2.	Mr. Mehmood Asghar, AGM Finance, NFML	3,050,971
3.	Mr. Hassan Mehmood, SM (T&P)	2,009,859
4.	Syed Mohtram Shah, Manager Accounts	2,069,361

It was also observed that these officers were relieved from their regular service with effect from October 25, 2008 under VRS and on the same day management issued appointment letter which placed their services on contract basis on the existing terms & conditions w.e.f. October 26, 2008. The main purpose of the VRS was to reduce financial burden but these employees were rehired on contract after getting full benefit of VRS. The rehiring was against the spirit of the scheme and not as per NFC Manual. As per Rule- 4.12 of NFC Executive Service Rules, "contract service" means service with the Corporation under a specific contract for a limited period on specific terms & conditions, but in case of these rehired employees, management paid them same pay & allowances as per existing terms & conditions, according to which they were entitled for all the perks & allowances as being paid to regular employees. The rehiring of the employees on existing terms & conditions made the whole process questionable.

It was also noted that there was a contravention in summary approved by the then Chairman (CEO). Relevant extracts are reproduced below.

Extract from summary approved by Chairman/CEO.	**Letters of appointment issued by GM (P&A)**
"all these officers shall however not be entitled to the pension/gratuity, medical (excluding hospitalization), Provident fund and other loan facilities during this period."	"you will however, not be entitled to pension, medical (excluding hospitalization), House building and land loan facility during the period of contract employment."

The extract showed that either the original appointment letters were altered to give undue favour or the appointment letters may have been issued in contravention to the approved summary. It was worth mentioning that the approval of the then CEO/Chairman was inappropriate and was not in exercise of lawful authority, as he was not authorized to issue the letters of rehiring to VRS opted employees. Rehiring after availing VRS was not allowed.

Audit was of the view that as the purpose of the VRS scheme was to reduce the financial burden of the Corporation so the rehiring of VRS opted employees and that on the existing terms & conditions defeated the purpose of the scheme. Furthermore, the whole process of rehiring was not lawful as the CEO was not the competent authority for rehiring of employees and approved summary was also changed / altered while issuing appointment letters to the rehiring to give undue favor to the said employees. Appointment letters issued for rehiring were also in contravention to NFC Manual. Hence, pay & allowances of these employees were considered irregular.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that the services of four VRS employees had been terminated. The reply of management was not tenable as irregular re-hiring was made in 2008 and no action was taken by the management till 2018. DAC in its meeting held on March 02, 2018 directed the management to hold a fact findings inquiry at Ministry level and fix responsibility against person(s) at fault.

Audit recommends early implementation of the decision of DAC besides recovering the amount from concerned.

4.1.16.2 Irregular promotion of executives in higher grades without fulfilling the criteria

As per NFC Management Manual (Promotion Criteria) for promotion to grade G-VI and G-V, the executive should be working in his present grade for the last 5 years. However, for promotion from grade G-III to G-IV the condition of service in present grade shall be restricted to 4 years.

During Performance audit of NFC, Lahore for the year 2011-12 to 2015-16, it was observed from the personal files of executives that two officers were promoted to next higher grade without fulfilling the criteria i.e., completion of mandatory 5 years of service in present grade as per rules. Detail of promotion is given here under:

Sr. No	Name	Designation & Grade	Date of earlier promotion	Date of current promotion
1.	Ms. Asiya Shaheen	Sr. Manager (T&P) G-VI	01.01.2014	01.01.2017
2.	Mr. Shahnawaz	Staff Officer to Chairman, G-V	01.01.2012	01.01.2016

During course of audit, the ACRs of executives promoted to higher grades were demanded vide requisition No. 05 dated May 15, 2017 but the same were not provided.

Audit was of the view that as the above executives were promoted to higher grade without fulfilling the required criteria and in violation of rules of NFC, management extended undue favour to these employees. Hence, the promotion and the resultant financial benefits extended to these employees were held irregular and unjustified.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that keeping in view long service and considering retirement of Ms. Asiya Shaheen in next year, her promotion was approved by the NFC Board as onetime promotion benefit. The reply of the management was not tenable as long service award had already been given to the employee and promotion could not be considered as an award. DAC in its meeting held on March 02, 2018 directed the management to take up the matter with Board of Directors for review of their earlier decision and frame a policy for such cases.

Audit recommends compliance of the decision of DAC.

4.1.17 Academics related issues in the Institute

The weaknesses observed regarding academic activities in the institute during audit are given as under:

4.1.17.1 Self-finance courses

During Performance audit of NFC-IE&FR, Faisalabad for the FY 2011-12 to 2015-16, it was observed that the institute was offering admissions to the students on self-finance basis in its different departments in violation of ban since 2009-10. It was also noticed that the number of self-finance admissions were increasing during 2011-16. Audit also observed that there was no policy document approved by the Board regarding the self-finance scheme. Furthermore, if a seat of a particular quota remained vacant due to unavailability of an eligible candidate, the management got it transferred to self-finance quota whereas, it should had been transferred to open merit quota so the student would be charged fee prescribed for open merit seat.

Audit was of the view that the fee structure under the self-supporting course was nearly double than that of the normal fee structure. Reserving and transferring more and more seats under the self-finance mode went against the policy of affordable higher education. Furthermore, every seat given on self-finance took away the right of a deserving student.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that self-finance scheme as well as seat allocation for self-finance scheme had been approved by the Board. Every year the budget of self-finance scheme and seats were also approved by the Board. The reply of the management was not tenable as neither the self-finance seats nor any formal self-finance policy was approved by the Board. DAC in its meeting held on March 02, 2018 directed the management to frame a policy on self-finance courses and seek approval from the BOD.

Audit recommends compliance of the decision of DAC.

4.1.17.2 Non-enrollment against capacity in BBA degree program

School of Business Management (SBM) was established in 2009 and the Bachelor in Business Administration (BBA) was started in October 2010. It is presently the only program offered by the department. However, the department plans to start Master in Business Administration (MBA) in near future.

During Performance audit of NFC-IE&FR, Faisalabad for the FY2011-12 to 2015-16, it was observed from the records of enrolment of students for the period 2012-15 that a large number of seats of BBA in the department remained vacant as detailed in Table.

Years	Approved Strength/Seats	No. of applications received	No. of students enrolled	%age of admission
2012	30	36	24	80
2013	30	19	14	47
2014	30	12	11	37
2015	30	9	7	23

The above table indicates that 20 to 77 per cent of the approved seats remained vacant in the BBA run in the School of Business Management during the academic sessions 2012-15. It can be seen that the number of students enrolling in the program was showing a decreasing trend which showed that the department failed to attract quality youth students and losing its market share. The BBA program had to bear the loss due to the vacant seats.

Audit analyzed the issue by visiting the department and conducting interviews of the faculty members and figure out following key reasons behind this vital issue of vacant seats:

1. The BBA program was not introduced after conducting proper assessment to ascertain the needs and requirements of imparting business education.
2. One of the important requirements for a business school was having a separate well-constructed building. However, the school was started in a shared building with meager resources.
3. The school had recently been shifted in a separate building but following deficiencies were observed in the building:
a. Only 5 classrooms were available.
b. Classrooms were in poor condition.
c. All classrooms were not equipped with multimedia.
d. There were no proper faculty rooms.
4. The school didn't have a library. The lack of library showed the non-seriousness on the part of the management to attract prospective students.
5. There were only 6 faculty members and none of them was a Ph.D.
6. Director of the institute, who was from chemical department, was also acting as head of department of the SBM.
7. There was inordinate delay in the admission process. Though the entry test for the admission held in July but the admissions were finalized by November as more time was consumed in the process of merit lists and preference-wise moving up of applicants. Most of the government and private colleges

complete their admissions by July and therefore most of the potential applicants of this program get admissions in other institutions.

8. UET had a strict eligibility and merit criteria for the admission which may suit them as a renowned public sector university viz., minimum 60% marks in F.Sc. whereas many institutions in Faisalabad had softer criteria.

