

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ
يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَتَّبِعُوا هَيْبَةً مَا أَحَلَّ اللَّهُ لَكُمْ وَلَا
تَعْتَدُوا إِنَّ اللَّهَ لَا يُحِبُّ الْمُعْتَدِينَ ○
ہدایت و پاکیزگی میں خدا کے طریقے سے ملنا ہی ان کو کام نگرہ اور سے نہ ہو کہ نہ ہو سے
پڑھنے والوں کو رو سے ہر مکتا ○



REPORT
OF THE
PUBLIC ACCOUNTS COMMITTEE
ON
FINANCE DIVISION
(1981-82 to 1984-85)

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SUMMARY OF RECOMMENDATIONS

1. National Assembly should formally direct the Executive Authorities to produce all the information which the Committee feels pertinent in examination of the accounts of the Federal Government. (1.17)

2. The functions and the powers of the Auditor-General should be regulated by an Act of Parliament which should specifically provide that:—

- (a) the Auditor-General shall be an officer of the National Assembly and he shall report to the Assembly on all matters referred to him by the Legislature or any of its Standing Committees;
- (b) He shall not perform any executive function, except in respect of his own organization ;
- (c) His investigations shall cover any activity or agency which is administered, managed or established by an executive department of the Government or where any financial interest of the Government is involved. (1.22)

3. (a) The Standing Committees of the National Assembly for each Ministry should scrutinize and clear the Budget Proposals and the Annual Development Programme of each Administrative Division, with which they are concerned before the Budget is laid in the Assembly. This should be applicable to both Annual Budget Statement and the Supplementary Budget Statement.

(b) All development schemes which are approved by the Executive Committee of the National Economic Council should be finally cleared by the respective Standing Committees with proper assistance of Planning Commission and the Finance Division.

(c) The Standing Committees should be responsible to periodically watch, review and modify the annual programmes of the concerned Divisions.

(d) The Standing Committees should review the internal controls, and internal audit reports of the Ministries concerned, and should advise corrective measures, so that the process of accountability could be made timely and effective. (2.8)

4. The job creation especially in the higher grades, should be effectively controlled by the Government and no new jobs should be created until and unless they are supported by scientific studies of staff requirement carried out by O & M Division. (3.18)

5. The Government should carry out objective exercises to develop ways and means to eliminate and minimize the wasteful and unproductive expenditure. (3.21)

6. The formulation, preparation and approval of development the standards for formulation, preparation, approval and management of development projects must be improved substantially. (3.24)

7. Budget management of the Federal Government needs to be streamlined and strengthened on an urgent basis. (3.27)

8. No bill for enacting the limits of the borrowings of the Federation on the security of the Consolidated Fund under Article 166 of the Constitution has been moved in the Parliament by the Federal Government so far. This situation should be immediately rectified by introducing an appropriate bill by the Government (4.9).

9. (a) The limits of borrowings and guarantees for the borrowings against the Federal Consolidated Fund should be prescribed by an Act of Parliament each financial year so that the people and their representatives are in a position to take a deliberate and well-thought out decision about the extent of borrowings and know their liabilities;

(b) Meeting current expenditure of the Federal Government from the borrowed resources should only be restricted to exceptional circumstances, which should be specified in the Act;

(c) The loans raised whether within the country or outside the country should only be utilized on Development Projects which are considered financially viable to repay the investment and the cost of the servicing on their own;

(d) All projects in which borrowed money is invested should be effectively monitored to ensure that they deliver the desired financial results;

(e) The Ministry of Finance should be directed to develop a plan for minimizing and reducing the debt liability of the Federal Government within a reasonable period of time; (4.11)

10. Government should examine constituting a special fund for repayment of foreign debts by allocating a certain percentage of its current resources. (4.12)

11. (a) The baggage rules should be revised to the extent that the Pakistani labourer abroad could only bring a limited items for their consumption. The baggage list could not include anything which is being produced in the country. They should however be allowed to buy locally manufactured goods at export FOB prices;

(b) No seized goods should be auctioned in the local market so that there are no markets in the country selling smuggled goods on the pretext of having bought them in the auction; and

(c) If the government can not effectively control smuggling in the unsettled areas, it should at least effectively control it in the settled areas. (5.11)

12. The import duty should therefore be imposed at specific rates as far as possible (5.12)

13. (a) The multiplicity of indirect taxes and other mandatory payables on industry should be done away with and should be replaced by one single tax. (or at least all the components can be put together, and computed on the same base) for facility of record management, computation and collection. Central Excise, Sales Tax, Iqra Surcharge,

Education cess, Contribution to Old Age Benefit Institution and All other mandatory payables to the Federal Government should be expressed and levied as one single tax and managed by one agency.

- (b) Both direct and indirect taxes leviable on medium and small scale industries and business concerns should be computed on the basis of capacity or ability of each group of industry. (5.14)

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and the related areas.

to be imposed at specific rates.

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the components can be put together and
class) for facility of record management.
m. Central Excise, Sales Tax, Imports Surcharge.

INTRODUCTION

1. The Accounts of the Federal Government for the year 1981-82 were partially examined by the *Ad hoc* Public Accounts Committee in 1985. The *Ad hoc* Committee was however not able to finalize its report, when it was dissolved. The remaining portion of 1981-82 accounts, and the Appropriation Accounts for the years 1982-83, 1983-84 and 1984-85 were examined by the Standing Committee of the National Assembly on Public Accounts.

2. The Committee has decided to place the results of its examination of these accounts before the House in separate volumes, on each major Ministry/Division. This volume deals with the Finance Division and includes an overall review of the financial management of the Federal Government. The views of the Committee regarding regularization of excess expenditure in respect of all the Grants/Appropriations for the four years are contained in Chapter 6.

3. The proceedings of the Public Accounts Committee pertaining to Finance Division have been appended to the Report as Annexure B.

4. The Committee would like to place on record its thanks to Mr. Riyaz H. Bokhari, Auditor-General of Pakistan, Mr. M. A. Haq, former Secretary National Assembly, Mr. K. M. Chima, Secretary, National Assembly, Mr. H.U. Beg, former Secretary Finance Division, Mr. Izharul Haq Secretary, Finance Division, Mr. A. A. Zaidi, Deputy Auditor-General of Pakistan and their officers and staff for the valuable help rendered by them in enabling the Committee to get through this work.

5. While submitting this report to the National Assembly it is finally recommended that the suggestions and recommendations made by the Committee in the Report and Annexure 'B' be accepted.

K. M. CHIMA,
Secretary.

SARDARZADA MUHAMMAD ALI SHAH,
Chairman.

SARDAR ASEFF AHMED ALI,
Member.

CH. MUHAMMAD SARWAR KHAN,
Member.

NAWAB MUHAMMAD YAMIN KHAN,
Member.

MALIK SAID KHAN MAHSUD,
Member.

RAJ ARIF HUSSAIN,
Member.

SHAHABUDDIN SHAH HUSSAINY,
Member.

MIANGUL AURANGZEB,
Member.

SHAHZADA JAM MUHAMMAD YOUSUF,
Member.

MIAN MUHAMMAD YASIN KHAN WATTOO,
*Minister for Finance and Economic
Affairs, Ex-Officio, Member.*

1. ROLE OF PUBLIC ACCOUNTS COMMITTEE

1.1 A major characteristic of a democratic form of government is the process of accountability. A Government managed and controlled by the elected representatives of the people and required to seek mandate afresh after specified intervals, in fact demonstrates accountability to the public. This is termed as Political Accountability.

1.2 To ensure that the administrative machinery of the government performs its functions in accordance with the aspirations of the people, the legislatures of the democratic countries all over the world constitute a Standing Committee on Public Accounts, which is specially mandated to oversee the implementation of the Government policies and programme with the assistance of supreme audit institution of the country. This can be termed as Legislative Accountability.

1.3 During the last 40 years of the existence of this country, the democratic institutions could not grow to a desired extent, due to a number of reasons. The administrative machinery of the Government thus developed in an environment which was quite alien to the concept of accountability. The end result was that the executive agencies of the Government could not meet the aspirations of the people. The wide gap thus created between the performance and achievements of the executive agencies of the Government and the growing aspiration of the people led to a dismal situation in which people became reluctant to accept the Government as an agency created for serving the best interests of the society and the administrative machinery lost the sight of the ultimate objective of its existence *i.e.* meeting the aspirations of the people. Consequently the people and the Government have become two independent entities without having any worth while inter dependence on each other.

1.4 In 1985 elections to the National Assembly and Senate took place after a prolonged Martial Law Regime. The wide gap between the approach of the executive and aspirations of the people had become an important issue by this time. To bridge this gap became one of the major

tasks of the elected representatives. It was perhaps in this background that the accountability has been accorded a high priority by the elected government. How far the elected representatives have succeeded in this task will be indicated by the verdict of the people themselves in the next General Elections.

1.5 The Standing Committee of the National Assembly on Public Accounts was constituted in August, 1985 by the National Assembly and its charter was to examine and evaluate the accounts of the Federation with a view to report to the Assembly, as to what extent the programmes and policies laid down by the representatives of the people, had been implemented by the executive and with what results. This implied a study of the efficiency and effectiveness of the administrative machinery of the Federation, and identification of the areas of wasteful expenditure. This in fact meant that the main task of the Committee was to report to the Legislature whether the people were getting back the value of their money which they had paid to the Government in the form of taxes.

1.6 The Committee met for the first time in March, 1986, and the immediate task before it was to examine the accounts of the Federation for the years 1981-82 to 1984-85. These were the years when no democratic government was in existence and the Martial Law Regime was responsible for running the affairs of the country.

1.7 Although the examination of Federal Government accounts for these four years at such a belated stage was primarily of an academic interest, it helped the committee a great deal in understanding the internal mechanism of the administrative machinery. The Committee was however handicapped in its functioning by the following factors:—

- (a) The role of Public Accounts Committee was neither well defined nor properly understood due to absence of democratic traditions for a very long period. (The Committee had, therefore, to define its role a new and develop an effective communication with administrative machinery of the Government, about its role and approach, as a first step towards accountability).

- (b) Traditionally the role of the Public Accounts Committee was to examine the Reports of the Auditor-General of Pakistan on the Accounts of the Federal Government and to suggest corrective measures after giving an opportunity to the Administrative Ministries to present their point of view. Unfortunately the Auditor-General's Organization had also lost much of its punch and had confined itself to traditional regularity auditing due to the absence of a democratic government in the past. A clear cut picture about the overall performance of government departments and their programs, and an impartial and objective evaluation of these programs was thus missing in these reports. The Committee was therefore not able to get the desired level of support from the Auditor-General's reports in its assignment.

FUNCTIONS OF PAC

1.8 Rule 172 of the Rules of Procedure and Conduct of Business in National Assembly, 1973 lays down the functions of the Standing Committee of Public Accounts as under :—

- (1) The Committee shall examine the accounts showing the appropriation of sums granted by the Assembly for the expenditure of the Government, the annual finance accounts of the Government, and the report of the Auditor-General of Pakistan and such other matters as the Minister for Finance may refer to it.
- (2) In scrutinising the appropriation accounts of the Government and the reports of the Auditor-General of Pakistan thereon, it shall be the duty of the Committee to satisfy itself—
 - (a) that the moneys shown in the accounts as having been disbursed were legally available for, and applicable to, the service or purpose to which they have been applied or charged;

- (b) that the expenditure conforms to the authority which governs it; and
 - (c) that every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by the Ministry of Finance.
- (3) It shall also be the duty of the Committee—
- (a) to examine the statement of accounts showing the income and expenditure of state corporations, trading and manufacturing schemes, concerns and projects together with the balance sheets and statements of profit and loss accounts which the President may have required to be prepared or are prepared under the provisions of the statutory rules regulating the financing of a particular corporation, trading or manufacturing scheme or concern or project and the report of the Auditor-General of Pakistan thereon;
 - (b) to examine the statement of accounts showing the income and expenditure of autonomous and semi-autonomous bodies, the audit of which may be conducted by the Auditor-General of Pakistan either under the directions of the President or under an Act of Parliament; and
 - (c) to consider the report of the Auditor-General of Pakistan in cases where the President may have required him to conduct the audit of any receipts or to examine the accounts of stores and stocks.
- (4) If any money has been spent on any service during a financial year in excess of the amount granted by the Assembly for that purpose, the Committee shall examine with reference to the facts of each case the circumstances leading to such an excess and make such recommendation as it may deem fit.

1.9 The above provisions were traditionally interpreted in a manner that in examination of the accounts of the Federal Government and financial review of its activities, the functions of the Committee were presumed to have been limited to the issues discussed in the Report of the Auditor-General. Consequently the Public Accounts Committee in the past concentrated on examination of individual and exceptional instances of irregular or unauthorized transactions.

1.10 The first problem with which the Committee was faced was either to accept this traditional interpretation of its functions and proceed accordingly or to redefine its role in the light of the above provisions, in view of the modern concepts of accountability adopted all over the world. The main question was as to what was the purpose and objective of the exercise that had been entrusted to the Committee by the Legislature. The examination of accounts could be done in more than one ways depending upon the ultimate objective. For instance the accounts could be examined from the view point of conformity of accounting standards, legality, regularity, efficiency, economy, effectiveness and so on and in each case the examination of accounts would give different results. The purpose of examination of accounts was thus the main criteria for defining the role of the Committee.

1.11 The Committee felt that it had been constituted with only one object in view *i.e.* to determine if the resources placed at the disposal of the Executive had actually been utilized for the purposes and programmes approved by the legislature, in an efficient, economic, systematic and effective manner and the results achieved were in consonance with the money spent. Thus individual instances or irregular expenditure involving petty amounts of money were not as important as the overall performance of the executive agencies. The Committee thus regarded it as the basis, on which it should proceed in defining its role. It was also substantiated by the fact that the term "examination" used in the Rule 172, of the Rules of Procedure and Conduct of Business in the National Assembly 1973, had not been defined or circumscribed in any manner so that the Committee could interpret it in a reasonable manner.

1.12 The Committee thus decided to define and enunciate its role and agreed that its main task was:—

- (i) To determine:—
 - (a) whether the programmes and policies of the Federal Government had been efficiently and effectively implemented?
 - (b) whether the administrative machinery was working within the constitutional/legal and regulatory framework in performing its responsibilities?
 - (c) whether the existing systems, procedures, and arrangements were adequate and result oriented and how could they be improved to make them cost effective and less cumbersome for the people?
- (ii) To act as a coordinator between the Legislature and the Executive for developing a better understanding between them to ensure efficient management of financial resources, instead of functioning as a prosecution agency.
- (iii) To report to the National Assembly as to whether the administrative machinery of the Government was performing its task satisfactorily and to highlight their deficiencies if any so that the Legislature is in a position to know the areas of management which need their immediate attention and guidance.