Audit was of the view that due to the above mentioned reason the BBA program failed to attract students. In present scenario, the desire of the management to start MBA program was not understandable as it could also be a failure.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that normally students with higher marks preferred to get admission in Engineering or Medical discipline and comparatively low merit students were admitted in Business, Commerce and alternate disciplines. But as the eligibility criteria for BBA was same as for engineering disciplines, therefore, students getting admission in BBA program upgraded to engineering programs after finalization of priority list. DAC in its meeting held on March 02, 2018 directed the management to fulfill the requirements pointed out by Audit and establish Library, Multimedia and arrange the requisite qualified faculty to improve enrolment in BBA program.

Audit recommends compliance of the decision of DAC.

4.1.18 Faculty related issues in the Institute

4.1.18.1 Non-availability of Compulsory Ph.D Faculty

As per Article 7 of S.R.O. 1142(I)/85 (Substituted vide SRO 417(I)/2016), issued by Pakistan Engineering Council (PEC) containing Regulations for Engineering Education in Pakistan, "All Professors, Associate Professors, and at least 50% of Assistant Professors should be possessing Ph.D qualification employed in each engineering programme of an institution or college or university collectively called Higher Education Institutions.

During Performance audit of NFC-IE&FR, Faisalabad for the years 2011-12 to 2015-16, it was observed that the institute has 24 Assistant Professors, out of which only 7 are Ph.D and 17 Assistant Professors, are M.Sc. Department wise detail is given here under:

Department	Ph.D Assistant Professors	Msc. Assistant Professors
Chemical	5	5
Mechanical	1	2
Electrical	1	5
Civil	0	2
Computer Sciences	0	1
Business Management	0	0
Basic Sciences	0	2
Total	**7**	**17**

Audit was of the view that as per the directions issued by Pakistan Engineering Council at least 50% of the Assistant Professors employed in engineering programs should possess Ph.D qualification and thus the situation demands immediate attention of the board. In the absence of qualified faculty, it was not possible to impart quality engineering education to the students.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that efforts were being made for hiring the services of Ph.D. faculty. DAC in its meeting held on March 02, 2018 directed the management to address the deficiencies pointed out by the Audit and follow the PEC Regulations for engineering education in Pakistan.

Audit recommends compliance of the decision of DAC.

4.1.18.2 Vacancies in teaching cadres strength and quality of faculty

According to Section 3 of Chapter 5 of Manual of Accreditation of PEC, the faculty members who are full-time employees dedicated to the program would be considered as permanent faculty. Up to 20% teaching staff may be allowed on part-time basis but only in special circumstances.

The position of sanctioned posts and men-in-position of teaching staff during 2011-16 is as shown in Table:

Department	Sanctioned Strength	Actual Strength	Shortage	Strength of part-time teaching staff	%age of part-time teaching staff
Chemical Engineering	25	24	1	56 (Department wise detail was not provided)	72.7
Mechanical Engineering	16	10	6		
Electrical Engineering	25	21	4		
Civil Engineering	16	5	11		
Computer Engineering	9	7	2		
School of Business Management	10	6	4		
Basic Sciences	3	4			
Total	**104**	**77**	**27**	**56**	**72.7**

It could be seen from the above table that the existing number of faculty was less than the sanctioned strength in all the departments and the shortfall ranged between 4% to 68% during 2015-16. Furthermore, the %age of part-time teaching staff as against the strength of permanent teaching staff was 72.7% as compared to the prescribed norms of 20%.

Audit was of the view that for the purpose of maintaining academic standards in educational institutions, the availability of qualified and experienced permanent faculty was a pre-requisite and the quality of education would adversely compromise due to shortage on that account.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that currently 30 Visiting Faculty members (part-time) are delivering lectures of different subject(s) in various departments and the Institute was making strenuous efforts to fill the vacant seats of faculty staff. The reply of the management was not tenable as there were still many vacant seats and percentage of part time faculty was very high. DAC in its meeting held on March 02, 2018 settled the Para subject to verification of record by Audit but no such record was provided by the management for verification.

Audit recommends to bring the percentage of part time faculty within the prescribed limit of 20% as per PEC regulations.

4.1.18.3 Absence of any mechanism for faculty development and training

As per Statement of Standard 5 of the Manual for Eleven Standards of HEC for Higher Education Institutions "The institution hires, retains, sustains and develops a faculty that is suitable to the accomplishment of its mission".

The standard further states that an HEC recognized Higher Education Institution (HEI) is expected to demonstrate the following attribute as fundamental element of faculty:

"Well-developed mechanism of institutional support for a consistent faculty development and advancement in the context of teaching, research, scholarship and service."

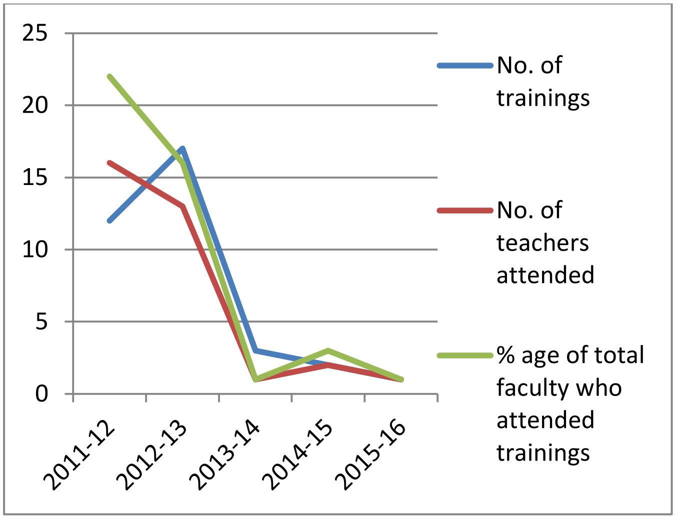
During Performance audit of NFC-IE&FR, Faisalabad for the FY 2011-12 to 2015-16, scrutiny of the last 5 years' data relating to training attended by the faculty for the up-gradation of their skills revealed the following:

1. There was no institutional mechanism to support training and development of the faculty.
2. Only 35 trainings/workshops/conferences were attended by the faculty during the period under review and out of which 29 trainings were attended in the first 2 years. Total of 5 trainings were attended by 5 faculty members during last 3 years.
3. Only one faculty member from computer science department attended training during last 5 years.
4. No training was imparted to the faculty of civil engineering department and school of business management.
5. Only one in-house training was arranged by the institute during the period.
6. Only one foreign training was attended by two faculty members.

During the interview sessions with the head of departments, they also complained that the area of development of faculty was severely neglected and management needed to take steps to improve that.

Detail of Trainings/Workshops/Conferences/Symposium attended during 2011-12 to 2015-16

Years	No. of Trainings/ Workshops/ Conference	No. of Faculty Attended	Total Faculty	%age of Faculty Who Attended Training
2011-12	12	16	74	22
2012-13	17	13	81	16
2013-14	3	1	78	1
2014-15	2	2	77	3
2015-16	1	1	87	1



Audit was of the view that enlightened institutions encouraged faculty research and professional development for consistency of quality standards. Professional development was central to faculty's keeping up to date and NFC-IEFR being an engineering institute, should have put in place a well-developed mechanism to support training and development of its faculty. However, due to the disinterest of the management, no such system was developed.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that Institute was facilitating and encouraging its existing faculty staff to complete Ph.D. in respective disciplines. Six (6) faculty members from Chemical, Electrical and Mechanical engineering had already joined NFC-IEFR after completing their Ph.D's from local /foreign universities. DAC in its meeting held on March 02, 2018 directed the management to devise an institutional mechanism for development and training of the faculty and get it verified from Audit.

Audit recommends compliance of the decision of DAC.

4.1.18.4 Wasteful expenditure on retention of Idle Associate Professor - Rs 12.748 million

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

The job description of Dr. M. Ashraf Dogar, Associate Professor was to establish the facility of biological test of water at IEFR, development of organic fertilizer, and development of Hormone and ways to use as fertilizer blend.

During Performance audit of NFC-IE&FR Faisalabad, for the FY 2011-12 to 2015-16, it was observed that Mr. Muhammad Ashraf Dogar (Associate Professor) was posted in Research & Development (R&D) Department with above mentioned job description. Scrutiny of record of R&D Department and his personal file revealed that he had been posted in R&D since 2013 but he had not accomplished anything to justify his position as per his job description. It was also revealed from his personal file that being a Ph.D he had not published any research paper and did not take part in any research activities. A letter was also written by the Director (IE&FR) to NFC, Lahore on July 11, 2016 requesting his transfer to NFC, IET Multan. The Director informed that since completion of his Ph.D in 2005, Dr. Muhammad Ashraf had not published any research paper and did not take part in any research activity. Director further informed that he was unsuitable for the Institute in capacity of either a researcher or a teacher due to his overall very poor performance.

Audit was of the view that Mr. Ashraf Dogar had contributed nothing to the Institute nor he completed his assignments as per his job description and being a Ph.D never took part in any research since his posting in R&D department, hence all the payment of pay & allowances made to him during the period had gone waste and unproductive.

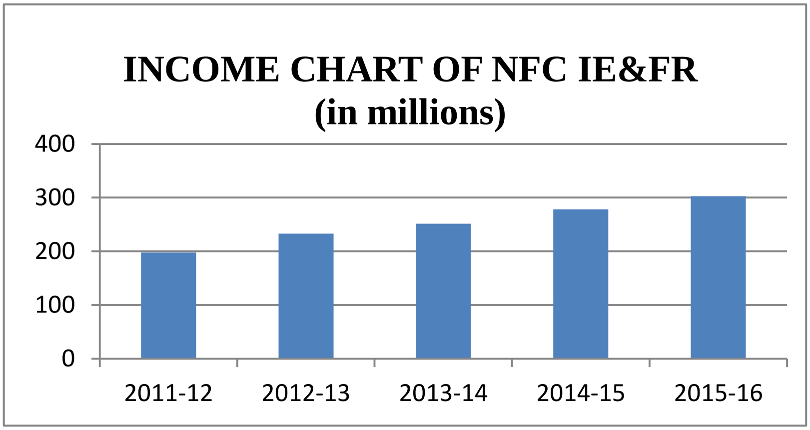
The matter was reported to the management/ Ministry on August 08, 2017. The management in its reply stated that the employee had been transferred to Chemical Engineering department for utilization of his expertise and skills. The reply of the management was not tenable as the officer had contributed nothing to the Institute and was enjoying all the benefits. DAC in its meeting held on March 02, 2018 directed the management to utilize the services of the Associate Professor as per his qualification/ expertise and monitor his performance and got it verified from Audit.

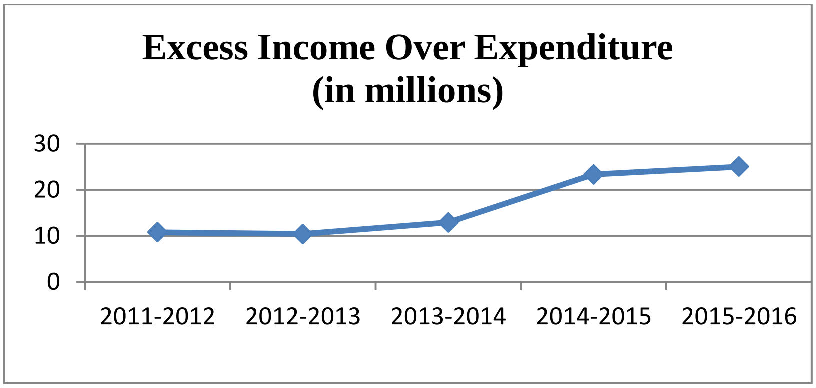
Audit recommends compliance of the decision of DAC.

4.2. Financial Management

The major source of revenue of the NFC during the period 2011-12 to 2015-16 was dividend received from subsidiary companies and interest earned on fixed deposits. The surplus of the revenue was retained by the Company and invested in fixed deposits.

The major source of revenue of the NFC Institute of Engineering & Fertilizer Research, Faisalabad during the period 2011-12 to 2015-16 was tuition fee and interest earned on fixed deposits. The company had shown steady improvement in its earnings during the period which resulted in continuous increasing trend of excess income over expenditure which showed improved financial management though much is still desired in this respect.





Certain weaknesses of Financial Management were noticed during audit, which are given hereunder:

4.2.1 Excess payment on account of meeting fee to Directors of NFC Board - Rs 5.310 million

As per clause 12(c) of SRO 997(1) 2003 of Finance Division dated November 26, 2013, the allowance, fee, honorarium etc. in excess of six hundred thousand rupees per annum received by a civil servant as member of board of directors of any one or more statutory corporations, companies, autonomous bodies, institution, societies etc. whether fully or partially owned or controlled by the federal government shall be credited to the General Revenue.

During Performance audit of NFC, Lahore for the FY 2011-12 to 2015-16, it was observed that the management paid an amount of Rs 5,310,000 to Civil Servant Directors of the Board of NFC in excess of the prescribed limit of Rs 600,000 per annum. Detail of excess payment is given below:

Name	Designation	Period	Amount paid	Excess payment
Mr. Arif Ibrahim	Sr. Joint Secretary, MOI&P	2016-17 2015-16	1,475,000 1,250,000	1,525,000
Mr. Arshad Khan	Joint Secretary, MOI&P	2016-17 2015-16	1,910,000 1,200,000	1,910,000
Mr. Arshad Ahmed	Sr. Joint Secretary, MO Finance	2016-17 2015-16	1,625,000 900,000	1,325,000
Dr. Nadeem Shafiq	FA, Finance Division	2014-15	1,150,000	550,000
			Total	**5,310,000**

Audit was of the view that undue favour was extended to the above mentioned Directors of the Board by making excess payment of meeting fee to them against the prescribed limit.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that consolidated information in this context had been forwarded to MOI&P which was to be transmitted to Prime Minister Office. DAC in its meeting held on March 02, 2018 directed the management to get the record verified from Audit.

Audit recommends compliance of the decision of DAC.

4.2.2 Un-authorized payment of meeting fee to Chief Executive Officer - Rs 2.725 million

As per Section 64 of Articles of Association of National Fertilizer Corporation, Remuneration paid for attending meetings of the Board to persons other than the regularly paid Chief Executive/Managing Director and full time working Directors shall be paid meeting fee as fixed by the Board of Directors from time to time.

During Performance audit of NFC, Lahore for the year 2011-12 to 2015-16, it was observed that Mr. Arif Ibrahim, Sr. Joint Secretary M/o Industries & Production was appointed as CEO, NFC w.e.f 17th June 2015 to look after the day to day affairs of the organization till the appointment of a regular CEO.

It was noticed that management paid an amount of Rs2.725 million on account of Director's meeting fee during the period of his appointment i.e., June 2015 to April 2017. It may be noted that as per Articles of Association of NFC, the regularly paid CEO/MD shall not be paid meeting fee but in contravention to the above referred rule management made payment to the CEO.

Audit was of the view that a CEO was given additional charge of the post of CEO and he was regularly paid employee of Ministry of Industries and production hence, meeting fee paid to him was held irregular.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that ex-CEO was not a regularly paid employee of NFC. The reply of the management was not tenable as the ex-CEO was a regular Government servant and was given additional charge of the post and drawing his salary and other allowances. DAC in its meeting held on March 02, 2018 directed the management to refer the matter to Finance Division (Regulation Wing) through MOIP for their advice.

Audit recommends compliance of the decision of DAC.

4.2.3 Irregular payment on account of medical reimbursement to re-employed retired army personnel - Rs 1.512 million

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

During Performance audit of NFC, Lahore for the FY 2011-12 to 2015-16, it was observed that two retired army officers were re-employed in NFC and an amount of Rs 1,511,989 was reimbursed to them during the period under audit. It may be noted that the retired army officials are entitled for free out-door and in-door treatment from the Combined Military Hospitals (CMH) which are well reputed and having state of the art infrastructure and facilities.

Audit was of the view that the retired army officials were entitled for treatment from CMH and therefore reimbursement of their medical expenses from NFC was not justified.

The matter was reported to the management/ Ministry on August 08, 2017. The management in its reply stated that Mr. Shah Nawaz and Mr. Muhammad Nawaz had given undertaking that they would not avail any medical facility from CMH. DAC in its meeting held on March 02, 2018 directed the management for verification of record from CMH.