PROBLEMS FACED BY THE COMMITTEE

1.13 The Committee started its deliberations in March, 1986 and held 48 meetings upto July, 1987. During this period it tried to follow the above guidelines, as far as possible. The task before the Committee was however quite delicate and needed lot of spade work, as one of the primary concern of the Committee was the objectivity and fairness of opinions based on knowledge, and expressing them without fear or favour. The Committee has, therefore, tried to be pragmatic in approach

and impartial in its findings. It has avoided intentionally and purposely to pin point responsibility on individuals (except where it was absolutely warranted by the circumstances) and has tried to limit its discussions on the adequacies or inadequacies of the systems.

1.14 The Committee during its deliberations faced two major problems which are discussed in succeeding paragraphs.

NON DISCLOSURE OF INFORMATION

1.15 A problem which was occasionally faced by the Committee, was the non-disclosure of information to the Committee by the Executive, due to an unfounded and outdated concept of secrecy. There is no doubt that the documentations of certain decisions or moves, while in formulating stage, need to be classified so that their premature leakage may not harm the overall interests of the people, but the government business is a trust and each individual, right from top to the bottom in the administrative heirarchy is responsible and accountable for his contribution in decision making process and as such no document can be classified as 'secret' especially from an agency which represents the Legislature and in turn the people and is charged to report on the accountability of the decision-makers.

1.16 The Committee came across a case in which the decision to award a certain contract to an Organization (stated to have been owned by a former Advisor to the then CMLA) was taken by the then Advisory Council to the CMLA. The Committee requested the Cabinet Division to provide the names of all those members of the then Advisory Council who had attended the meeting in which the aforesaid decision was taken. The idea behind the request was to check if the Advisor who had been benefited by the decision, had participated in the decision making process, or not. The Cabinet Division however replied that the relevant rules on the subject did not provide for giving the required information. Similarly in another case it was reported that a black book (containing a list of senior tax officials who were reputed to be corrupt) was being maintained by Central Board of Revenue. Ministry of Finance was thus requested to provide a copy of this list. This has not been provided so far. It has rather been declined informally on the grounds that it does not fall within the purview of the Committee to call for such record.

1.17 The Committee has not pursued both these cases further as it did not want to involve itself in legal quibblings with the administrative ministries without first taking the Legislature into confidence. The Committee accordingly feels that the process of accountability should not be hampered by such tactics. The Committee represents the Legislature and the Legislature represents the people who are the sovereign. All the decisions and actions of the executive authorities are, therefore, open to critical review and examination by the Committees of the Legislature. The Committee, therefore, recommends that the National Assembly should formally direct the Executive Authorities to produce all the information which the Committee feels pertinent in examination of the accounts of the Federal Government.

ROLE OF THE AUDITOR-GENERAL

1.18 As per Article 169 of the Constitution, the Auditor-General shall, in relation to-

- (a) the accounts of the Federation and of the Provinces; and
- (b) the accounts of any authority or body established by the Federation or a Province.

Perform such functions and exercise such powers as may be determined by or under Act of [Majlis-e-Shoora (Parliament)] and, until so determined, by Order of the President.

Article 171 of the Constitution further provides that the Reports of the Auditor-General relating to the Accounts of the Federation shall be submitted to the President who shall cause them to be laid before the National Assembly.

The Rules of Procedure and conduct of Business in National Assembly, 1973 further provide that the Reports of the Auditor-General on the accounts of the Federation laid in the National Assembly shall be referred to the Standing Committee on Public Accounts.

1.19 From the above provisions of the Constituion and the Rules of Procedure and Conduct of Business in National assembly, it is quite

evident that the Auditor-General of Pakistan, for all intents and purposes, is an officer of the National Assembly and as such not a part of the Executive. This is further substantiated from Article 81 of the Constitution which provides that the expenditure on the Auditor-General and his department shall be treated as expenditure charged upon the Federal Consolidated Fund.

1.20 The Committee, however, noted with concern that the functions and powers of the Auditor-General have not yet been determined by an Act of Majlis-e-Shoora [Parliament] and are still being regulated by an Order of the President. As a consequence the institution of the Auditor-General has not been able to grow in accordance with the requirements of the Parliament. In the opinion of the Committee, the Auditor-General is the only institution which has been envisaged by the Constitution as a watch dog on the executive on behalf of the National Assembly. He should, therefore, under no circumstances perform any executive function.

1.21 The Office of the Auditor-General was created in undivided India and, as such was not conceived to be an institution protecting the interests of the people as a watch dog on the Executive. It was under these circumstances that he was made to wear two caps at a time, One that of being auditor to the Government and other being the book-keeper of the Government. All over the free world this concept has been totally discarded and now the Auditor-General is only responsible for auditing, reviewing, evaluating the government programmes and policies and expressing independent, impartial and objective opinions on their effectiveness, for the consumption of the Legislature. This is, therefore, an institution whose stature, independence and effectiveness contributes a great deal in assuring the supremacy of the Legislature over the Executive.

1.22 In Pakistan, the institution of the Auditor-General must be developed as an effective tool of Legislature if the executive agencies are to be contained within their allocated roles. The Committee, therefore, is of the view that the functions and the powers of the Auditor-General should be regulated by an Act of Parliament which should specifically provide that:—

- (a) the Auditor-General shall be an officer of the National Assembly and he shall report to the Assembly on all matters referred to him by the Legislature or any of its Standing Committees;

- (b) He shall not perform any executive function, except in respect of his own organization.
- (c) His investigations shall cover any activity or agency which is administered, managed or established by an executive department of the Government or where any financial interest of the Government is involved.

1.23 The Auditor-General not only agreed with the views of the Committee on the changing role of Audit but also informed that his organization was already working in that direction. It was, therefore, agreed between the Committee and the Auditor-General that to enforce accountability in future :—

- (a) the Auditor-General shall conduct performance audit/evaluation of as many projects and organizations as possible within the available resources ;
- (b) the Auditor-General shall be submitting to the Committee any reports which are specifically asked for. These reports may subsequently be included in the Auditor-General's Reports on the accounts of the Federal Government ;
- (c) the Report of the Auditor-General on the accounts of the Federal Government shall be submitted to the President for laying in the National Assembly by 30 April each year. The Auditor-General may also submit Interim Report on the accounts of a year, as and when he feels it expedient ;
- (d) the Auditor-General shall prepare an overall review of the budget implementation by the Federal Government each year to enable Legislature to know the salient features of the budget execution of the previous year before according approval for the next year's budget estimates.

1.24 The Committee also noticed with concern that the Reports of the Auditor-General were not attended to by the Administrative Ministries with requisite promptness. The Committee has made it clear to all the Principal Accounting Officers that this approach will not be acceptable to the Committee and any lapse on this account shall be treated as a serious misconduct.

2. FINANCIAL CONTROL AND NATIONAL ASSEMBLY

ROLE OF STANDING COMMITTEES IN FINANCIAL MANAGEMENT

2.1 The role of the National Assembly in financial control of the executive, has been adequately described in the Constitution of Pakistan. The main theme of these provisions is that the Assembly shall have the powers to know how much financial allocation is being made by the executive to meet the recurring cost of institutions which had been created by the Constitution and to vote and approve outlay on all other activities of the Federal Government.

2.2 Under the existing framework, the annual financial outlay of the Federal Government is placed before the National Assembly through three different instruments :—

1. Annual Budget Statement.
2. Supplementary Budget Statement.
3. Excess Budget Statement.

2.3 In case of the first two instruments *i.e.* the annual budget statement and the supplementary budget statement, the purposes and size of the outlay are determined by the Executive, are discussed in the Assembly and finally authenticated by the Prime Minister. In the case of third instrument *i.e.* excess budget statement, the actual expenditure incurred is examined by the Standing Committee of National Assembly on Public Accounts and then processed by the Assembly in the same manner as in case of the first two instruments.

2.4 The most interesting phenomena of financial control is that while in case of excess budget statement which covers only a very small part of the expenditure, the assembly plays a more active role through Public Accounts Committee than in the case of annual or supplementary budgets, which theoretically express the wishes of the people through their elected representatives in financial terms. In both these cases the role of the National Assembly is quite limited *i.e.* it evaluates and assesses the budget documents but has hardly any role in its formulation. Once the

budget proposals have been submitted, Assembly has only two options available ; to accept it, or to reject it.

2.5 The anomaly may lead to an awkward situation when the budget proposals and outlay are not in conformity with the wishes of the people as happened with 1986-87 budget. It is also a very difficult process to modify a budget document once it has been presented in the National assembly because its approval or otherwise is not always dependent on its quality to meet the aspirations of the people but on the compulsions of party affiliations.

2.6 The role of the National Assembly on the formulation of the programmes of the Government and their execution shall, not be effective and the WILL of the people will not be adequately reflected until and unless the representatives of the people play an active role in guiding, watching, reviewing and formulating the policies of financial management of the Government.

2.7 The Committee examined this issue in depth and arrived at the conclusion that the existing system of financial management needs more effective participation by the people's representatives to ensure that the economic growth of the country is in line with the aspirations of the people. The Committee considered as to how this could be achieved within the existing Constitutional framework and without interrupting the existing administrative mechanism and found that the only viable way to achieve this objective was that the Standing Committees of the Assembly for each Ministry of the Government Constituted under Rule 167 of the Rules of Procedure and Conduct of Business in the National Assembly, 1973 should be more closely associated with the formulation, review and scrutiny of budgetary proposals.

2.8 To achieve this objective, the Committee proposes that:—

- (a) The Standing Committees of the National Assembly for each Ministry should scrutinize and clear the Budget Proposals and the Annual Development Programme of each Administrative Division, with which they are concerned before the Budget is laid in the Assembly. This should be applicable to both Annual Budget Statement and the Supplementary Budget Statement.

- (b) All development schemes which are approved by the Executive Committee of the National Economic Council should be finally cleared by the respective Standing Committees with proper assistance of Planning Commission and the Finance Division.
- (c) The Standing Committees should be responsible to periodically watch, review and modify the annual programmes of the concerned Divisions.
- (d) The Standing Committees should review the internal controls, and internal audit reports of the Ministries concerned, and should advise corrective measures, so that the process of accountability could be made timely and effective.

2.9 The above arrangements are likely to result in following improvements in financial management of the Government :—

- (a) It will provide a mechanism for participation of people's representatives in decision making process ;
- (b) The Assembly shall be able to ensure that the Government Programmes and projects are closer to the aspirations of the people ;
- (c) It will provide more support of the Assembly to the Government Programmes as both Government and Opposition benches will be participating and contributing to these programmes purely on the considerations of merit ;
- (d) It will enable the Assembly Members to review the execution of Government Programmes more regularly and timely and shall also provide a feed back to the executive about the expected results :
- (e) It will also provide a regular advice mechanism to the Ministers incharge of the Administrative Divisions.

2.10 The Committee was of the view that our Parliamentary Committee System is perhaps not so well developed as yet as in other Parliamentary Democracies. It should therefore play a more effective,

assertive and purposeful role in the management and overall control of the Executive Government if the democratic institutions are to be strengthened.

3. BUDGET MANAGEMENT

3.1 The Committee started its deliberations in March, 1986 and after going through the Appropriation Accounts of a few administrative Divisions for the years 1981-82 and 1982-83 and preliminary discussions with the Principal Accounting Officers, realized that the Budget Management was not as efficient as it could be.

3.2 The Chairman PAC, on 22nd May, 1986 addressed a letter to the Finance Minister indicating therein some of the issues that had cropped up during the examination. Relevant extracts of the aforesaid letter are reproduced below :—

- “(a) *Budgeting and Ways & Means Position.*—It was stated by many Principal Accounting Officers that Ministry of Finance applies an implicit cut on the budget, especially in the last quarter, by using a number of tactics, such as :—
- (i) delay in release of fourth instalment of grants for various institutions and projects ;
 - (ii) directing the Accountant General, Pakistan Revenues to stop or delay certain kinds of payments.

The representatives of the Ministry of Finance defended these steps in PAC meeting, and perhaps rightly so, on the grounds of difficult ways & means position.

It thus became impossible for the Committee to ascertain if the savings were due to some *ad hoc* policy decision of Finance Division or inefficient management control of the grants by Principal Accounting Officers.

- (b) *Over-Budgeting and Surrenders.*—The Committee during its deliberations found that Government budgeting process was an exercise of wits. The Principal Accounting Officers

expressed the view that some times the executive prevail on the Finance and at times, the process is reversed. This results either in overbudgeting or under-budgeting. None of the Principal Accounting Officers were found satisfied with the working of the system. Another interesting aspect of the budgeting exercise is the "surrenders". Ministry of Finance has fixed 31st March as the last date for surrenders. By this time of the year however, administrative Divisions are not very clear, whether they would be able to utilize the available resources for the purpose for which they have been provided, or not. A number of uncertainties add to the dimensions ; for instance negotiations of foreign loans, tendering exercise etc. Thus the executive Divisions fail to surrender in time. Any subsequent surrender is not useful as it does not provide a room to the Ministry of Finance for accommodation of excess expenditure else-where. The provision of "surrenders" in the budgeting process has thus become a self defeating mechanism.

- (c) *Excess over Grants.*—The Committee was astonished to see that some of the administrative ministries have no respect for legislative approval of the budget and they incur expenditure beyond the authorized allocation without following the prescribed drill, and then confront the PAC after a few years with a fait accompli. This tendency was more explicit in administrative Divisions whose accounts are departmentalized and who have no out-side control to keep their expenditure within limited allocation.
- (d) *Supplementary Budget Allocation.*—It was also found that Ministry of Finance agreed with supplementary budget proposals quite liberally at the fag end of the financial year but most of these authorisations could not find place in the Supplementary Budget Book, thus making the whole exercise meaningless.

The Committee deliberated on these issues with the Principal Accounting Officers the Auditor-General of Pakistan and the representatives of the Finance Division and there was a consensus that the existing budget process needs to be improved and made more realistic.

I would, therefore, be grateful if you kindly look into these issues to find a workable solution. The Committee however feels it would be worthwhile to have a Standing Committee of the representatives of Finance Division, Administrative Divisions, O & M Wing and the Auditor-General of Pakistan, to examine these problems from time to time and to come up with workable alternatives”.

3.3 The Ministry of Finance in response to the above letter constituted a Standing Committee comprising the representatives of Finance, Planning, and O & M Divisions and the Auditor-General, *vide* their letter of 28th September, 1986 with the following mandate :—

“This Standing Committee will examine the budgetary and accounting problems arising from time to time and suggest workable solutions. For the present the Committee will focus its attention mainly on the following issues :—

- (1) To examine the budget making process so as to suggest measures to check over-provisioning/under-provisioning in the budget by anticipating fully the requirements of funds during the year.
- (2) To suggest the basis by which saving could be ascertained well in time and to suggest a date for surrenders and mechanism thereof which should provide a room to the Ministry of Finance to utilize the amount elsewhere and also cater to the difficulties of other Ministries/Divisions due to uncertainties about their expenditure.
- (3) To suggest measures to check excess in expenditure over the authorized allocations, more particularly by those organizations whose accounts are departmentalised.
- (4) To devise a procedure whereunder all the supplementary allocations get reflected in the book of Supplementary Grants”.

3.4 On the recommendations of the Standing Committee, the Finance Division decided *vide* their O.M. dated 14th December, 1986 to

substitute para 95 of General Financial Rules, Vol-I as under :—

“95. All anticipated savings should be surrendered to Government immediately these are foreseen but not later than 15th May of each year in any case, unless they are required to meet excesses under some other unit or units which are definitely foreseen at the time (see paragraph 98). However, savings accruing from funds provided through Supplementary Grant after 15th May shall be surrendered to Government immediately these are foreseen but not later than 30th June of each year. No savings should be held in reserve for possible future excesses”.

3.5 The Public Accounts Committee is not aware of the further deliberations made by the Standing Committee and actions taken by the Ministry of Finance on the recommendations of the said Committee, thereafter. It thus appears that no serious efforts to analyse and resolve the problems of the budget management have been made except refixing a reasonable time table for surrender of anticipated savings.

3.6 After scrutinizing the accounts of the Federal Government for the years 1981-82 to 1984-85 the Committee realized that the problems of the budget management were much more deeprooted and complex than what had been anticipated by it in the beginning. The factual position was that the entire structure of budget management, execution and control was on the verge of collapse and the Ministry of Finance was only trying to make it work to the extent possible by *ad hoc* adjustments. The problems as a matter of fact, were so complex and intricate that the officials of Ministry of Finance had hardly any grasp over them.

3.7 The Committee deliberated on this issue and found that the budget management was suffering from following major deficiencies :—

- (a) commitments without due assessment of available resources;
- (b) inadequate generation of resources ;
- (c) ineffective control on expenditure against the allocations and commitment of liabilities :

3.8 Formulation of annaul budget statement, is one of the basic responsibilities of the Ministry of Finance. Budget exercise contemplates

matching available resources with the committed liabilities. The resources of the Federal Government comprise :

(i) *Internal Resources*

- (a) revenue Receipts (Net).
 - (b) Capital Receipts (Net).
 - (c) Self Financing by Autonomous Bodies ;
- and (ii) External Resources.

The Government incurs no long term liability for raising its revenue, but the capital receipts are raised through domestic and foreign debts for which the Government commits a long term liability and the service charges thereon become a constant drain on the current resources. The prudent budgeting, therefore, calls for a deliberate decision on the part of the Government that :—

- (a) Current expenditure shall be met from the current revenues ; and
- (b) the borrowings for financing of development projects shall be limited to the minimum possible level.

3.9 It will be an interesting exercise from the above point of view to see as to how the annual budget statements for 1981-82 to 1984-85 were conceived.

3.10 The annual budget statements for the above years provided for a surplus receipt over current expenditure as detailed below:—

(In million rupees)

Years	Revenue Receipts	Current Expenditure	Surplus
	(Net)	(Net)	
1981-82.....	44,330	37,044	7,286
1982-83.....	52,313	48,511	3,802
1983-84.....	62,157	56,660	5,497
1984-85.....	68,327	64,242	4,085
			20,670

It is thus evident from the above table that :—

- (i) The current expenditure during these years increased by 73% whereas the revenue receipts increased by 54%, reducing the gap between the estimated current expenditure and receipts ;
- (ii) It was projected that a surplus of Rs. 20,670 million shall be available for meeting other than current expenditure during these four years.

3.11 The annual budget statements for these years were however, revised through supplementary budget statements and the revised estimates of current expenditure *viz-a-viz* the revenue receipts were as under :—

(In million rupees)

Years	Revenue Receipts	Current Expenditure	Gap
1981-82.....	41,659	38,088	+ 3,571
1982-83.....	49,937	50,949	— 1,012
1983-84.....	61,892	59,969	+ 1,923
1984-85.....	65,833	70,763	— 4,930
			— 448

The above table shows that :

- (i) the current expenditure during these years increased by 86% whereas the revenue receipts increased by 58%, thereby disturbing the original stipulations ;
- (ii) instead of a projected surplus of Rs. 20,670 million, the revised budgets for the 4 years ended with a resource gap of Rs. 448 million.

3.12 It is thus quite apparent that during these four years the current expenditure of the Federal Government started exceeding the current available resources which finally culminated at the crisis at the time of presentation of 1987-88 Budget. The crisis faced by the Federal Government at the time of 1987-88 Budget was thus not an accident but was the logical outcome of an inefficient financial management over last many years.

3.13 The problem basically was two fold, one due to inadequate generation of resources, which shall be discussed in another Chapter on "Reforming Tax Structure" and the other due to commitments made without due assessment of available resources. The main reason for the increase in current expenditure could be attributed to the following factors :—

- (a) Debt Servicing.
- (b) Inflationary pressure.
- (c) Creation of additional jobs.
- (d) Additional overhead expenses.

3.14 The position in respect of foreign and domestic debt and its impact on the current expenditure has been discussed in detail in a separate chapter.

3.15 A major factor which led to increase in expenditure of the Federation (and also that of the Provinces), during these years was the revision of pay scales and liberalization of pensionary benefits due to inflationary pressures on the economy. The Committee is not in a position to discuss as to how far the steps taken by the Government in this regard were reasonable, judicious and in the right direction, but one fact which is quite evident is that all these measures which had a perpetual effect on the expenditure pattern of the Government were taken without adequately augmenting the resource base. The Committee has already asked the Ministry of Finance to undertake an exercise on the financial impact of liberalization of pension and these issues shall be discussed further in the next report of the Committee on the accounts of Ministry of Finance.

3.16 The area in which the Ministry of Finance was not able to exercise an effective control over expenditure, was the creation of new jobs especially in the higher grades. Although complete statistics relating to employees strength in the Federal Government and the ratio of annual increase since the debacle of East Pakistan, were not available with the Committee, there was a general impression in the public that a large number of posts had been created during the last years which were perhas not warranted and have resulted in adding an unnecessary burden on the exchequer. A glaring example of this was creation of almost a new cadre of Grade 21 Officers.

3.17 As a consequence of creation of jobs without adequate scrutiny and justification, a number of Federal Government Organizations have become overstaffed. The glaring instances of over staffing were noticed in Pakistan Embassies by the Chairman Public Accounts Committee during his visit to USA, UK and Saudi Arabia, where the staff strength excluding those born on Defence Estimates were as under :—

	<i>Officers</i>	<i>Staff</i>
USA	17	84
UK	27	131
Saudi Arabia	28	129

Many attempts were made in the past to determine the extent of overstaffing in these missions but they proved abortive mainly because of vested interests.

The Chairman Public Accounts Committee in his report to the Prime Minister made certain proposals in this regard which are reproduced below to give an idea of the extent of overstaffing in Pakistan Embassies London and Washington:—

“During my visit to Washington and London, I discussed the necessity of various posts in Washington and London Embassies with the Ambassadors and other senior officials, and am of the view that at least following assignments are superflous, and apparently not needed.

PAKISTAN EMBASSAY, LONDON

- (i) Pakistan Army Technical Liaison Organization (PATLO)—an agency of Ministry of Defence.
- (ii) Medical Counsellor.
- (iii) Educational Attache.
- (iv) Investment Centre.
- (v) Community Welfare Officer (North) posted at London.
- (vi) Customs Counsellor.

PAKISTAN EMBASSY, WASHINGTON

- (i) Economic Minister.
- (ii) Food & Agriculture Consellor.

Apart from the above offices, substantial savings in staff can be effected by streamlining the procedures, and introduction of computer facilities in fields of Accounting and issuance of Passports/Visas. This aspect should be seriously explored by Ministry of Foreign Affairs.

It is therefore suggested that a high level Committee may be constituted to identify the surplus staff in Pakistan Missions abroad.

3.18 The Committee was of the view that the job creation especially in the higher grades, should be effectively controlled by the Government and no new jobs should be created until and unless they are supported by scientific studies of staff requirement carried out by O & M Division.

3.19 The most important sector of Federal Government expenditure which has exhibited a sharp rise during the last years is the expenditure on services and overheads and it is an area where lot of economy can be effected without impairing the efficiency. The sharp rise in overheads of Government Offices has been mainly due to the demonstration effect of public sector corporations and authorities where managerial and supervisory grade officers were provided much more

facilities and perks than their counterparts in the Federal Government Departments. Another contributory factor had been the development programmes financed by foreign aid. As a result the expenditure on the services and overheads like vehicles, telephones, entertainment, office premises, stationery and printing etc., has shown considerable increase. Another feature of recent origin on which substantial amount of public money is being spent, is the institution of seminars and workshops etc. whose utility and output is at times doubtful. The Government has not carried out any exercises to see how far the expenditure being incurred on these services and overheads was really productive and necessary and how much of it was a waste and how the areas of waste could be minimized and contained.

3.20 The fact of the situation is that the former Governments did not take any concrete steps to minimize the avoidable expenditure in the first instance and if any steps were taken, they were shortlived. The administrative machinery of the Government had always been succeeding in reverting back to the process of expansion and wasteful expenditure. The restrictions on use of telephones that were imposed sometime back is an instance in this regard. It is heartening to note that the present Government has taken a major step in this regard by applying certain restrictions on the use of staff cars but it needs constant vigilance to ensure that such decisions are implemented both in letter and spirit in the long run and achieve the intended purpose.

3.21 The Committee suggests that the Government should carry out objective exercises to develop ways and means to eliminate and minimize the wasteful and unproductive expenditure in these areas.

3.22 The development expenditure of the Federal Government present a more pathetic picture than the current expenditure as the Ministry of Finance had been exercising a more effective control on current expenditure as compared to development expenditure. The administrative agencies responsible for the execution of development projects were provided more institutional freedom, to enable them to execute the projects with minimum administrative friction. The result was that a sizeable part of the allocations was not effectively utilized. For instance, in certain Departments fleet of vehicles were purchased and maintained in the garb of Operational Vehicles which, at times, included

airconditioned cars. These vehicles were generally used without any restrictions.

3.23 The wasteful component of the development expenditure could, however, be ignored if the Executive Agencies had achieved the promised objectives from the investment of funds in the approved projects but the unfortunate part of the story is that there was hardly any relationship between the promises and the achievements. The result of the our development efforts over the past many years can be expressed in higher costs and reduced benefits. How was it allowed to happen? What the Planning Commission was doing? Why the executive agencies were not made accountable for their failure? All these questions have, perhaps, never been examined in an objective and purposeful manner. The Planning Commission in the past carried out a number of studies through the Consultants, both local and foreign, but perhaps this was a study which was never considered worthwhile. It was, perhaps, taken for granted that inefficient management, delays, incorrect estimation and futile expenditure was part of the game. The presumption was that the borrowed money, whether from internal or external resources was a cheap money and there was no need to be prudent about it.

3.24 The Committee, therefore, feels that the formulation, preparation and approval of development schemes has almost become a mockery. It therefore, suggests that the standards for formulation, preparation, approval and management of development projects must be improved substantially if the people are to be given back, the value for their hard earned money.

3.25 The most painful aspect of the budget management was that certain administrative Divisions especially those whose accounts were departmentalized and who enjoyed the powers to make payments on their own, never bothered to remain within the budgetary allocations and flouted the financial discipline time and again on the plea that their demands were urgent and could not be deferred. Telephone & Telegraph Department, Pakistan Missions abroad and Frontier Works Organization were a few of such agencies.

3.26 The Committee strongly feels that an excess expenditure over the Budget allocation, should be very seriously taken and it has made it

clear to all the Principal Accounting Officers that any excess expenditure over the budget allocation, shall not be acceptable to the Committee in future unless it is supported by very cogent reasons.

3.27 To summarize the whole discussion, the Committee feels that the budget management of the Federal Government is presently in doledrums and needs to be streamlined and strengthened on an urgent basis if a budgetary crisis is to be averted in near future.

4. Debt Liabilities and Servicing.

4.1. Borrowings by the Federal Government, both in local currency and foreign exchange constitute an important component of financing the annual budgets. This can be judged from the fact that, the total outstanding domestic and foreign loans of the Federal Government as on 30-6-1985, (excluding the loans taken by other agencies, on the guarantee of the Federal Government) were Rs. 298 billion. This means that on 30-6-1985, each citizen of the country owed a debt of more than Rs. 3,000 and each family of 5 persons Rs. 16,000.

4.2. The break up of these loans during the four years under review was as under:—

LOCAL CURRENCY LOANS

(In Million Rs.)

	Net Addition	Cummulative Balance
1-7-1981		62,378
1981-82	13,800	76,178
1982-83	16,038	92,216
1983-84	17,432	109,648
1984-85	38,285	147,933

FOREIGN LOANS

		Net Addition	Cummulative Balance
1-7-1981			55,805
	1981-82	56,105*	111,910
	1982-83	7,129	119,039
	1983-84	11,159	130,198
	1984-85	20,564	150,762

*includes fluctuations in exchange rate due to delinking.

4.3. The loan liability of the Federal Government is thus on an increase with the passage of time. This in turn means that the Government needs more resources to repay the principal amount due, and to pay for the servicing of debts. This position is also substantiated from the table given below which shows the amount of debt servicing in the last four years:—

DEBT SERVICING

(In Million Rs.)

Years	Domestic Loans	Foreign Loans	Total
1981-82	3,861	2,760	6,621
1982-83	6,061	4,353	10,413
1983-84	9,828	4,971	14,799
1984-85	14,985	5,873	20,858

4.4. The above tables indicate that the total outstanding debt and the cost of their servicing has increased by 152% and 215% respectively during the last 4 years as compared to 86% increase in current expenditure and 58% increase in current receipts. The trend of

disproportionate increase in the overall debt and the cost of its servicing viz-a-viz the current receipts and expenditure, is an indicator that in next few years, the expenditure on debt services shall become the major component of Government's current expenditure if effective steps are not taken to contain the volume of debt. Another aspect worth mentioning in this regard is that the expenditure on Debt Servicing is a charged expenditure on the Federal Consolidated Fund and needs no vote by the Legislature for its authorization. It is, therefore, a liability which has to be discharged even if the current resources prove inadequate.