Audit recommends compliance of the decision of DAC.

4.2.4 Irregular payment of Ph.D allowance - Rs 3.295 million

As per NFC (HO) letter No. NFC(Persl-B)/2102 dated June 27, 1993 regarding Rationalization of Technical pay policy, the executives who become eligible/entitled to technical pay will not get any other qualification related pay/allowance such as qualification/professional pay, teaching allowance, research allowance and Ph.D allowance.

During Performance audit of NFC Institute of Engineering & Fertilizer Research, Faisalabad for the years 2011-12 to 2015-16, it was observed from payroll and personal files of faculty members that Ph.D holders were drawing Ph.D allowance along with Technical pay @ 30% of basic pay. It was revealed that as per service rules of NFC only one allowance/pay can be drawn at a time either technical pay or Ph.D allowance. The management paid an amount of Rs 3,295,000 on account of Ph.D allowance, the detail is given in **Annex-A**.

Audit was of the view that as per rules technical pay covers all other qualification related pays/allowances, therefore no employee was entitled to any such pay/allowances while getting technical pay. Hence, payment of Ph.D allowance along with technical pay made to the above mentioned officers/faculty members was considered irregular.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that both the allowances were being given in order to retain Ph.Ds. The reply of the management was not tenable as payment of both the allowances was against the rules of NFC. DAC in its meeting held on March 02, 2018 directed the management to take up the matter with Board of Directors and frame a policy with their approval.

Audit recommends compliance of the decision of DAC.

4.2.5 Loss due to less admission in Engineering & BBA courses - Rs 31.635 million

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

During Performance audit of NFC Institute of Engineering & Fertilizer Research, Faisalabad for the FY 2011-12 to 2015-16, it was observed that a number of seats remained vacant in all engineering programs & School of Business Management. The Institute was affiliated with University of Engineering & Technology, Lahore and accredited by Pakistan Engineering Council. As per the profile of the Institute given on website & in Prospectus, the Institute claimed to have well-qualified and experienced faculty members, state of the art laboratories and well equipped library & class rooms, even then the management failed to fill all the seats available/approved for admissions. Detail of short admissions during 2012 to 2016 is given here under:

Discipline	No. of seats available	No. of admissions	Short admission	Loss of fee income
Engineering 2012 to 2016	1695	1689	6	862,550
Technology 2012 to 2016	600	473	127	13,724,850
Computer Science 2012 to 2016	200	150	50	7,635,300
BBA 2012 to 2016	150	70	80	9,412,700
Total	**2645**	**2382**	**263**	**31,635,400**

Audit was of the view that due to mismanagement and poor planning on the part of management, the admission process was not managed efficiently and effectively and the institute was deprived of huge income which resulted into financial loss of Rs 635 million approximately.

The matter was reported to the management/ Ministry on August 08, 2017. The management in its reply stated that overall Institute was not facing any loss and was generating profit. However, steps were being initiated to enhance the admission so that any loss to individual department was covered by the same department. DAC in its meeting held on March 02, 2018 directed the management to improve the standard of the Institute addressing the deficiencies in faculty and infrastructure / equipment.

Audit recommends compliance of the decision of DAC.

4.2.6 Poor Performance of Research & Development Department & loss of Rs 54.981 million

Research and development activities constitute critical components of an academic institution. NFC-IE&FR, Faisalabad also has a separate Research & Development department to support research and development activities in the institute. As per the vision statement of the department, R&D is committed to high level research and development in the broad field of engineering, science & technology, monitored in terms of improvements to existing research and development activities as well as the growth in new activities.

The current objectives of the departments include the following:

1. Development of new generalization fertilizers.
2. Pollution audit and abatement services
3. Analytical services.
4. Industrial waste water treatment.

5. Commercialization of the experimental products.
6. Support to academic departments.
7. Analytical and technical services to private industry.
8. Commercialization of developed experimental products and consultancy.

Expenditure vs. Earnings

The analysis of expenditure of R&D vis-à-vis earning during last 5 years clearly shows its underperformance in achieving its objectives which resulted in the cumulative loss of Rs 54.981 million.

Income & Expenditure Statement of R&D Department

(Rs in million)

Description	2011-12	2012-13	2013-14	2014-15	2015-16
Income from Sale of Fertilizer products and Analytical charges	4.725	4.681	4.982	3.191	6.090
Total Expenditure excluding Depreciation	13.092	14.360	16.316	17.227	10.577
	(8.367)	**(9.679)**	**(11.334)**	**(14.036)**	**(4.487)**

Audit Observations

During Performance audit of NFC-IE&FR, Faisalabad for the FY2011-12 to 2015-16, following observations were made:

1. R&D was headed by a head of department who was assisted by 2 researchers. However, it was observed that the Head of R&D was a M.Sc. and the other 2 researchers had no relevant qualification, skills and research experience.
2. There were no outside researchers.
3. There was no evidence of original research undertaken during last 5 years.

4. Currently, the only activity undertaken was the development of new generation of fertilizers to address the issues of soil, water and environment concerning parameters.
5. During last 5 years, no workshop, programs, conferences or seminars etc were arranged at the R&D.
6. There was not a single refereed publication resulted from research activities at the R&D during the last 5 years.
7. R&D developed only 51 experimental products during last 5 years
8. Most of the lab equipment were of older version or were out of order.
9. The R&D had limited resources to provide their experimental products at larger scale.
10. The marketing plan was non-existent.
11. As against its vision and stated that objectives, R&D was mostly focused on fertilizer development.
12. R&D was providing research and development support to chemical engineering students. However, no research or development support was provided to the students of electrical, civil, mechanical and computer engineering departments.
13. There was no mechanism for continuous training and development of the researchers.
14. Limited budget was provided to R&D and even that was not used effectively.

Audit was of the view that the aforementioned reasons led to the underperformance of R&D. It failed to achieve its goals and objectives and could not become financially viable which resulted in the cumulative loss of Rs 54.981 million during the last five years.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that the proposal of up-gradation of R&D already had been submitted to the higher authorities. R&D had already limited budget which was being properly utilized for experimental products production and analytical services. The reply of the management was not tenable as R&D

failed to achieve its objectives. DAC in its meeting held on March 02, 2018 directed the management to take concrete steps as advised by the Audit for visible improvement of Research & Development Department.

Audit recommends compliance of the decision of DAC.

4.2.7 Irregular contribution of company provident fund for contractual VRS employees - Rs 4.324 million

According to summary approved by CEO/Chairman for rehiring of VRS opted employees, all these officers shall however not be entitled to the pension/gratuity, medical (excluding hospitalization), Provident fund and other loan facilities during this period." Further as per NFC Manual contractual employee shall not be entitled for Provident fund and pension/gratuity.

During Performance audit of NFC, Lahore for the FY 2011-12 to 2015-16, it was observed nine employees who opted for VRS were rehired on contractual employment w.e.f. October 26, 2008. As per summary approved by the Chairman these officers were retained on contract basis on existing terms & conditions till the corporation was formally wound up. All these officers were however not entitled to pension/gratuity, medical (excluding hospitalization), provident fund and other loan facilities during this period. However, appointment letter were issued contrary to the approval of the Chairman and against the rule 4.12 of NFC Executive Service Rules, whereby management extended all the facilities of regular service including Provident fund to the rehired employees for which they were not entitled. Detail of company contribution toward Provident fund is given here under:-

Sr. No	Name of Employees	Contribution towards PF by Corporation (2009-10 to 2016-17)
1.	Muhammad Saghir Khan	1,383,384
2.	Mahmood Asghar	761,088
3.	Syed Mohtram Shah	980,880
4.	Hassan Mehmood	1,199,052
Total		**4,324,404**

Audit was of the view that appointment letters were issued in contravention of the terms of the aforesaid summary which enabled rehired employees to enjoy benefits like medical and provident fund against the spirit of the VRS scheme.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that the Board noted that their appointment after VRS was illegal; therefore, their services were terminated w.e.f. 6th November, 2017. Further recovery notices had been issued and company contribution of Provident Fund had been discontinued. DAC in its meeting held on March 02, 2018 directed the management to hold a fact findings inquiry at Ministry level and fix responsibility against person(s) at fault.