4.5. The present Government has inherited the major portion of debt liability and cannot be construed to share any direct responsibility in this regard. The problem has, however, assumed lot of importance due to its impact on formulation of the annual budgets. It is unfortunate that the Executive Governments in the past incurred these liabilities without examining their effect on future economy of the country. As a result the debt liability has now started assuming a substantial threat to the economy and has become an issue which cannot be deferred any further.

4.6. The Committee was, therefore, quite perturbed with the situation and felt that this was an issue which required thorough probe and examination to ensure that the borrowings of the Federal Government are managed in a manner that they do not pose unsurmountable situations for the country in future.

4.7. The first question that the Committee examined in this regard was that as per Constitutional provisions the debt servicing was an expenditure charged to Federal Consolidated Fund and as such the Legislature had no powers to vote this expenditure. In such a case how the Legislatue could play any role in management of debts?

4.8. It was observed that the Federal Government was borrowing funds under Article 166 of the Constitution which provided as under:—

“The Executive Authority of the Federation extends to borrowings upon the security of the Fedeal Consolidated Fund within such limits, if any, as may from time to time to be fixed by Act of Majlis-e-Shoora [Parliament] and to the giving of guarantees within such limits, if any, as may be so fixed”.

The Committee asked the Secretary Finance Division if any such Act as envisaged in Article 166 of the Constitution, has been made by the Parliament to regulate the extent of borrowings by the Federal Government, but he was not aware of any such enactment. In view of the above, the Committee decided to make a reference to the Justice Division so that an authoritative position of the situation could be obtained. The relevant portion of the reference is reproduced below:—

“During the recently concluded session of the Public Accounts Committee a point was raised whether or not it was mandatory to fix the limits within which borrowings could be made on the security of the Federal Consolidated Fund or guarantees given by the Federation.

The Auditor-General of Pakistan expressed the view that fixing of these limits by Parliament was not mandatory. The words “if any” in the Article 166 indicates that the Constitution recognises the existence of a situation in which no limits are fixed or considered necessary. Of course, once Parliament does prescribe certain limits by an Act, the executive authority of the Federation in the matter of borrowing or giving of guarantees would be restricted to that extent.

The only legislative instrument which can at present be regarded as regulating the borrowings by the Federal Government is the annual or supplementary budget statement. This statement does not, however, cover guarantees given by the Federal Government. Justice Division is requested kindly to examine these points and advise—

- (a) Whether the provisions of Article 166 of the Constitution regarding fixing of limits are mandatory in nature.
- (b) If the answer to (a) above is in the affirmative, whether the borrowings already made on the security of the Federal Consolidated Fund and guarantees given by

the Federation should be treated as unauthorized in view of the fact that no Act has been passed so far by Parliament fixing any limits.

- (c) If the answer to (a) above is in the negative, is it to be understood that the provisions of Article 166 give unlimited powers to the executive authority of the Federation to borrow money on the security of the Federal Consolidated fund?
- (d) Does the indication of the figures of borrowings in the (annual or supplementary) budget statements as discussed and/or assented by the National Assembly under Articles 80 to 83 of the Constitution provide the (year to year) limits envisaged in Article 166 of the Constitution?

The Justice Division on the above reference clarified the issues as under:—

“I now advert to the points raised in paragraph 5 of the working paper on “Borrowing by Federal Government”. Regarding point No. 1 it is stated that under Article 166 of the Constitution, the Parliament is competent to fix by an Act limits within which the executive authority of the Federation to borrowing upon the security of the Federal Consolidated Fund and to the giving of guarantees would extend. This Constitutional provision is directory in nature. The Parliament may or may not pass an Act to fix such limits. In other words, it is not incumbent on the Parliament that it should invariably pass an Act for this purpose. But when the Parliament passes an Act to fix such limits, it becomes mandatory for the Federation to keep itself confined within the limits so prescribed.

Point No. 2 does not arise in view of the reply to point No. 1 in the proceeding para.

The answer to point No. 3 is that in the absence of an Act of Parliament fixing limits in this behalf, the Federation enjoys unlimited powers under Article 166 of the Constitution to borrow money on the security of the Federal Consolidated Fund.

The reply to point No. 4 is that the figures of borrowings given in the Annual and Supplementary Budget Statements cannot be construed as an Act of Parliament within the meanings of Article 166 of the Constitution. The powers of the Federation under this Article, therefore, remain unaffected despite the indication of these figures in the Budget Statements.”

4.9. The Committee was thus surprised to note that no bill for enacting the limits of the borrowings of the Federation on the security of the Consolidated Fund under Article 166 of the Constitution has been moved in the Parliament by the Federal Government so far and as a result the Executive Government had been enjoying unlimited powers of the borrowings upon the security of the Federal Consolidated Fund. The Committee was strongly of the view that this situation should be immediately rectified by introducing an appropriate Bill by the Government.

4.10. It has already been pointed out elsewhere that the current resources of the Government were proving inadequate to meet the current expenditure and to resolve this alarming situation it was extremely necessary to examine as to how the current expenditure could be contained. Since the Debt Servicing constitutes a major component of the current expenditure, it is a question of very high priority to examine as to how this expenditure can be contained or kept within reasonable limits in near future.

4.11. The Committee does not comprise financial experts and as such it is not in a position to suggest a reasonable mechanism for this purpose. It however, considered this question and was of the view that the following guidelines should be kept in view while developing the future strategy in this regard:—

- (a) The limits of borrowings and guarantees for the borrowings against the Federal Consolidated Fund should be prescribed by an Act of Parliament each financial year so that the people and their representatives are in a position to take a deliberate and well-thought out decision about the extent of borrowings and know their liabilities;

- (b) Meeting current expenditure of the Federal Government from the borrowed resources should only be restricted to exceptional circumstances, which should be specified in the Act;
- (c) The loans raised whether within the country or outside the country should only be utilized on Development Projects which are considered financially viable to repay the investment and the cost of the servicing on their own;
- (d) All projects in which borrowed money is invested should be effectively monitored to ensure that they deliver the desired financial results;
- (e) The Ministry of Finance should be directed to develop a plan for minimizing and reducing the debt liability of the Federal Government within a reasonable period of time;

4.12. The Committee would not like to go into the socio political aspects of foreign aid at this juncture but it very strongly feels that for the development of a viable economy and for playing an effective role in the South Asia Region, it is a pre-requisite that the country should be economically and financially free from all international obligations as far as possible. If the country is to stand on its own in any crisis, it is imperative that its economic growth should not be dependent on the mercy of any super power. The "Structural Adjustment Program" for putting the economy on rails, should come from within and not from the outside agencies. If we commit errors, let them be our own and not on the behest of others. It is, therefore, high time that a new development strategy should be evolved which is based on effective utilization of our own resources and minimum dependence on others. It is also high time when we should make all out efforts to minimize the existing liability of foreign debts even if it calls for tightening our belts to the extreme. It is proposed that the Government should examine constituting a special fund for repayment of foreign current resources, so that the country is free from the clutches of foreign economic domination as soon as possible.

4.13. The National Assembly should therefore address this question with all the sincerity of purpose at its command and develop a viable strategy to face the situation. Financial health of the country is

likely to deteriorate further and the day is not very far when the country may face an unsurmountable economic crisis, if adequate steps are not taken right now.

5. Reforming Tax Structure

5.1. One of the major problems of budget management is inadequate generation of resources, which mainly comprise collection of revenue through taxes. The Committee scrutinized a number of cases, in the field of tax collection, involving loss to the exchequer either due to incorrect interpretation of rules/standing orders or acts of omission and commission.

5.2. A study of these cases has led the Committee to conclude that the basic deficiencies in our tax structure were:—

- (a) Complicated and cumbersome legal/administration framework for levy and collection of taxes;
- (b) Extra-ordinary discretionary powers enjoyed by the Tax Collectors;
- (c) Multiplicity of Tax Agencies;

5.3. The fact that the tax evasion is abnormally high, corruption in tax collection agencies is rampant, the top management is a helpless spectator and that remedial measures have proved counter productive, shows that the existing system has failed to deliver the goods and was not likely to succeed without major structural adjustments.

5.4. One of the major sources of corruption in the Tax Administration Agencies was the excessive control and discretionary powers enjoyed by the tax officials in levy and collection of taxes. The control and corruption go hand in hand and one of the manifestations of this principle is the Tax Administration itself. Unfortunately in last 40 years, failure of an existing control always led to introduction of new controls, without analysing and removing the causes of the failure. These decisions which were based on adhocism, ultimately resulted in perpetuating the corruption and have now reached to a point of no return.

5.5. The Committee was of the considered view that the existing legal/administrative framework of taxation in the country should be radically altered, as it is hurting the honest and helping the dishonest tax payers. Although it is not possible to realistically estimate the extent of evasion and avoidance of revenue, the existing system needs to be discarded simply on the grounds that it has corrupted the entire economy. The people of the country are sick of the existing tax structure and they do not want a patch work. What they expect from a democratic Government is that it should lay foundation for a taxation system in the country which could lead to a healthy economic environment.

5.6. It was, therefore, necessary that the existing Tax structure should be objectively examined so that it could be made more realistic, reasonable and progressive. The work done by National Tax Reforms Commission was a step in this direction and as such laudable. The Committee felt that in peculiar circumstances of the country, the tax structure should be based on the following principles:—

- (a) Simplicity in operations.
- (b) Reducing the number of Tax Collecting Agencies and the personnels;
- (c) Minimizing the discretionary powers of Tax Officials;
- (d) Reduction in Tax variables;
- (e) Minimizing verification of record;

5.7. The Committee reviewed the performance of various taxes and their contribution to the National Exchequer and the findings in this regard are recorded in the succeeding paragraphs.

EVASION OF INDIRECT TAXES — CUSTOMS

5.8. One of the major socio-economic factor responsible for low generation of taxes in the country was large scale smuggling of consumers goods. Although the precise impact of smuggling of consumers goods in the country on unemployment, industrial output and tax base is not available, it is an undeniable fact that a major chunk of National Income is being diverted on purchase of smuggled goods in the country. It is a

tragedy that almost all the governments in the past recognized this problem but none of them took any effective measures to control or to contain it.

5.9. Inflow of imported consumers goods in the country got another boost in last 10 — 12 years, when a large force of skilled and unskilled labour got employment opportunities abroad, especially in the Middle East. The additional infow of goods however did not result in additional revenue to the government, due to liberal baggage rules, to allow them to bring durable and other consumers goods freely from abroad while returning on leave or termination of temporary residence abroad. The establishment of Duty Free Shops in the country has further aggravated the problem. The overall result being the Bara Markets are no longer restricted to the Border Towns of Peshawar, Chaman and Quetta, they have spread all over the country.

5.10. The question which we should seriously ask ourselves is whether the Pakistanis who got employment in Middle East and most of whom belong to low income group, have gone abroad to enhance their income, to improve their living conditions, to support their families, to save for their rainy days or they have gone abroad to purchase luxurious durable and consumer goods. The reply to this question is quite simple. All these Pakistanis had not left their homes, their families and their country to boost the exports of the developed countries. If their hard earned money is not transferred back to Pakistan and is not invested into the economy, it is a lossing bargain. it is only because of these considerations that India which is one of the biggest competitors of Pakistani labour abroad has imposed strict baggage rules thereby ensuring that all surplus income earned by its labour force abroad is transferred back to the country to support consumption of domestic goods and investment. There appears to be no reason why we should not follow the suit.

5.11. The Committee therefore propose that:—

- (1) The baggage rules should be revised to the extent that the Pakistani labourer abroad could only bring a limited items for their consumption. The baggage list should not include anything which is being produced in the country. They

should however be allowed to buy locally manufactured goods at export FOB prices;

- (2) No seized goods should be auctioned in the local market so that there are no markets in the country selling smuggled goods on the pretext of having bought them in the auction; and
- (3) If the government can not effectively control smuggling in the unsettled areas, it should atleast effectively control it in the settled areas.

5.12. Another aspect that needs attention is that presently the import duties are levied on both *ad valorem* and on specific rate basis. The levy of import duty on *ad valorem* basis leads to under invoicing. The import duty should therefore be imposed at specific rates as far as possible. All import duties should therefore be reviewed to bring them on specific rate basis.

OTHER TAXES

5.13. In case of other indirect or direct taxes such as Central Excise and Income Tax, the biggest problem is the maintenance of books of accounts. Our tax structure is such, that if a concern maintains proper books of accounts it cannot perhaps survive in the market or atleast cannot afford the burden of paying heavy taxes on the one hand and keeping the tax officials satisfied on the other. Despite the fact that our tax structure is very elaborate it is primarily based on mistrust of tax payers. It presumes that no tax payer is honest and all of them would try to cheat the Governemnt. Thus maintenance of proper correct and reliable accounts and the existing tax structure cannot go together. The solution of this problem lies in evolving a tax structure which is based on the trust of tax payers. We have tried the existing system for forty years and it has resulted in inadequate generation of resources and enormous corruption. Why it is that we cannot develop a system (even for sake of experiment) in which the tax payers are trusted to pay their dues to the Government without interference of the tax officials.

5.14. The Committee, therefore, considered this aspect and

formulated the following proposals in this regard for consideration of the National Assembly:—

- (a) The multiplicity of indirect taxes and other mandatory payables on industry should be done away with and should be replaced by one single tax (or at least all the components can be put together, and computed on the same base as certain taxes are subsequently divisible between the Federation and Provinces, however and the others are not divisible) for facility of record management, computation and collection. Central Excise, Sales Tax, Iqra Surcharge, Education Cess, Contribution to Old Age Benefit Institution and all other mandatory payables to the Federal Government should be expressed and levied as one single tax and managed by one agency. This will minimize the contact between the industrial concerns and the tax officials, and make the collection process simpler.
- (b) Both direct and indirect taxes leviable on medium and small scale industries and business concerns should be computed on the basis of capacity or ability of each group of industry as a whole. The rate so derived at should be applied to the components units without reference to the actuals and without insisting on verification of record. For this purpose, computation of taxes can be made on the basis of key input/output/ facility for each group, if possible.

For instance all hotels in the country should be categorized on the basis of a predefined standard and the tax liability (both direct and indirect) be calculated on the basis of key facility provided *i.e.* either a bed or a room. All the hotels in a particular category all over the country should then be taxed on the basis of number of such facilities available, without reference to actual income.

Similarly in the construction industry, the contractors can be classified on the basis of their turn over and the income tax should be levied on the basis of the total income without insisting on the detailed accounts of income and expenditure

The concept can be applied to most of the medium and a small industrial commercial establishments where the production or the income tax is ultimately dependent either on the number of machines, or the certain key in-puts which can be easily measured. For instance the production in Plastic manufacturing establishments depends on the raw-material imports. In this case therefore the sale tax, and other cess and duties can be merged into import duty and the total raw-material imported by an unit can form the basis of Income Tax.

It is felt that even if taxes are computed on 60% of the capacity of these units, the return shall be 20 to 30% higher than the existing tax proceeds.

5.15. The Committee was quite confident that with these measures, the realisable revenue from medium and small industrial and trading establishments can be conveniently enhanced by 20 to 30 per cent and at the same time the business community can be saved from the clutches of corrupt tax officials and middle-men. The business community can also be saved from the botheration of maintaining bogus books of accounts for tax purposes in the above manner. The only assurance that they need from the Government is that their tax liability will be well defined and limited, and once they have met their liability, they would not be harassed by tax officials on false pretexts.

5.16. Although the Committee was not directly concerned with Provincial Tax Structure, it had indirect effect on Federal Budget. The Committee felt that above principles can be gainfully applied in Provincial Taxation System especially in cases of Taxes on Agriculture produce.

6. Excess Budget Statement

6.1. Rule 172 (4) of the Rules of Procedure and Conduct of Business in National Assembly, 1973 lays down that if any money has been spent on any service during a financial year in excess of the amount granted by the Assembly for that purpose the Standing Committee on Public Accounts, shall examine with reference to the facts of each case,

the circumstances leading to much an excess and make such recommendations as it may deem fit.

6.2. During the discussions, the Committee felt that there were a number of issues in this regard which needed clarification. The Auditor-General therefore, made a reference to the Justice Division on these points at Committee's behest. The relevant portions of the reference made to the Justice Division are reproduced below:—

“Article 84 of the Constitution reads as under:—

“If in respect of any financial year, it is found—

- (a) that the amount authorized to be expended for a particular service for the current financial year is insufficient, or that a need has arisen for expenditure upon some new service not included in the Annual Budget Statement for that year; or
- (b) that any money has been spent on any service during a financial year in excess of the amount granted for that service for that year;

the Federal Government shall have power to authorize expenditure from the Federal Consolidated Fund, whether the expenditure is charged by the Constitution upon that Fund or not, and shall cause to be laid before the National Assembly a Supplementary Budget Statement or, as the case may be, an Excess Budget Statement, setting out the amount of that expenditure, and the provisions of Articles 80 to 83 shall apply to those statements as they apply to the Annual Budget Statement”.

2. It is clear that if the insufficiency of authorized amount for a service or the need for expenditure on a new service comes to notice during the currency of a financial year and the Government exercises its power to authorize expenditure for the purpose, it is required to submit a Supplementary Budget Statement to the National Assembly for discussion and/or voting before authentication by the Prime Minister of the (supplementary) schedule of authorized expenditure. This has, of course, to be done before the expiry of the financial year.

3. However, if the fact that money was spent in excess of the amount granted for a service for a particular year comes to notice after expiry of that year and the Government decides to authorize the excess expenditure, an Excess Budget Statement shall have to be laid before the National Assembly and the (excess) schedule of authorized expenditure will be authenticated by the Prime Minister after discussion and/or voting by the Assembly. These steps *i.e.* authorization/discussion/voting/authentication of the excess expenditure will naturally be taken during years subsequent to the financial years in which the money was actually spent in excess of the amount granted for a service and later on found to have been so spent.

4. A couple of points have been raised in this connection during discussions by the Public Accounts Committee of the Audit Report on the Federal Government's Appropriation Accounts. It has been suggested that the Excess Budget Statement can cover such cases only in which it is found that "any money has been spent on any service" in excess of the amount granted for that service and the Constitution does not envisage the use of the device of an Excess Budget Statement to authorize expenditure upon some new service *i.e.* a service not included in the (Annual or Supplementary) Budget Statement for the year. Such expenditure cannot be deemed to be duly authorized as expenditure from the Federal Consolidated Fund and shall have to be kept outside the account of this Fund as "unauthorized expenditure" because the Government has not been given the power to authorize it.

5. If the view in paragraph 4 above is correct and if the Excess Budget Statement for a particular year cannot include any expenditure on a service which was not included in the (Annual or Supplementary) Budget Statement for the year, the only feasible course of action would be to obtain a grant or appropriation in the (Annual or Supplementary) Budget Statement of a subsequent year to "cover" the 'unauthorized expenditure' on the (new) service. Only after the requisite authorization has been obtained as prescribed in Articles 80 to 83 of the Constitution can the amount involved be shown as authorized expenditure out of the Federal Consolidated Fund.

6. The second point which has been raised in this connection relates to the practice of adjustment in the accounts of a year expenditure which

was incurred in a previous year but could not be brought into account at that time due to one reason or another although budgetary authorisations for the service was then available. A view has been expressed that such adjustments can properly be made in subsequent years only if adequate budgetary provision exists for the particular service in these years' schedules of authorized expenditure. In case the adjustments are likely to lead to an excess over "the amount authorized to be expended" or these involve booking of amounts which involve "expenditure upon some new service", proper authorization would have to be obtained as prescribed in Article 84 of the Constitution.

6.3 The Justice Division *vide* their U.O. Note of 1-9-1987 clarified the position in respect of these points as under:—

"As the expenditure on a service as shown in the Budget Statement or in the authenticated schedule of expenditure represents only estimated expenditure, it may and often does happen that the expenditure on a particular service proves insufficient or money is needed for a new service or money has been expended on a service in excess of the amount granted for that service. In any such case the Federal Government has the power to authorize further expenditure from the Consolidated Fund irrespective of whether the expenditure is charged on such Fund or not, and to lay before the National Assembly a supplementary or excess budget statement setting out the additional expenditure, and the procedure of Articles 80 to 83 of the constitution applies to such statement as it applies to the Annual Budget Statement.

The position explained and views expressed in paragraphs 4 to 6 of the working paper on "Excess Budget Statement" are correct as they proceed on a sound exposition of the provisions contained in Article 84 of the Constitution".

6.4 The Appropriation Accounts of the Federal Government for 1981-82 exhibited following excesses over authorized grants/appropriations requiring regularization through excess budget statement.

Excesses over Authorized Grants.

S. No.	No. & Title of the Grant/Appropriation	Final Grant Appropriation	Actual Expenditure	Excess
		Rs.	Rs.	Rs.
CIVIL				
1.	17—Export Promotion	909,332,000	1,157,510,763	248,178,763
2.	18—Other Expenditure of Ministry of Commerce	1,756,000	1,822,818	66,818
3.	29—Ministry of Defence	96,061,000	217,642,729	121,581,729
4.	40—Superannuation Allowances and Pensions.	79,117,000	273,075,865	193,958,865
5.	41—National Savings	27,664,000	27,686,287	22,287
6.	52—Food & Agriculture Division.	15,544,000	16,126,079	582,079
7.	58—Livestock Division	1,423,000	1,762,829	339,829
8.	63—Foreign Affairs.	231,747,000	251,393,201	19,646,201
9.	74—Federal Lodges.	2,112,000	2,155,113	43,113
10.	83—Information Services Abroad.	21,319,000	21,734,721	415,721
11.	95—Other Expenditure of Labour Division.	159,463,000	185,644,718	26,181,718
12.	102—A Federal Council	—	4,758,397	4,758,397
13.	121—Other Expenditure of States & Frontier Regions Division.	2,178,026,000	2,419,705,982	241,679,982
14.	122—Kashmir Affairs and Northern Affairs Division.	2,777,000	2,866,767	89,767
15.	127—Other Expenditure of Ministry of Water and Power.	100,000	1,194,000	1,094,000
16.	148—Development Expenditure of Finance Division.	1,121,785,000	1,250,545,050	128,760,050
17.	174—Capital Outlay on Communication Works	149,622,000	185,763,599	36,141,599

1	2	3	4	5
18.	177—Capital Outlay on Civil Aviation and other Works of Ministry of Defence.	651,971,000	1,554,010,043	902,039,043
POST OFFICE, TELEGRAPH & TELEPHONE				
19.	20—Pakistan Post Office Department.	445,921,000	452,174,627	6,253,627
20.	172—Capital Outlay on Pakistan Telegraph and Telephone Department.	945,000,000	963,335,974	18,335,974
PAKISTAN RAILWAYS				
21.	111—Expenditure Charged to Railways Revenues.	3,681,325,000	3,683,538,906	2,213,906
				1,952,987,141

Excesses over Appropriations (Charged Expenditure.)

S. No.	No. and Name of Grant/Appropriation	Final Grant/ Appropriation	Actual Expenditure	Excess
1	2	3	4	5
CIVIL				
1.	40—Superannuation Allowances and Pensions.	883,000	2,342,725	1,459,725
2.	64—Other Expenditure of Ministry of Foreign Affairs.	3,500,000	3,525,276	25,276
3.	102—A Federal Council.	—	904,720	904,720
4.	135—Other Loans and Advances by the Federal Government.	610,000	10,610,000	10,000,000
5.	Servicing of Domestic Debt.	3,553,075,000	4,667,814,101	1,114,739,101

1	2	3	4	5
PAKISTAN POST OFFICE TELEGRAPH & TELEPHONE				
6.	20—Pakistan Post Office Department.	22,708,000	22,823,900	115,900

6.5. The Committee examined all these excesses in detail and recommended that the these may be regularized except those mentioned below:—

S. No.	No. & Title of the Grant/Appropriation	Final Grant/ Appropriation	Actual Expenditure	Excess
1	2	3	4	5
1.	29—Ministry of Defence	96,061,000	217,642,729	121,581,729
2.	102—A Federal Council	—	4,758,397	4,758,397
3.	122—Northern Affairs Division	2,777,000	2,866,767	89,767
4.	127—Other Expenditure of Ministry of Water and Power	100,000	1,194,000	1,094,000
5.	148—Development Expenditure of Finance Division	1,121,785,000	1,250,545,050	128,760,050
6.	102—A Federal Council	—	904,720	904,720
7.	135—Other Loans and Advances by Federal Government	610,000	10,610,000	10,000,000

6.6. The above excesses comprised either new services (for instance, Federal Council) for which no provision was made in the Annual or Supplementary Budget Statement for 1981-82, or were due to belated adjustment of previous years expenditure. Expenditure on a new service was not eligible for regularization through excess budget statement, as per clarification of the Justice Division reproduced in para 6.3 *ibid*. Regarding excesses due to belated adjustments, the matter was discussed with the Auditor-General, and it was decided that he would certify in each case if the expenditure actually pertained to a new service or a service which had been provided in the budget for the year in which

expenditure has actually been booked. The Committee agreed to recommend the excesses due to belated adjustments if they fall in the later category.

6.7. The Appropriation Accounts of the Federal Government for 1982-83 exhibited following excesses over authorized grants/appropriations requiring regularization through excess budget statement.

Excesses over Authorized Grants

S. No.	No. & Title of the Grant	Final Grant	Actual Expenditure	Excess
1	2	3	4	5
		Rs.	Rs.	Rs.
CIVIL				
1.	16—Ministry of Commerce	63,052,000	64,037,686	985,686
2.	17—Export Promotion	949,754,000	1,495,133,796	545,379,796
3.	25—Culture, Sports & Youth Affairs Division	6,096,000	6,355,118	259,118
4.	29—Ministry of Defence	99,254,000	109,477,668	10,223,668
5.	40—Superannuation Allowances and Pension	235,174,000	324,799,094	89,625,094
6.	56—Livestock Division	2,173,000	2,791,886	618,886
7.	61—Foreign Affairs	259,686,000	324,834,003	65,148,003
8.	62—Other Expenditure of Ministry of Foreign Affairs	47,525,000	99,913,231	52,388,231
9.	65—Public Health	20,857,000	21,067,669	210,669
10.	72—Other Expenditure of Works Division	900,000	902,378	2,378

1	2	3	4	5
11.	80—Information Services Abroad	23,954,000	25,410,748	1,456,748
12.	86—Civil Armed Forces	854,284,000	857,787,184	3,503,184
13.	92—Other Expenditure of Labour Division	150,055,000	235,484,317	85,429,317
14.	93—Manpower and Overseas Pakistanis Division	26,116,000	26,833,337	717,337
15.	112—Other Expenditure of Ministry of Religious Affairs & Minority Affairs	27,657,000	29,138,933	1,481,933
16.	152—Development Expenditure of Works Division	947,000	1,551,384	604,384
17.	173—Capital Outlay on Communication Works	100,000,000	188,104,025	88,104,025
18.	179—Capital Outlay on Special Development Programmes of Provinces	650,000,000	679,524,041	29,524,041
19.	186—Capital Outlay on Industrial Development	1,750,000,000	1,899,588,114	149,588,114
DEFENCE SERVICES				
20.	33—Defence Services	23,019,745,000	23,325,246,238	305,501,238
PAKISTAN RAILWAYS				
22.	187—Capital Outlay on Pakistan Railways	525,600,000	575,472,284	49,872,284

EXCESSES OVER APPROPRIATION (CHARGED EXPENDITURE)

S. No.	No. & Name of Grant/Appropriation	Final Grant/ Appropriation	Actual Expenditure	Excess
1	2	3	4	5
1.	62—Other Expenditure of Ministry of Foreign Affairs.	10,000,000	16,865,786	6,865,780
2.	100—Federal Council	4,262,000	8,398,679	4,136,679
3.	Servicing of Domestic Debt	5,831,962,000	6,126,070,870	294,108,870

6.8. The Committee having examined the details of all the above excesses, recommended that they should be got regularized through excess budget statement.