Audit recommends early implementation of the decision of DAC besides recovering the amount contributed by the company along with interest from the concerned.

4.2.8 Undue benefit extended to employees due to wrong calculation of Perks &Allowances

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

As per rule 12 of NFC Employees Provident Fund Rules, the company shall at the end of each month contribute a sum equivalent to the contribution made by each Member and pay this sum to the trustee for credit to the Members individual account. Further, according to Para 4 (L) of Management Manual Vol-II, salary means the basic wage/salary received by a member from the company, excluding any and all allowances.

During Performance audit of NFC, Lahore for the FY 2011-12 to 2015-16, it was observed that as per service rules of NFC employees are entitled to different perks & allowances which are calculated as a percentage of basic pay. It was noticed from scrutiny of record that instead of calculating allowances as a percentage of basic pay, the management was calculating allowances after adding all the Adhoc Relief Allowances in basic pay. Detail of perks & allowances and their admissibility as per rules of NFC is given here under:-

Description	Admissible rate as per NFC Rules	Percentage of Excess payment (above entitlement)
Entertainment allowance	10% of Basic Pay	37% to 68%
Leave fare Assistance	1 month’s basic pay	20% to 48%
Leave encashment		20% to 48%
Long term service award	1 month’s basic pay	20% to 48%

It was evident from the above table that Corporation was extending undue favor to the employee while calculating and making payment of perks & allowance in excess of the entitlement and against the rules.

Audit was of the view that due to wrong calculation and excess payment ranging from 20% to 80% above the entitled amount, the Corporation was suffering a huge financial loss and was unable to run its operations economically.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that Adhoc Relief Allowances were included in basic pay for calculation of perks on the pretext that these allowances were merged in basic pay scales notified by Finance Division from time to time. However, this practice has been discontinued and at present all the allowances are being calculated as a percentage of basic pay only. The reply of the management was not tenable as undue favour was extended to the employees by making wrong calculation without the approval of the Finance Division. DAC in its meeting held on March 02, 2018 directed the management to submit a detailed revised reply to Audit.

Audit recommends early implementation of the decision of DAC besides holding a fact finding inquiry at Ministry level for fixing responsibility of wrong calculation of Pay & Allowances.

4.2.9 Loss due to provision of accommodation to staff at subsidized rates - Rs1.08 million

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

During Performance audit of NFC, Lahore for the FY 2011-12 to 2015-16, it was observed that the management allotted rooms to some employees/staff in Boys & Girls Hostels on nominal rate of Rs 2,100 per month (25,200 per annum per room). The students were charged @ Rs 40,000 per annum per head and three to four students resided in a single room. A total number of seventy four employees were residing in hostels of the Institute. Due to less charges of hostel rent from employees, the Institute was bearing a loss of Rs 1.080 million annually. Detail is given here under:

(Amount in Rs)

Hostel dues Charged from Students	**Hostel dues Charged from Staff**	**Less collection per seat**	**No. of employees residing in hostels**	**Total Loss per year**
40,000	25,200	14,800	73	1,080,400

Audit was of the view that employees should be charged at the same rate as charged from the students. The hostel rent fixed by the management was already quite nominal so further reduction was not justifiable. Hence, due to less charging of hostel rent to employees, the Institute was bearing a loss of Rs 1.080 million per annum.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that most of the employees residing in hostel were of staff cadre. Due to meager salary i.e. Rs 12,000 per month and inflation it was difficult for them to survive and fulfill basic needs of their families. The reply of the management was not tenable as the facility of hostel was for students but many officers were also residing there. DAC in its meeting held on March 02, 2018 directed the management to rationalize the rates of accommodation amongst the students and staff and recover the accommodation charges from the officers /officials.

Audit recommends compliance of the decision of DAC.

4.2.10 Irregular and excess re-imbursement of POL and Entertainment charges to employees - Rs 2.079million

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

As per Pay & Perquisites of management grade officers D-III, the officers are entitled to draw entertainment allowance @ 10% of the basic pay per month.

During audit of NFC-IE&FR for the FY 2011-12 to 2015-16, it was observed that officers were being paid maximum ceiling of POL and Entertainment, instead of actual consumption of POL, without preparing log books and without invoices of the POL and entertainment. The amount equivalent to maximum ceiling was transferred into the bank accounts of the respective officers on the basis of a certificate given by employee that he incurred expenses on POL & Entertainment during the month.

Name	Period	Amount of POL
Dr. Shahid Raza Malik, Acting Director	May-13 to April-17	785,166
Mr. M Tahir Raza, AGM	July-15 to April-17	316,462
Mr. Khalid Mahmood, AGM	July-15 to April-17	316,462
	Total	**1,418,090**

It was also noted that three officers in Management Grade D-III were entitled to draw entertainment allowance @ 10% of running basic pay, but the management was making payment on gross pay instead of basic pay. Detail of payment is given in **Annex-B**.

Audit was of the view that of upper ceiling on the consumption of POL and entertainment showed the maximum that an officer could withdraw subject to his consumption. It was never intended to be taken as allowances which could be claimed in full every time without showing actual consumption. Therefore, in the absence of log books and invoices, the payment on account of reimbursement of POL & Entertainment during the period May 2013 to April 2017 to the officers was considered irregular. Moreover, the payment of entertainment allowance @ 10% of gross pay (basic pay plus adhoc allowances) was in excess which should have otherwise been paid on the basic pay.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that employees had drawn their allowances as per their entitlement granted by the Competent Authority. The reply of the management was not tenable as the officers were drawing allowances as a percentage of gross pay instead of basic pay and also being paid entertainment and POL charges against a certificate instead of making it a part of pay. DAC in its meeting held on March 02, 2018 directed the management to stop the previous practice and effect recovery from those who are not eligible and further directed that the allowances be made a part of the pay of entitled officers.

Audit recommends compliance of the decision of DAC.

4.2.11 Irregular/unjustified payment to staff from income of short courses - Rs 1.196 million

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

During Performance audit of NFC Institute of Engineering & Fertilizer Research, Faisalabad for the year 2011-12 to 2015-16, it was observed that management signed MOU with M/s Corvit Systems Lahore for conducting short courses. As per agreement 50% share of total income was to be given to M/s Corvit and out of remaining 50% income, 70% was to be retained by the Institute and 30% to be paid to staff i.e., Director, HOD Computer Science, Manager Finance & Accounts Asstt. It was noted that all the HODs including Director IE&FR and Manager Finance were also being paid an amount on account of Honorarium equal to 15% of pay in addition to their salaries for their late sitting due to evening classes.

Audit was of the view that as a reasonable salary package along with honorarium was being paid to these employees, they should not have been paid share from income of short courses. Hence, all the payment on account of employees share made to them was unjustified.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that the classes of short courses were conducted on weekends (Saturday & Sunday) because these courses were offered only to professionals who were not able to attend their classes during working days. Thus, concerned employees/staff of the institute was also engaged during weekends. The reply of the management was not tenable as the HODs and Manager Finance were being paid 15% of pay as honorarium. DAC in its meeting held on March 02, 2018 directed the management to recover the amount paid to irrelevant employees and ensure that the payment was made only to the relevant faculty and staff actually employed for conducting these courses.

Audit recommends compliance of the decision of DAC.