6.9. The Auditor-General of Pakistan indicated following excesses in the accounts of the Federal Government for the year 1983-84:—

Excess over Authorized Grants

S. No.	No. & Title of the Grant	Final Grant	Actual Expenditure	Excess
CIVIL				
1.	2—Cabinet Division	101,558,000	107,174,641	5,616,641
2.	6—Establishment Division	38,691,000	39,995,086	1,304,086
3.	7—Federal Public Service Commission	10,140,000	10,534,130	394,130
4.	8—Service Tribunal	2,665,000	2,762,171	97,171
5.	10—Chief Martial Law Adminis- trator's Secretariat	16,317,000	17,717,969	1,400,969

1	2	3	4	5
6.	13—Organization and Methods Division	8,726,000	9,510,044	784,044
7.	14—Women's Division	6,179,000	6,537,296	358,296
8.	19—Ministry of Communications	6,823,000	7,042,678	219,687
9.	22—Department of Shipping Control and Mercantile Marine	4,986,000	5,338,589	352,589
10.	25—Culture, Sports & Youth Affairs Division	6,974,000	7,204,425	230,425
11.	26—Archaeology and Museums	18,080,000	18,955,544	875,544
12.	28—Tourism Division	13,078,000	13,112,424	34,424
13.	29—Ministry of Defence	97,490,000	116,828,751	19,338,751
14.	30—Meteorology	43,819,000	46,126,430	2,307,430
15.	32—Aviation	62,690,000	68,006,533	5,316,533
16.	37—Federal Government Education Institutions in Cantonments and Garrisons	101,137,000	105,279,812	4,142,812
17.	38—Finance Division	45,955,000	47,513,211	1,558,211
18.	39—Pakistan Mint	21,794,000	24,591,301	2,797,301
19.	41—National Savings	41,759,000	43,967,860	2,208,860
20.	45—Central Board of Revenue	22,605,000	22,943,724	338,724
21.	47—Land Custom and Central Excise	126,208,000	136,380,346	10,172,346
22.	48—Taxes on Income and Corporation Tax	167,516,000	184,207,029	16,691,029
23.	49—Economic Affairs Division	14,009,000	14,524,817	515,817
24.	52—Forest	7,555,000	7,999,973	444,973
25.	52—Plant Protection Measures	26,535,000	54,372,929	27,837,929
26.	54—Other Agricultural Services	59,753,000	60,590,296	837,296
27.	56—Zoological Survey Department	1,162,000	1,365,245	203,245

1	2	3	4	5
28.	57—Live Stock Division	2,105,000	2,298,983	193,983
29.	59—Other Expenditure of Food and Agriculture Division	12,746,000	17,176,729	4,430,729
30.	60—Ministry of Foreign Affairs	42,109,000	50,407,340	8,298,340
31.	61—Foreign Affairs	329,840,000	382,074,256	52,234,256
32.	63—Health, Special Education and Social Welfare Division	19,691,000	21,019,358	1,328,358
33.	64—Medical Services	176,834,000	180,709,489	3,875,489
34.	65—Public Health	21,983,000	22,326,779	343,779
35.	66—Other Expenditure of Health, Special Education and Social Welfare Division	3,196,000	4,867,827	1,671,827
36.	68—Works Division	4,311,000	4,825,210	514,210
37.	69—Civil Works	229,152,000	272,575,545	43,423,545
38.	71—Federal Lodges	3,315,000	3,938,122	623,122
39.	72—Other Expenditure of Works Division	1,376,000	1,433,270	57,270
40.	73—Ministry of Industries	11,266,000	11,631,958	365,958
41.	74—Industries	20,981,000	21,018,800	37,800
42.	75—Department of Investment Promotion and Supplies	18,606,000	19,166,247	560,247
43.	78—Directorate of Publications News Reels and Documentaries	19,854,000	20,665,256	811,256
44.	79—Press Information Department	18,095,000	18,343,474	248,474
45.	80—Information Services Abroad	27,241,000	30,040,704	2,799,704
46.	81—Pakistan National Centres	9,126,000	9,737,005	611,005
47.	83—Ministry of Interior	29,239,000	29,887,365	648,365
48.	84—Islamabad	70,373,000	86,385,668	16,012,668
49.	85—Passport Organization	26,666,000	28,432,108	1,766,108

1	2	3	4	5
50.	86—Civil Armed Forces	1,016,812,000	1,067,555,206	50,743,206
51.	87—Registration Organization	69,357,000	76,506,123	7,149,123
52.	88—Civil Defence	9,191,000	9,254,717	63,717
53.	89—Federal Investigation Agency	42,832,000	44,865,687	2,033,687
54.	91—Labour Division	7,232,000	7,476,095	244,095
55.	92—Other Expenditure of Labour Division	192,109,000	295,633,595	103,524,595
56.	93—Manpower and Overseas Pakistanis Division	30,354,000	34,915,321	4,561,321
57.	94—Ministry of Law and Parliamentary Affairs	7,841,000	8,343,241	542,241
58.	96—Ministry of Local Government and Rural Development	7,128,000	7,214,754	86,754
59.	98—National Assembly	3,900,000	4,239,110	339,110
60.	101—Ministry of Petroleum and Natural Resources	6,792,000	7,505,005	713,005
61.	106—Population Division	3,360,000	4,257,056	897,056
62.	107—Ministry of Production	18,521,000	18,641,934	120,934
63.	110—Advisory Council for Islamic Ideology	2,763,000	2,809,952	46,952
64.	111—Other Expenditure of Ministry of Religious Affairs and Minorities Affairs	23,257,000	26,651,004	3,394,004
65.	114—States and Frontier Regions Division	4,959,000	5,236,866	277,866
66.	115—Frontier Regions	109,130,000	134,863,142	25,733,142
67.	116—Frontier Constabulary	147,144,000	179,616,983	32,472,983
68.	117—Federally Administered Tribal Areas	140,569,000	151,371,773	10,802,773
69.	118—Other Expenditure of Federally Administered Tribal Area	195,844,000	253,615,890	57,771,890

1	2	3	4	5
70.	119—Maintenance Allowance to Ex-Rulers	4,319,000	4,512,910	193,910
71.	122—Kashmir Affairs and Northern Areas Division	3,217,000	3,919,843	702,843
72.	123—Northern Areas	92,252,000	111,892,337	19,640,337
73.	124—Federal Government Educational Institutions in Northern Areas	25,970,000	40,944,693	14,974,693
74.	125—Other Expenditure of Kashmir and Northern Affairs Division	299,210,000	404,405,246	105,195,246
75.	126—Ministry of Water and Power	64,888,000	65,224,767	336,767
76.	127—Capital Outlay on Purchase of Food	364,860,000	365,205,289	345,289
77.	128—Capital Outlay on purchase of Fertilizer	1,687,630,000	1,688,535,474	905,474
78.	132—Federal Miscellaneous Investment	1,723,354,000	2,191,135,457	467,781,457
79.	144—Development Expenditure of Finance Division	150,780,000	152,029,500	1,249,500
80.	156—Development Expenditure of Ministry of Local Government and Rural Development	5,710,000	30,294,889	24,584,889
81.	159—Development Expenditure of Statistics Division	3,376,000	3,392,576	16,576
82.	171—Capital Outlay on Communication Works	44,949,000	125,054,438	80,105,438
83.	164—Development Expenditure of Kashmir Affairs Division	154,800,000	198,890,037	44,090,037
84.	176—Capital Outlay on Special Development Programme	174,652,000	180,376,593	5,724,593
PAKISTAN POST OFFICE, TELEGRAPH AND TELEPHONE				
85.	20—Pakistan Post Office Department	631,098,000	652,084,500	20,986,500
86.	21—Pakistan Telegraph and Telephone Department	1,159,883,000	1,209,647,648	49,764,648

1	2	3	4	5
DEFENCE SERVICES				
87.	33—Defence Services	26,642,997,000	26,792,550,115	149,553,015
EXCESS OVER APPROPRIATIONS (CHARGED EXPENDITURE)				

S. No.	No. & Name of Grant/Appropriation	Final Grant/ Appropriation	Actual Expenditure	Excess
1	2	3	4	5
1.	40—Superannuation Allowances and Pensions	333,178,000	356,222,056	23,044,056
2.	100—Federal Council Secretariat	4,500,000	6,495,735	1,995,735
3.	Audit	181,626,000	194,972,081	13,346,081
4.	Servicing of Domestic Debt	7,971,503,000	8,491,255,528	519,752,528
5.	Repayment of Domestic Debt	240,241,482,000	241,996,303,805	1,754,821,805
6.	Staff, Household and Allowances of the President	44,084,000	44,611,000	527,000
7.	Supreme Court	7,905,000	8,277,974	372,974

6.10 The Committee examined the above excesses and recommended that with the exceptions mentioned below they may be got regularized through Excess Budget Statement:—

S. No.	No. & Title of the Grant	Final Grant	Actual Expenditure	Excess
1	2	3	4	5
1.	30—Meteorology	43,819,000	46,126,430	2,307,430
2.	37—Federal Government Education Institutions in Cantonments & Garrisons	101,137,000	105,279,812	4,142,812
3.	53—Plant Protection Measures	26,535,000	54,372,929	27,837,929

1	2	3	4	5
4.	59—Other Expenditure of Food & Agriculture Division	12,746,000	17,176,729	4,430,729
5.	66—Other Expenditure of Health, Special Education and Social Welfare Division	3,196,000	4,867,827	1,671,827
6.	74—Industries	20,981,000	21,018,800	37,800

6.11 The excesses mentioned at S. No. 1 to 4 and 6 were due to belated adjustments of expenditure incurred in the previous year. The excess of Rs. 27,837,929 on Plant Protection Measures included a belated adjustment of Rs. 5,112,652 and as such this amount should be reduced while regularizing the above excess through Excess Budget Statement. Similarly excess of Rs. 1,671,827 in respect of Grant No. 66—Other Expenditure of Health, Special Education and Social Welfare Division included a belated adjustment of Rs. 1,143,216 which should be excluded and only the residual amount should be regularized through Excess Budget Statement. The excesses due to belated adjustments should be dealt with as per Para 6.6.

6.12 The Appropriation Accounts of the Federal Government for 1984-85 exhibited following excesses over authorized grants/appropriations requiring regularization through Excess Budget Statement.

EXCESS OVER AUTHORIZED GRANTS

S. No.	No. & Title of the Grant	Final Grant	Actual Expenditure	Excess
1.	2	3	4	5
CIVIL				
1.	6—Establishment Division	45,860,000	46,343,140	483,140
2.	7—Federal Public Service Commission	12,017,000	12,037,354	20,354
3.	15—Stationery & Printing	96,224,000	98,382,365	2,158,365

1	2	3	4	5
4.	30—Defence Production Division	5,556,000	5,615,141	59,141
5.	31—Meteorology	48,830,000	50,041,758	1,211,758
6.	37—Federal Government Educational Institutions in Cantonment and Garrisons	111,364,000	113,111,389	1,747,389
7.	40—Superannuation Allowances and Pensions	437,847,000	455,008,000	17,161,000
8.	46—Sea Customs	85,054,000	89,558,699	4,504,699
9.	63—Foreign Affairs	437,539,000	463,814,157	26,275,157
10.	72—Civil Works	200,478,000	240,157,882	39,679,882
11.	75—Other Expenditure of Works Division	1,136,000	1,169,215	33,215
12.	83—Information Services Abroad	34,121,000	35,525,536	1,404,536
13.	86—Ministry of Interior	19,943,000	20,133,664	190,664
14.	87—Ishmanabad	80,368,000	85,177,856	4,809,856
15.	88—Passport Organization	28,726,000	28,759,161	33,161
16.	89—Civil Armed Forces	1,062,696,000	1,101,643,409	38,947,409
17.	90—Registration Organization	85,499,000	87,942,910	2,443,910
18.	91—Civil Defence	10,368,000	10,529,682	161,682
19.	92—Federal Investigation Agency	41,516,000	44,821,740	3,305,740
20.	95—Other Expenditure of Labour Division	418,204,000	500,343,572	82,139,572
21.	96—Manpower & Overseas Pakistanis Division	36,642,000	38,352,028	1,710,028
22.	104—Ministry of Petroleum & Natural Resources	9,843,000	10,588,537	745,537
23.	111—Ministry of Religious Affairs & Minorities Affairs	12,145,000	12,624,864	479,864
24.	113—Other Expenditure of M/O. Religious Affairs and Minorities Affairs	29,404,000	31,896,466	2,492,466

1	2	3	4	5
25.	117—Frontier Regions	129,241,000	136,993,669	7,752,466
26.	119—Federally Administered Tribal Areas	159,639,000	172,555,388	12,916,388
27.	120—Other Expenditure of Federally Administered Tribal Areas	248,747,000	276,039,174	27,292,174
28.	124—Kashmir Affairs & Northern Affairs Division	3,971,000	4,208,152	237,152
29.	126—Federal Government Educational Institutions in Northern Areas	39,958,000	41,891,643	1,933,643
30.	130—A Capital Outlay on Purchase of Fertilizer	—	2,150,738	2,150,738
31.	131—Capital Outlay on Miscellaneous Stores	1,587,000	1,798,224	211,224
32.	142—Development Expenditure of Ministry of Communications	726,903,000	790,098,949	63,195,949
33.	144—Development Expenditure of Tourism Division	8,563,000	8,568,719	5,719
34.	161—Development Expenditure of Manpower and Overseas Pakistanis Division	238,224,000	299,302,748	61,078,748
35.	168—Development Expenditure of Federally Administered Tribal Areas	515,000,000	524,753,975	9,753,975
36.	176—Capital Outlay on Communication Works	40,673,000	105,962,013	65,289,013
37.	189—Capital Outlay on Industrial Development	859,188,000	862,188,000	3,000,000
38.	190—Capital Outlay on Pakistan Railways	921,961,000	967,291,000	45,330,000
PAKISTAN POST OFFICE, TELEGRAPH & TELEPHONE				
39.	20—Pakistan Post Office Department	668,687,000	686,003,137	17,316,137
40.	174—Capital Outlay of Pakistan Telegraph & Telephone Department	1,625,800,000	1,775,722,023	149,922,023

1	2	3	4	5
DEFENCE SERVICES				
41.	33—Defence Services	29,593,462,000	29,708,856,904	115,394,904
PAKISTAN RAILWAYS				
42.	110—Pakistan Railways	4,930,368,000	5,044,252,673	113,884,673

EXCESS OVER APPROPRIATION (CHARGED EXPENDITURE)

S. No.	No. & Name of Grant/Appropriation	Final Grant/ Appropriation	Actual Expenditure	Excess
1	2	3	4	5
1.	40—Superannuation Allowances and Pensions	50,938,000	73,805,593	22,867,593
2.	182—Development Loans and Advances by the Federal Government	7,188,271,000	7,432,846,020	244,575,020
3.	Staff Household and Allowances of the President	57,929,000	61,718,631	3,789,631
4.	Servicing of Domestic Debt	9,474,496,000	10,399,265,910	1,421,837,910
PAKISTAN RAILWAYS				
5.	137—Other Capital Expenditure of Pakistan Railways	140,179,000	154,422,000	14,243,000

6.13 The Committee examined the above excesses and recommended that with the exceptions mentioned below, these may be got regularized through Excess Budget Statement:—

S. No.	No. & Title of the Grant	Final Grant	Actual Expenditure	Excess
1	2	3	4	5
1.	15—Stationery & Printing	96,224,000	98,382,365	2,158,365
2.	130—A Capital Outlay on Purchase of Fertilizer	—	2,150,738	2,150,738
3.	190—Capital Outlay on Pakistan Railways	921,961,000	967,291,000	45,330,000

6.14 The excesses mentioned at S. No. 1 and 3 were due to belated adjustments and at S. No. 2 was to be treated as New Service. They should, therefore, be treated as per Committee's recommendation contained in para 6.6.