4.3 Procurement & Contract Management

4.3.1 Purchase of defective land for Institute at Naushahro Feroze - Rs 42 million

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

During Performance audit of NFC, Lahore for the FY 2011-12 to 2015-16, it was observed that the management purchased a piece of land measuring 51 acres at Naushahro Feroze for establishment of NFC Institute of Engineering & Technology. Ministry of Industries constituted NFC-IET Sub-Campus Committee on July 15, 2015 to look after its all affairs (including purchase of land) for a period of two years. Following were the members of committee:-

i.	Mr. Arif Ibrahim, CEO NFC	Member
ii.	Prof Dr. Malik Akhtar Ali Kalrou, VC IET Multan	Member
iii.	Mr. Usman Ghani Khari, Director	Member

The advertisement for purchase of land at National Highway Naushahro Feroze-Moro was floated in Newspaper on November 03, 2015. Total six land owners participated and submitted financial bid. Gul Muhammad Sons was the successful bidder and land was purchased from them. It was noted that before purchase of land no proper tests of soil/Geotechnical survey were conducted by the management/committee. The land was purchased on the basis of an initial visit of two members of the committee ignoring all the required soil testing/surveys. It was worth mentioning that both the Institutes of NFC had state of the art laboratories of Civil Engineering and faculty/experts having Ph.D in Civil Engineering but their services were not used to conduct the survey of the land before its purchase. After purchase of land, a committee consisting of GM (Finance) of NFC, Director (IE&FR) & Head Civil Engineering (IE&FR) inspected the site and submitted a report on the basis on soil samples which stated the following:

- Most of the ground surface at project site is wet and surrounded by hard bushes.
- The front side of land is significantly filled with water.
- There are clear continuous fissures/cracks in the dry patches of the land which reflect the passage for water.
- It is perceived that there is ground water storage existing at shallow depth in the land through which water is coming up to the surface.
- Traces of salt are also present in few portions of dry land.
- The whole project land is treeless.
- Based on the Lab results, the soil at project site has been classified as “well graded silty/clayey sand” & most of soil samples have been found considerably moist even after 40 hours of their collection from site.

The committee concluded that overall the project land was severely affected by water logging. The committee also recommended to conduct detailed soil investigation at project site through an independent expert in order to make sure whether the land was suitable for safe and sustainable construction or not. Geotechnical technical study of land was conducted by UET. As per Geotechnical Investigation Report submitted by UET, the ground water table (GWT) was encountered in the boreholes generally at 5-6 ft depth below the existing ground level. The water level was observed to rise in almost all the boreholes slowly and stabilized at 2 ft depth below the existing ground level. Some recommendations were also made for the foundation design of the proposed structure of the Institute. Further, as per decision of BOD & advertisement, the land was required on National Highway but the purchased land was 2km away from main road. Audit team also gathered some information regarding said land from own sources at Naushahro Feroze, and it was confirmed that whole land was water logged and its market price per acre was far less than its purchase price.

Audit was of the view that an amount of Rs 42 million could be saved had the management conducted a detailed survey of site before purchase of land but defective land was purchased just to give undue favor to the land owners or the committee had malafied intention. Due to wrong decision of purchase of water logged land, the corporation sustained a huge loss and the cost of the building/structure (if constructed on that land) would increase manifold.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that when land was purchased in the month of March 2016, the condition of land was normal. There was no water on the surface of land. Subsequently, after the rainy season the water appeared on the surface and ingression of water from surrounding area was also witnessed. The reply of the management was not tenable as it should have conducted a detailed survey and tests before purchasing the land. DAC in its meeting held on March 02, 2018 directed that inquiry into the matter may be got conducted at ministry level and responsibility be fixed for negligence.

Audit recommends compliance of the decision of DAC.

4.3.2 Superfluous and unauthorized procurement of bags by NFC instead of NFML

As per Rule- 4(2)(c) of the Public Sector Companies (Corporate Governance) Rules 2013, the chairman has a responsibility to lead the Board and ensure its effective functioning and continuous development, he shall not be involved in day to day operations of the Public Sector Company.

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

During Performance audit of NFC, Lahore for the FY 2011-12 to 2015-16, it was observed that the management of NFC was directly involved in the procurement process of TWPP bags on behalf of NFML (a subsidiary of NFC having a separate board) for many years. The whole process of procurement was being done after the approval of the Chairman (Chief Executive Officer of the NFC). It may be noted that NFML had its own Board and Chief Executive (Managing Director) who was responsible for all the financial and other matters of the company and authorized by its own board of directors.

Audit was of the view that after the adoption of the Public Sector Companies (Corporate Governance) Rules 2013, this unnecessary exercise of procurement by the NFC should have been stopped as the Managing Director and Board of Directors of the NFML were authorized and empowered to do the same on their own. It seemed that as the NFC had no major activity after privatization of all the Fertilizer units, that unnecessary job was being carried out just to justify its existence, which could have been done by NFML more efficiently and effectively by saving time and resources.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that the job of procurement of TWPP bags for subsidiaries and NFML was being carried out by the NFC Commercial Department since its inception to facilitate its subsidiary in managing its affairs in an efficient manner. The reply of the management was not tenable as the NFML has its own Board and MD and they were empowered to purchase bags at their own. DAC in its meeting held on March 02, 2018 agreed with the audit and directed the management to stop the previous practice of procurement on behalf of NFML and let the NFML procure TWPP bags for Urea in future.

Audit recommends compliance of the decision of DAC.

4.3.3 Irregular and unfair procurement of Computers & Equipment - Rs 9.892 million

As per rule -5(5)(a) of the Corporate Governance Rules 2013 "The Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders, in the following manner, namely:

(a) the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.

During Performance audit of NFC-IE&FR for the FY 2011-12 to 2015-16, it was observed that the management called bids for providing Lab equipment and Computer & Related Equipment for different departments of Institute. The advertisement was published on daily Jang on May 13, 2016 and tender for purchase of computer & related equipment was opened on June 03, 2016. In response to the tender, bids were received from three parties. M/s ORA Tech & M/s Micro Innovations stood lowest in different items and Purchase Orders were issued for Rs 9,048,239 and Rs 844,711 respectively.

Further M/s ORA Tech & M/s Micro Innovations was basically one company having same office addresses at Lahore, Islamabad & Faisalabad. Third bidder i.e M/S Rozi Enterprises seemed a bogus company having no existence, as there was no stamp of the company on the tender documents and contact numbers given on copy of letterhead were cell numbers instead of land lines and no proper address was given. It was also noticed that on few pages of all three bidding documents/quotations same stamp was placed which showed that in fact all three bids were submitted by the same supplier with different names. However, these facts were not pointed out by any member of the tender evaluation committee. Resultantly, the institute was deprived of a fair and healthy competition as required under PPRA rules and a tender worth millions of rupees was awarded to supplier of own choice. Hence, the procurement process was considered irregular and fraudulent by the audit.

Audit was of the view that the management extended undue favour to the supplier of their own choice by unfair means which caused huge loss to the Institute. The firm using corrupt and fraudulent practices should have been blacklisted and fresh tender called to ensure healthy competition.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that a comparative statement was prepared and lowest bidder was awarded the contract. The reply of the management was not tenable as the bidding documents were not properly scrutinized by the management before awarding the contract. DAC in its meeting held on March 02, 2018 directed the management to hold fact finding inquiry at Ministry level within one month and fix responsibility against the person(s) at fault.

Audit recommends compliance of the decision of DAC.

4.3.4 Irregular procurement of Computer equipment - Rs 2.773 Million

According to Clause-26(2 & 3) of PP Rules 2004, bids shall be valid for the period of time specified in the bidding document. The procuring agency shall ordinarily be under an obligation to process and evaluate the bids within the stipulated bid validity period. However, under exceptional circumstances and for reason to be recorded in writing, if an extension is considered necessary, all those who have submitted their bids shall be asked to extend their respective bid validity period. Such extension shall be for not more than the period equal to the period of the original bid validity.

According to terms and conditions of tender documents and bids submitted by Suppliers, the Bids were valid for at least 60 days from the date of opening of tender i.e. 03.06.2016.

Moreover, as per Clause 12 (02) of PP Rules, all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

During audit of NFC-IE&FR, Faisalabad for the FY 2014-15, it was observed that the management floated tender in one newspaper for supply of computer and office equipments on May 28, 2014 which was opened on June 12, 2014. The rates offered by the lowest bidders were valid upto 60 days and bid validity could be enhanced maximum equal to the period of original bid validity as mentioned in PP rules. The approval of Chairman NFC to issue purchase order was conveyed on February 6, 2015 and the management issued the following purchase order valuing Rs 2,773,962 on February 9, 2015 after more than 7 months of the opening of the tender:

Name of Supplier	Bill Validity Date	Purchase order No. and Date	Amount of Purchase Order (Rs)
M/s Ora-Tech System (PVT) Ltd, Faisalabad	11.08.2014	09.02.2015	2,773,962

Audit was of the view that the management was required to purchase these items by retendering keeping in view the PP Rules in order to get competitive rates. Therefore, the procurement of Equipment was considered as irregular as it was not under the rules.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that Computers were essentially/ urgently required for smooth condition of laboratory/ classroom as per requirement of UET and PEC. Retendering could have consumed others 4 to 6 months. The reply of the management was not tenable as the case was delayed for 7 months due to inefficiency of the management. DAC in its meeting held on March 02, 2018 directed the management to refer the matter to PPRA for regularization.