6.15 In addition to the above, the Auditor-General pointed out in his report that a sum of Rs. 201 million being excess over that shown in the Appropriation Accounts of the Telegraph & Telephone Department, had been incorrectly booked under the Suspense and Remittance Heads of Accounts as on 30-6-1985. The issue was discussed with the Secretary Communication and the observation of the Auditor-General was found quite valid.

The Committee recommended that the excess expenditure so incurred should be got regularized by the Assembly and this old device of understating the actual expenditure against the Grant should be stopped in future.

7. Audit of Nationalized Commercial Banks

7.1 The Public Accounts Committee, in its meeting held on 26-8-1986, while examining the accounts of the Finance Division asked the Secretary concerned as to why the accounts of the Nationalized Commercial Banks were not being audited by the Auditor-General of Pakistan and not being submitted to the Committee, although the Banks were being controlled by the Federal Government.

7.2 The Secretary Finance stated in replay that:—

- (a) the Banks were very sensitive institutions and disclosure of any information about them may be quite harmful for the economy;
- (b) the Government had ensure adequate checks and balances on their operations and as such the audit by the Auditor-General of Pakistan, could not be quite productive; and

- (c) that the Auditor-General did not have the requisite expertise to undertake the job.

7.3 The Auditor-General of Pakistan while disagreeing with the views of the Secretary, Finance Division, stated that while the Executive Government was controlling the operations of the Banks, the Legislature had no means to know whether they were being run efficiently. The only agency which could assist the Legislature in this regard was the Audit. He further stated that the absence of technical know how for audit of Commercial Banks was no impediment as it could be acquired by training or hiring professionals from the market.

7.4 After prolonged discussions, the then Secretary Finance stated that while the Committee was competent to take final decision in the matter, it would be appropriate, if Pakistan Banking Council and the Presidents of the Nationalized Banks were given an opportunity to present their point of view, before a decision was taken by the Committee. The proposal made by the Secretary Finance was accepted by the Committee.

7.5 A meeting was accordingly held at Karachi on 11-2-1987, in which the Secretary Finance Division, Governor State Bank of Pakistan, Chairman Pakistan Banking Council and presidents of Nationalized Banks presented their points of view. A resume of the discussions is placed at Annexure 'A' to this Chapter.

7.6 It was decided in the above meeting that the Pakistan Banking Council and State Bank of Pakistan shall submit their proposals to the Public Accounts Committee through Auditor-General of Pakistan. These proposals have not been received as yet.

7.7 The matter was further discussed in the meeting of the Committee held on 19-7-1987 in which the Secretary Finance Division promised to furnish the views of the Ministry on this issue by end September, 1987. The question has, therefore, been deferred till next meeting of the Committee.

ANNEXURE 'A'

RESUME OF THE DISCUSSIONS HELD ON 'AUDIT OF NATIONALIZED COMMERCIAL BANKS'.

1. Chairman Public Accounts Committee opening the discussions stated that the National Assembly was quite concerned about the working and performance of nationalized banks. the Public Accounts Committee had, therefore, indicated to the administrative Ministry (Ministry of Finance) that it would like the Auditor-General of Pakistan to look into the affairs of nationalized banks, and present his findings to the Committee, so that the apprehensions and misgivings of the members of the Assembly are removed to the extent possible and an unbiased and objective assesment of their working is presented to the National Assembly and the people. Finance Secretary had, however, stated that while the Committee was competent to take a final decision in the matter, it would be appropriate, if Banking Council, and the Presidents of Nationalized bank were given an opportunity to present their point of view in this regard. He stated that they were there to listen to their view point.

2. Chairman, Pakistan Banking Council (PBC) stated that as per available indications the National Assembly as well as the Public Accounts Committee were apparently interested in the writing off of loans (persumably under political pressure) and the level of over-heads. He said that the Anti-corruption Committee recently constituted by the Prime Minsiter and headed by Retd. Maj. Gen. Abdul Majeed, MNA also seemed to be interested in this aspect.

3. He explained that sanctioning of loans and conversion of a nominal part of these loans into bad loans was a normal feature of banking business all over the world. In Pakistan, the Nationalized Banks had taken adequate measures to ensure that the powers to write off loans were exercised judiciously and carefully. For this purpose, the State bank of Pakistan had decided that all loans beyond Rs. 25,000 should only be written off after due processing by the Banking Council and has issued detailed guidelines or standards to deal with such cases. As a result the performance of Pakistani nationalized banks in this regard, was much better than many countries of the world. the apprehension that the

Nationalized Banks were writing off loans without genuine grounds and proper scrutiny was therefore not well founded.

4. He suggested that if the Legislature was not satisfied with the existing procedure it can direct that all such cases which come to the notice of any Member of the National Assembly and where he feels doubtful of the genuineness of the decision, they can be referred to the Governor, State Bank of Pakistan for his personal review.

5. Finance Secretary on a question raised by Chairman Public Accounts Committee stated that the confidentiality in relationship with the clients was the most important feature of the banking business. As such, when ever an information was desired by the National Assembly, through an Assembly Question, pertaining to nationalized commercial banks, it was provided in aggregate terms and names of the individual parties were not disclosed. He further stated that there was no doubt that government was the owner of Nationalized Banks and as such it could always look into whether procedures being followed by these banks were adequate or they needed improvement. He said that there were already a number of tiers of auditing in the banks ; namely internal audit, Chartered Accountants audit, Banking Council's audit and State Bank Audit. In all technical matters the State Bank of Pakistan was keeping a close eye on the Nationalized Banks with the assistance of Banking Council and as such the audit by the Auditor-General was not going to be of any positive help.

6. Sardar Aseff Ahmad Ali, MNA, on this occasion stated that the perception of Nationalized Banking in the country was not satisfactory, which was being aggravated by press reports. The National Assembly was not satisfied with the Working of Banks. He said that there was no doubt that there were already 4 audits being carried out but none of them represented the National Assembly. As such there were only two alternatives available to Nationalized Banks: either to accept the audit of the Auditor-General of Pakistan so that the Parliament is in a position to know as to what are the actual prevailing conditions or to take protection under the legal cover, in which case the Parliament will have to consider the whole issue to find out as to what measures were needed to ensure accountability in the nationalized commercial banks.

7. Chairman PBC, stated that the basic question was to what extent the Government should monitor nationalized banks. He said that when the banks were nationalized in 1974, the Government had very clearly stated that they would continue to be run on commercial basis as in the pre-nationalization days. This view was further confirmed by President Gen. Mohammad Zia-ul-Haq and Dr. Mahboob-ul-Haq on a number of occasions. He said that the working of banks was entirely different from the working of the government and rightly so as the two organizations had different premises. If therefore, it was accepted that the Banks would under go auditing by the Auditor-General of Pakistan, it was going to create many complications and would adversely affect the decision making in nationalised banks.

8. Governor, State Bank of Pakistan said that confidentiality and secrecy between Banks and their clients was a generally accepted principle of commercial banking. The only exceptions were when an information was needed by tax authorities or there was an embezzlement and it was in the interest of the bank to do so or where it was in public interest. this principle was duly protected at the time of nationalization of commercial banks vide section 12 of Banks Nationalization Act 1974. He said that the basic limitation of Government Audit was that it would not be in a position to evaluate between the business risks and the rules and would adversely affect the banking business. He said that the audit believed in disclosures of information. It concentrated on defects and shortcomings and as such only one side of the picture of auditee organizations would emerge. The nationalized banks were already facing tough competition in the money market because of foreign banks and the private unauthorized banking. It was therefore important to fully evaluate whether disclosure of information in banking sector was going to do more harm to these institutions than the gains being expected out of it.

9. He suggested that there can be a number of ways in which accountability of commercial banks could be enforced, *i.e.*

- (a) It can be examined whether the Banks (Nationalization) Act, 1974 was adequate or it required further improvements;

- (b) Performance Reports of the commercial banks can be submitted to a Banking Committee of the National Assembly and not to the Public Accounts Committee;
- (c) If the Performance Reports are to be discussed publically, State Bank of Pakistan can prepare these reports. The Auditor-General need not be inducted into it.

10. The Auditor-General when called upon to express his views, said that he was attending the meeting merely as an observer and had already given his views in detail in the Public Accounts Committee's meeting. He also said that he was afraid that object of enforcing accountability would not be achieved through the suggestions made by the Governor State Bank of Pakistan. The role of the Auditor-General had been defined in the Constitution and as such he was the link between the legislature and the executive for purposes of accountability. He said that no accountability process can be considered to have been completed unless it was done through an independent agency. The scope of audit could be determined and varied by the legislature or the Auditor-General but no agency established by the government was free from accountability processes provided in the Constitution.

11. On a question raised by Chairman, Public Accounts Committee, Governor, State bank of Pakistan stated that the decision of nationalizing commercial banks was primarily based on political considerations and not on economic considerations, although one of the commercial banks at that time, had already gone bankrupt while another was at the verge of collapse. He said that the banking was the most sensitive sector of the economy. Their main function was the mobilization and transfer of resources, which was not possible unless the depositors had complete faith in these institutions and were sure that their money would not go down the drain. Any dent in the faith of the depositors could play havoc in the money market. He therefore suggested that the legislature should not under-estimate the principles of confidentiality and sensitivity while emphasizing on the accountability.

12. Secretary, Finance Division while supporting the contention of Governor State bank of Pakistan, said that the whole issue should be examined in broader public interest as an open debate on the performance of nationalized banks and the over-emphasis on their weaknesses may not be in the over-all interest of the economy.

13. The Auditor-General said that his report was prepared on the principles of anonymity and specific references were generally avoided. Besides the Public Accounts Committee or the legislature can also decide for a camera proceedings, which was already being resorted to in number of sensitive cases. He said that the audit should be considered as a support for improved performance and not an adversary of banking sector.

14. Chairman, Banking Council at this stage stated that Auditor-General had no expertise for auditing the banks viz-a-viz the State bank of Pakistan and that Auditor-General of Pakistan had no specific powers under any law to audit nationalized commercial banks. Mr. Riyaz H. Bokhari disagreed with Mr. M. R. Khan and stated that under the Constitution it was the duty of the Auditor-General to audit all the bodies established by the Federal Government and that all the concerns that have been nationalized including the commercial banks were treated to have been established by the Federal Government. As such the observations made by the Chairman Banking Council were not well founded.

15. Summing up the discussions, Chairman Public Accounts Committee said that PAC was trying to protect commercial banks from unjustified criticism. It was therefore in the interest of nationalized banks to cooperate with the committee and accept the concept of accountability of their performance. This would enable the legislature to objectively evaluate performance of the nationalized banks and thereby communicate to the people that their continued faith in the banking sector was not unfounded. He said that the elected Assembly of the people had no intentions to destroy any institution rather it wanted to give them due protection for healthy growth. It would not however be able to play a constructive role under the present circumstances where there was a communication barrier between the two.

16. The Governor State Bank and the Chairman Pakistan Banking Council suggested that they might be allowed extra time to have a rethinking on the issue and come up with alternative proposals which should be acceptable to both the banks and the Public Accounts Committee. The meeting agreed that a proposal along these lines would be prepared by Governor State Bank of Pakistan and the Chairman

Banking Council and would be submitted to the Public Accounts Committee through Auditor-General of Pakistan.

8. SPECIFIC ISSUES AND IRREGULARITIES

8.1 A brief resume of specific issues and irregularities notices by the Committee as a result of discussions on the report of the Auditor-General of Pakistan as well as the directions of the Committee, are recorded in subsequent paragraphs.

8.2 Reconciliation of Accounts

It was noticed by the Committee that the accounts of expenditure against certain Grants and Appropriations of the Finance Division, as compiled by the Accountant-General, had not been reconciled and confirmed by the administrative division. The position in respect of Appropriations for repayment and servicing of domestic debt was highly unsatisfactory, especially for the years 1983-84 and 1984-85 as the variations between the Departmental and Audit figures ran into billions. The Committee asked the AGPR and the representative of the Ministry of Finance to reconcile the figures within one month. Although the figures have not been reconciled fully yet the differences have been substantially minimized.

8.3 The accounts of any organization are not worthwhile if they are not accurate and reliable. The Committee has, therefore, advised the Auditor-General and all the principal Accounting Officers to ensure that the actuals against all the Grants and Appropriations should be confirmed by them before the Appropriation Accounts for a year are compiled.

8.4 Reserve Funds

Finance Division has been asked to examine whether it was necessary to maintain 'Reserve Funds' pertaining to organizations like Railways & T&T and why the amounts against this notional resources cannot be considered to have been adjusted against the cash releases by the Finance Division. It should also be examined whether a simpler accounting was possible in these cases.

8.5 Foreign and Domestic Debt Liability

The Committee has asked the Finance Division to provide complete details of Foreign and Domestic Debt, the projects on which they have been utilized and the cost of servicing of the Loans *viz-a-viz* the accrued income from the projects. This was necessary to examine as to how far the Foreign and Domestic Loans have been used for the purposes for which they were raised and were cost-effective.

8.6 Collection & Utilization of Zakat

An important resource which is being collected and distributed through the Government but is not the part of the Government Budget is Zakat and Usher.

The Committee asked the Finance Division if they had carried out an exercise to determine whether the money so collected was effectively used for the purposes for which it was intended. Secretary Finance informed the Committee that an Experts Committee was looking into the whole issue and was likely to submit its findings in the near future.

8.7 The Committee was, however, not satisfied with the overall utilization of Zakat and Usher and felt that this was perhaps an area which needed more attention. The Committee, therefore, asked the Auditor-General to carry out a sample study of the utilization of Zakat and Usher funds. The Auditor-General was also requested to furnish a report on the performance of Zakat Foundation.

8.8 Qarz-i-Hasna to students

The Committee directed that the grant of interest free loans to the students through Commercial Banks should not be treated as classified information. A list of all those receiving Qarz-i-Hasna for studying abroad should be published in newspapers in future so that there are no complaints of favouritism.

8.9 National Savings Organization

The Committee asked the Finance Division to prepare a report on the performance of National Savings Organization and its role in promotion of Savings in the country.

8.10 Pension Liability

The Committee decided that the Finance Division should carry out an exercise on the pension liability of Government Servants to determine as to how much of its resources were likely to be committed on this account in future.