Audit recommends compliance of the decision of DAC.

4.3.5 Irregular procurement of Chemicals - Rs 2.299 million

According to the Rule-13(1) of PPRA Rules 2004, under no circumstances the response time shall be less than fifteen days for national competitive bidding and thirty days for international competitive bidding from the date of publication of advertisement or notice. Further as per Rule-13(3) of PPRA Rules "in situations where publication of such advertisements or notices has occurred in both electronic and print media, the response time shall be calculated from the day of its first publication in the newspapers.

According to the Rule-12(2) of PPRA Rules 2004, all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

During Performance audit of NFC-IE&FR for the FY 2011-12 to 2015-16, it was observed that management gave advertisement for procurement of commercial chemicals in only one newspaper on December 10, 2013. The tender was opened on December 20, 2013 in violation of the above referred rules under which response time shall not be less than 15 days and purchase order was placed on three different parties having lowest rates of different chemicals. Detail of procurement was as under:

Name of Supplier	Description	Amount in Rs
M/s The Pakistan Scientific Traders, Faisalabad	i. Sulphuric Acid (with canes) 533,600 ii. Phosphoric Acid Imported 745,000 iii. Potassium Sulphate FG 150,000 iv. EDTA 78,000 v. Megnesium Sulphate Imported 24,000 vi. Copper Sulphate Imported 60,000	1,545,600
M/s S.H Corporation, Karachi	Potassium Nitrate (Imported)	678,000
M/s T.N.M.N Corporation, Karachi	Nitric Acid (Imported)	76,050
	Total	**2,299,650**

It was also observed that the value of procurement of chemicals was more than two million and as per PP Rules, advertisement should have principally appeared in at least two national dailies, one in English and the other in Urdu. But advertisement was placed in one newspaper only.

Audit was of the view that due to the above mentioned reasons, the procurement was made without a fair competition.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that due to constraints of approved budget for advertisement, it could not be issued in two daily newspapers. The reply of the management was not tenable as institute was deprived of competitive rates due to violation of PPRA rules. DAC in its meeting held on March 02, 2018 directed the management to refer the matter to PPRA for regularization.

Audit recommends compliance of the decision of DAC.

4.4 CONSTRUCTION AND WORKS

4.4.1 Non-transparent award of Renovation work of NFC House - Rs 1.947 million

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

During Performance audit of NFC, Lahore for the FY 2011-12 to 2015-16, it was observed that BOD in its 114th meeting held on September 12, 2015 directed that NFC House be renovated under supervision of Chief Executive officer, NFC. Subsequently, management invited quotations for Architectural Consultancy Services and M/s Mahmood Mirza Associates being the lowest bidder was hired for consultancy. The consultant submitted survey report and BOQ (engineer's estimate)/ detailed information for construction work which was Rs 1.901 million. The management floated tender on PPRA website on December 29, 2015. Three parties participated in the bidding process, Detail is given here under:

Sr.No	Company Name	Earnest Money	Bid Amount
1.	M/s Malik Brothers & Co.	Nil	5,021,740
2.	M/s Grace Builders, 2nd floor Saman Arcade Firdaus Market Gulberg, Lahore	40,700 PO No.01760640 Silk Bank	2,033,984
3.	M/s Abdul Ghafoor Construction Co. MoazaDhonday, Raiwind, Dist. Lahore	39,000 PO No.01760641 Silk Bank	1,947,399

Complete file regarding renovation and bidding process was demanded from the management but same was not provided however, photocopies of some pages were provided by the management in which tender documents submitted by bidders were not available. From the documents available it was transpired that:

i. No phone numbers were mentioned on the letter head of M/s Grace Builders.
ii. NTN and PEC registration numbers were not mentioned on letter head.
iii. There were doubts that the engineer's estimate was deliberately retained below Rs 2 million (i.e., Rs 1.901 million) just to avoid publication of advertisement on newspapers having wide circulation as per PPRA requirement.
iv. It was also noted with concern that the two contractors having different addresses and far away from each other (one from Gulberg and other from Raiwind) submitted pay orders of same branch with serial number one immediately preceded the other i.e. 01760640 and 01760641.

It was evident from the above that M/s Grace Builders was a fake company and did not exist. Tender documents on its behalf were submitted by M/s Abdul Ghafoor & Co just to win the tender.

Audit was of the view that the aforementioned reasons and the failure of the tender committee to carefully scrutinize the tender documents resulted in non-transparent and fraudulent award of work to the contractor.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that the procurement was carried out strictly in accordance with the provisions available in the PPRA rules and terms & conditions of the tender documents / contract agreement. The reply of the management was not tenable as no record regarding existence of other two companies was available / verified. DAC in its meeting held on March 02, 2018 directed the management to submit a completion report and get it verified from Audit.

Audit recommends compliance of the decision of DAC.

4.4.2 Irregular award of contract for civil work - Rs 1.266 million

According to Rule 12(1&2) of PPRA 2004, Procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

During Performance audit of NFC Lahore, for the FY 2011-12 to 2015-16, it was observed that a Strength of Material Lab was constructed for installation of Universal Testing machine (UTM) in Civil Engineering Department. An amount of Rs 5 million was allocated and approved in the budget of Civil Engineering Department for the year 2014-15. A civil consultant was hired for design and preparation of cost estimates for the building of Lab. The Director (IE&FR) vide its letter dated December 19, 2014 forwarded the copy of tender documents prepared by the consultant for approval of the competent authority at NFC Lahore. The Chairman NFC granted approval for release of tender advertisement for construction of Strength of Material Lab in national dailies and PPRA website on January 29, 2015. Subsequently the advertisement was issued on PPRA website and in only one newspaper on February 04, 2015. In response, five bids were received. M/s Gul Construction Co. was the lowest bidder but keeping in view bad performance of the company in past the tender evaluation committee recommended the 2nd lowest bidder for award of work with the bid amount of Rs 5,016,244. The case was referred to NFC, Lahore for approval of competent authority on March 27, 2015, but no response was received. As per re-accreditation report of the Pakistan Engineering Council dated March 30, 2015, it was recommended to immediately install and use Universal testing Machine for experiments. The insurance of the Machine was also going to expire in July 2015. Therefore, the management of the Institute got the work done from some private labor/contractors. The whole process of tendering and original design of the Lab was scraped and a small hall was constructed with an amount of Rs 1.266 million which did not fulfill the requirement as there was hardly a sitting space for 10 students whereas the minimum size of class was 40.

Audit was of the view that unnecessary correspondence with NFC, Lahore delayed the whole process. Further, original approved design, as per the requirement of students, was not followed in construction of Lab.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that the concerned officers had been arrested by FIA. DAC in its meeting held on March 02, 2018 pended the para till the decision of FIA and directed the management to pursue the case vigorously.

Audit recommends compliance of the decision of DAC.

4.4.3 Wasteful expenditure on swimming pool which remained non-operational - Rs 4.833

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

During Performance Audit of NFC Institute of Engineering & Fertilizer Research, Faisalabad for the FY 2011-12 to 2015-16, it was observed that a Swimming Pool adjacent to Sports Complex of the Institute was constructed including all the required installations. The construction was completed during the year 2011-12 and building was capitalized. The audit team visited the site and it was noticed that overall condition of the pool was very poor, all the glass windows were broken, fiber glass rooftop was also broken, installations were damaged and the pool was giving the impression that it had never been functional since its construction. Same was also confirmed by the students, staff and Sports Incharge. An amount of Rs 4,833,560 was spent on installations of swimming pool excluding cost of infrastructure/building.

Audit was of the view that a huge amount was spent on the construction of swimming pool but the facility of swimming was never provided to the students/ staff. Due to non-operation of the pool, the entire amount spent on its construction gone waste and the purpose of its construction was not fulfilled.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that the management was trying its level best for the arrangement of sweet water from WASA for the swimming pool. DAC in its meeting held on March 02, 2018 directed the management to make efforts for proper functioning of the swimming pool to promote a healthy activity amongst the students.

Audit recommends compliance of the decision of DAC.

4.4.4 Non-completion of leftover works since 2010 - Rs 9.365 million

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

During Performance Audit of NFC Institute of Engineering & Fertilizer Research, Faisalabad for the FY 2011-12 to 2015-16, it was observed that some of the infrastructure development work was still incomplete since 2010. It included walk way sheet, telephone system and data system. As per contract documents/BOQ, these items were be completed with other civil works of the institute but due to weak control and poor management these works were still incomplete, cost of which had now been increased manifold. Detail of remaining work is given here under:-

Sr. No	Description	Cost (Rs)
1.	Walk Way Sheet	3,042,300
2.	Telephone system	2,581,000
3.	Data System (LAN)	3,742,500
	Total	**9,365,800**

It may be noted that the above mentioned cost of remaining work was calculated in 2010 which had now increased approximately 100%. The management failed to complete the remaining work even after lapse of almost seven years.

Audit was of the view that management should have got the remaining infrastructure work at the risk & cost of the contractor on time to avoid the increase in cost. Non-completion of the works showed non-serious attitude of the management which caused loss of millions of rupees.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that due to constraint of funds, the pending works could not be completed. The remaining works would be completed as soon as the funds would be available. DAC in its meeting held on March 02, 2018 directed the management to complete the work immediately and blacklist the contractors.

Audit recommends compliance of the decision of DAC.

4.5 Asset Management

4.5.1 Irregular expenditure on vehicle placed at disposal of Head Office - Rs 0.657 million

As per Rule- 5(5)(a) of the Corporate Governance Rules 2013 “The Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders, in the following manner, namely:

(a) the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.

During audit of NFC-IE&FR, Faisalabad for the FY 2011-12 to 2015-16, it was observed from scrutiny of vehicles allocation and log books record that the company provided a vehicle (Toyota GLI FDA-4695) to Project Director which later on was handed over by him to NFC Head Office, Lahore. The vehicle was at the disposal of Head office since 2010 and vehicle running and maintenance expenses were being borne by Institute. During the years 2011-12 to 2015-16, the Institute paid an amount of Rs 657,654 to NFC Head Office against different debit notes. Detail of expenditure on account of POL & repair is given here under:

Year	Total expenditure of FDA-4695 paid to NFC H.O
2011-12	243,486
2012-13	142,047
2014-15	135,317
2015-16	124,554
2016-17	12,250
Total	**657,654**

Audit was of the view that the head office had its own budget and vehicles so there was no justification to use the resources of Institute. Hence, all the expenditure incurred on POL &maintenance of vehicle was irregular.

The matter was reported to the management/Ministry on August 08, 2017. The management in its reply stated that the captioned para had also been forwarded to Head Office. DAC in its meeting held on March 02, 2018 directed the management to get the vehicle back immediately from the Head Office and handover to the concerned office and regularize the expenditure incurred thereon.

Audit recommends compliance of the decision of DAC.

5. CONCLUSION

In the light of above narrated facts it was concluded that:

- Public Sector Companies (Corporate Governance) Rules 2013 had not been implemented resultantly proper monitoring and evaluation system at each level could not be placed to ensure good governance which needed immediate attention of higher management.
- Non-existence of internal control resulted in excess payment of allowances, irregular promotions, reappointments and unauthorized enhancement of emoluments, which indicated that HR management was required to be strengthened and HR practices needed to be made more transparent to avoid such lapses in future.
- Due to non-winding up of NFC after the privatization of its fertilizer units, the corporation incurred millions of rupees on unproductive operations. To avoid further unproductive expenditure, it was necessary to initiate wind up proceedings of NFC Lahore without any delay as all three subsidiaries have their own Board and Chief Executives who can run the affairs of the entities independently.

- Defective/water logged land was purchased in NaushahroFeroze for the establishment of Institute. The construction of building and road on this land was not viable as it was expected that the cost of construction would increase manifold. A detailed survey/Geotechnical study should have been conducted before the purchase of land.
- Certain cases of violation of PPRA were observed in the Institute which indicated that the Commercial department of the institute was required to be strengthened.
- The case regarding award of degree awarding Institute was not followed since 2012, the management was stressed to complete all the formalities and take up the matter at appropriate forum for early approval from Government.
- There was shortage of Ph.D faculty in some departments, audit recommended to hire more Ph.Ds as per requirement of HEC & PEC to impart quality education to the students.
- The performance of research & development department of the Institute was unsatisfactory due to the absence of a long term plan, shortage of qualified researchers & staff and budget constraints.
- The Companies did not have Management Information System. Furthermore, the institute also had no internal control mechanism.

ACKNOWLEDGEMENT

We wish to express our appreciation to the Management and staff of NFC and NFC-IE&FR for the assistance and cooperation extended to the auditors during this assignment.

ANNEXES

Annex-A

Detail of Payment of Ph.D Allowance

Sr. No	Name	Payment of Ph.D allowance	Total
1	Dr. Shahid Raza Malik	01.09.2007 to 30.06.2015 94 months@5000=470,000 01.07.2015 to 31.05.2017 23 months@10,000=230,000	700,000
2	Dr. M Ashraf Dogar	01.01.2009 to 30.06.2015 78 month@5000=390,000 01.07.2015 to 31.05.2017 23 months@10,000=230,000	620,000
3	Dr. Waqar Ali Khan	01.07.2013 to 30.06.2015 24 months@5000=120,000 01.07.2015 to 31.05.2017 23 months@10,000=230,000	350,000
4	Dr. Amjad Ahmad	19.12.2013 to 30.06.2015 18 months@5000=90,000 01.07.2015 to 31.05.2017 23 months@10,000=230,000	320,000
5	Dr. Saqib Ehsan	08.11.2010 to 30.06.2015 55 months@5000=275,000 01.07.2015 to 31.05.2017 23 months@10,000=230,000	505,000
6	Dr. Najaf Ali	11.07.2016 to 31.05.2017 11 months@10,000	110,000
7	Dr. Khurram Maqsood	01.07.2015 to 31.05.2017 23 months@10,000	230,000
8	Dr. Rizwan Nasir	01.07.2015 to 31.05.2017 23 months@10,000	230,000
9	Dr. Umer Ejaz	01.07.2015 to 31.05.2017 23 months@10,000	230,000
Total excess payment of Ph.D allowance			**3,295,000**

(Para 4.2.4)

Annex-B

Detail of excess reimbursement of POL & Entertainment Charges

Name & Designation	Entitled w.e.f	Basic Pay	Entertainment allowance drawn	Entertainment allowance due @10% of B.P	Excess payment (Rs)
Dr. Shahid Raza Malik, Acting Director	May-13 to Dec-13	51,980	85,872	41,584	44,288
	Jan-14 to Dec-14	53,870	141,234	64,644	76,590
	Jan-15 to Jan-16	55,760	162,236	72,488	89,748
	Feb-16 to Dec-16	74,865	153,582	82,351.50	71,231
	Jan-17 to Apr-17	77,320	45,910	30,928	14,982
				Total	**296,839**
Mr. M Tahir Raza, AGM	July-15 to Jan-16	78,440	127,358	54,908	72,450
	Feb-16 to Dec-16	104,325	213,796	114,757.50	99,039
	Jan-17 to Apr-17	106,780	64,244	42,712	21,532
				Total	**193,021**
Mr. Khalid Mahmood, AGM	July-15 to Jan-16	68,990	111,664	48,293	63,371
	Feb-16 to Dec-16	92,050	189,970	101,255	88,715
	Jan-17 to Apr-17	94,505	56,604	37,802	18,802
				Total	**170,888**
				Grand Total	**660,747**

(Para 4.2.10)