8.11 Rearrangement of Budget Documents

The Committee asked the Finance Division to review the existing budget documents in consultation with the Auditor-General to remove any inadequacies and inconsistencies.

8.12 Embezzlement of Rs. 321,150 due to fictitious loan payments and unauthorized drawal of pay and allowances by staff.

In a branch of Agricultural Development Bank of Pakistan, the Branch Manager and his staff embezzled funds amounting to Rs. 472,640 by way of advancing fictitious loans (Rs. 320,750) and withdrawing unauthorized pay and allowances for themselves (Rs. 41,890) and misappropriating cash (Rs. 110,000). The case of fraudulent withdrawal of cash is subjudice in Civil Court.

According to the Ministry, all the four employees involved were later dismissed and criminal case registered against them. The entire staff of the Branch committed this fraud jointly by misusing the instruments for normal banking operations.

The Committee directed that a note should be submitted to the PAC about embezzlement having taken place in Nationalized Banks during the last two or three years and the remedial measures adopted or proposed to be adopted to check this menace.

8.13 House Building Finance Corporation

Working results

Audit had pointed out that net profit of the Corporation for the year 1980-81 decreased to Rs. 8.84 million as compared to over Rs. 28 million in 1979-80.

The Committee, after discussion, issued following directives:—

- (i) House Building Finance Corporation should start building up reserves, to be able to write off bad debts;
- (ii) A complete review should be carried by the Corporation about its financial position, reserves, etc., and a note furnished to the PAC.

8.14 Infructuous expenditure of Rs. 8.43 million on defective piling work of the foundation fo HBFC House, Islamabad

The work of a building for pile work in foundation which was supervised by Consultants on whose certificates payments were made to the contractors, was found defective. The Corporation spent Rs. 8.43 million on the structure of the building which ultimately proved infructuous. A case against the contractor was pending in a Court of Law.

The Department accepted the irregularity and intimated that PEPAC (a Government Organization) were consultants in this case who were asked subsequently to redesign the whole building.

The Committee directed that an enquiry may be held by the Ministry of Finance in association with Audit to fix responsibility for the loss and submitted to the Committee.

8.15 Non-recovery of liquidated Damages from contractors Rs. 20.9 million

HBFC awarded a contract for Rs. 76 million for construction of 312 houses in Lahore for Overseas Pakistanis in 1979. Not a single completed house was handed over by October, 1984 though the whole project was to be completed by December, 1982. Liquidated damages were also not recovered from the contractor.

The Committee ordered an enquiry into all relevant aspects of the construction of these houses.

8.16 Non-recovery of Flood Loans

The Committee noticed that in 1973, small loans were advanced by the Corporation for repair of houses to the flood affected people in 1973 at the instance of the Federal Government. These loans have not been recovered so far and appear as a liability in the books of the Corporation. The Committee asked the Finance Division to examine as to why these loans should not be written off.

INVESTMENT CORPORATION OF PAKISTAN

8.17 Non-recovery of over-dues

Outstanding Loans of the Corporation increased from Rs. 177 million in 1981-82 to Rs. 310 million in 1983-84, reflecting a deteriorating position of recovery. The Committee ordered an enquiry into the overdue loans as well as the written off loans of Rs. 6 million.

8.18 Industrial Development Bank of Pakistan

The Committee decided that a team of officers from Finance Division, Planning Commission and Audit should conduct a study of Loans sanctioned by the industrial Development Bank of Pakistan from 1984 onwards to assess if the Bank was following a sound investment policy.

8.19 Small business Finance Corporation

The Committee directed that a team of officers of Finance Division, Planning Commission and Audit should evaluate the performance of the Small business Finance Corporation and suggest how the institution can be made more effective.

ANNEXURE B
PROCEEDINGS
OF
PUBLIC ACCOUNTS COMMITTEE
(1981-82 to 1984-85)
FINANCE DIVISION

FEDERAL COUNCIL SECRETARIAT*Wednesday, the 9th January, 1985***Fourteenth Sitting (PAC)**

*2262. The Public Accounts Committee assembled at 0900 a.m. in the State Bank Building, Islamabad, to continue examination of the Federal Accounts for 1981-82. The following were present:—

P. A. C.

1. Mr. Masarrat Hussain Zuberi, Former *Member*
Secretary to the Government of Pakistan (*Acting*
Chairman)
2. Akhunzada Bahrawar Saeed, *Member*, *Member*
Federal Council
3. Mir Jam Ghulam Qadir Khan of Lasbela, *Member*
Member, Federal Council.....
4. Mr. Abdul Qadir, Former *Chairman*, *Member*
Railway Board.....
5. Mr. Yusuf Bhai Mian, Chartered Accountant *Member*

Federal Council Secretariat

1. Mr. M. A. Haq, Secretary
2. Ch. Abdul Qadir, Joint Secretary
3. Mr. Muhammad Aslam, Deputy Secretary
4. Syed Muhammad Ahmad, Assistant Secretary

Audit

1. Mr. Riaz H. Bokhari, Auditor-General of Pakistan
2. Mrs. Suraiya Hafeez, Deputy Auditor-General (CA)

*Paragraphs prior to 2262 pertain to other Ministries/Divisions.

3. Mr. S. I. Shabbir, Deputy Auditor-General (Co-ord)
4. Mr. Khalid Rafique, Deputy Auditor-General (A&R)
5. Mr. M. A. Lodhi, Accountant General, Pakisan Revenues
6. Mrs. S. N. Sheikh, Director General, Commercial Audit
7. Mr. Iftikhar Ali Khan Raja, Director General Audit & Accounts Works, Lahore
8. Mr. S. Jamilur Rehman, Director of Audit, Industries, Supply & Food, Karachi
9. Ch. Muhammad Ilyas, Director Revenue Receipt Audit, Lahore

FINANCE DIVISION

2314. The Committee next took up for its examination, the Appropriation Accounts etc., pertaining to the Finance Division. The following departmental representatives were present:—

- (1) Mr. H. U. Beg, Secretary.
- (2) Mr. Qamaruddin Siddiqi, Additional Secretary.
- (3) Mr. K. N. Cheema, Joint Secretary.
- (4) Mr. Shamim Ahmed Khan, Joint Secretary.
- (5) Mr. Saeedullah, Joint Secretary.
- (6) Mr. Makhdum Hussain Chaudhry, Joint Secretary.
- (7) Raja Raza Arshad, Deputy Secretary.
- (8) Mr. Jamil Nishtar, Chairman (ADBP).
- (9) Mr. Azam Ali, M.D. (HBFC).
- (10) Mr. Muhammad Aslam, M.D. (Federal Bank for Co-operatives).
- (11) Mr. Mushtaq Ahmed Qureshi, Chief Director (CDNS).
- (12) Mr. S. M. Shaukat, Master of Mint, Lahore.

2315. This Division controlled the following grants:—

S.No.	Name of Grant	Grant No.
1.	Finance Division.....	38
2.	Pakistan Mint.....	39
3.	Superannuation Allowances Pensions.....	40
4.	National Savings.....	41
5.	Other Expenditure of Finance Division.....	42
6.	Grants-in-Aid & Miscellaneous Adjustment between the Federal and Provincial Government.....	43
7.	Grants and Subsidies to Non-financial Institutions.....	44
8.	Capital Outlay on Pensions.....	133-A
9.	Federal Miscellaneous Investments.....	134
10.	Other Loans & Advances by the Federal Government.....	135
11.	Development Expenditure of Finance Division.....	148
12.	Capital Outlay on Mint.....	178
13.	Miscellaneous Capital Investments.....	179
14.	Development Loans & Advances by the Federal Government.....	180

2316. At the outset, some general points were discussed by the Committee with the Secretary. Finance Division and the conclusions reached were as follows:—

- (i) *The Committee endorsed the suggestion that the last date for surrender of Savings and grant of Supplementary Demands may be the 30th June, as sometimes Supplementary Grants may be authenticated by the President on the 30th June.*
- (ii) *Economic Cuts and Supplementary Grants should be better coordinated so that excesses under the grants are minimised.*
- (iii) *The question of consolidation render in one grant loans and funds for investment in Companies, etc., now disbursed under different heads, should be examined and the possibility of consolidating themn in the Finance Accounts should be considered so that there is an up-to-date consolidated list always available for ready reference.*

2317. *Reconciliation of Accounts with Audit.*— It was noted that the reconciliation of the accounts to 30th June, 1984 was complete and that subsequent reconciliation work was in process. *The Division was directed*

to expedite subsequent reconciliation and see that monthly accounts were promptly reconciled.

APPROPRIATION ACCOUNTS

2318. *Grant No. 38—Finance Division (Pages 372—374-AA).*—The saving being well within the limit of 5 per cent, no observation was made by the Committee.

2319. *Grant No. 42—Other Expenditure of Finance Division (Pages 378—386-AA).*—The Division explained that the Supplementary Grant of Rs. 100,001,000 have been obtained for making contribution of Rs. 100 million to National Zakat Foundation and that of Rs. 1,000 was a token provision for opening a new budget head. The explanation of the Division in respect of the surrender of Rs. 102,895,000 was accepted by the Committee. As regards the saving of Rs. 26,158 it being less than 5 per cent of the grant, no explanation was required. No further observation was made by the Committee in respect of this grant.

2320. *Grant No. 148—Development Expenditure of Finance Division (Page 388—390-AA).*—The Appropriation Accounts show an excess of Rs. 128,760,050 over the final grant of Rs. 1,121,785,000. It was explained by the Division that the entire excess represented belated adjustment of debits relating to the years 1974-75 and 1978-79. Rs. 24,600,000 had not been booked during 1974-75 and 104,160,000 was wrongly booked under other heads of Account by AGPR, Sub-Office, Peshawar. There was no variation in the Accounts otherwise. Audit confirmed the belated adjustments carried out on the directives of the Public Accounts Committee. In view of the position stated above, the Committee did not make any observation on this grant.

2321. *Grant No. 40—Superannuation Allowances and Pensions (Pages 392-393-AA).*—The accounts showed an excess of Rs. 1,459,725 against the final grant of Rs. 883,000 "Charged" and another excess of Rs. 193,073,865 under "Other than Charged" grant. It was explained by the Division that the position of Superannuation Demand was that the various Accounts Offices were the estimating and disbursing authorities for Pensionary Charges. They maintain the accounts and keep requisite

data and as such the Accounts Offices were responsible for the accuracy of the figures booked by them in their circles of account. Whatever figures were booked by the Accounts Offices, the Finance Division accepted them.

2322. Replying to an observation made by the Committee, the Secretary said that the Division used to have a budget of Rs. 44 million in 1975-76 and the actual was Rs. 61 million. In 1976-77, against a budget of Rs. 50 million the excess was Rs. 83 million and the excess in 1981-82 was of the order of Rs. 196 million. In the year 1983-84, the Division budgeted for Rs. 373 million and the expenditure was Rs. 363 million. There was a saving of Rs. 10 million. The above explanation was accepted by the Committee and no further observation was made.

2323. *Grant No. 133—A Capital Outlay on Pension (Page 394-AA).*—No budget provision had been shown under the grant but an estimated recovery of Rs. 239,000 was anticipated. The Division explained that nil recovery was due to the fact that as recommended by the Committee the system of writing back of the Commuted Value of Pension from Capital to Revenue head had been dispensed with, and the full amount written off. Hence no budget provision for recovery should have made. Thereupon a member of the Committee observed that there was no longer any need for the grant or the recovery practice should be discontinued in future. No further observation was made by the Committee.

2324. *Grant No. 41—National Savings (Pages 396—400-AA).*—The Accounts exhibited a net excess of Rs. 1,622,287. It was explained by the Division that Audit had booked reconciled expenditure as Rs. 27,686,287 instead of Rs. 27,014,871. Thus there was an excess of Rs. 6671,416 which was the amount of Debt Servicing wrongly booked by the AGPR, Karachi in the reconciled expenditure of Karachi Region when the work of reconciliation had already been concluded by the RAO concerned. Audit stated that there was a difference in final grant as the Division showed supplementary grant of Rs. 2,173,500 whereas Rs. 1,000,000 shown by Audit which was appearing in the printed book. Audit maintained that its figure of Actuals was correct according to classification given on the vouchers. The correction now mentioned was

not pointed out at the time of reconciliation. The letters mentioned in the reply of the Division were received after finalization of the accounts.

2325. In view of the position stated above, *the Committee directed that the accounts should be reconciled with Audit afresh.*

2326. *Grant No. 39 Pakistan Mint (Pages 402—404-AA).*—In view of the explanation of the Division for the excess of Rs. 15,234 shown in the Accounts and the Audit comments on the explanation the Committee decided that the explanation should be checked by Audit and settled with the Division. If deemed, necessary Audit may come back to the PAC.

2327. *Grant No. 178—Capital Outlay on Mint (Page 406-407-AA).*—The Committee did not make any observation on this grant.

2328. *Grant No. 43—Grants-in-Aid and Miscellaneous Adjustments between the Federal and Provincial Governments (Pages 408-409-AA).*—The Appropriation Accounts show a net excess of Rs. 1,026,985 over the final grant of Rs. 1,141,516 under other than charged. After examining the explanation of the Division and the Audit comments thereon, the Committee did not make any observation because the figures indicated in the reply of the department are to be verified by Audit.

2329. *Grant No. 134—Federal Miscellaneous Investment (Pages 412—415-AA).*—The saving of Rs. 4,675 on a final grant of Rs. 597,970,000 is well within the permissible limit of 5 per cent.

2330. On an enquiry as to why the supplementary grant was as large as 5 times the original grant, the Division explained that it was obtained to provide government's Equity Investment to meet the Operational shortfall in Pakistan Railways (Rs. 478,930,000) and increase in the Equity of National Construction Company Limited. (Rs. 11,200,000), and that these requirements become known after the budget provision had been made.

2331. The Division further stated that the need for the provision had arisen as a result of the recommendation of the Kazi Committee that

the Railway loss which was previously carried in the Railway books should now be financed by government's investment in the Railways.

2332. A member of the Committee enquired as to the nature of actual expenditure of Rs. 107,700 shown under Object "721—Financial Institutions Investment in the Nationalized Banks". The Division replied that it represented encashment of Nationalized Bank Bonds.

2333. *Grant No. 179—Miscellaneous Capital Investments (Pages 416—418-AA).*—The saving of Rs. 899,628 being 0.64 per cent of the grant no explanation was required. Audit however, pointed out that no reasons had been recorded in the Surrender Orders for the surrender of Rs. 35,400,000, Rs. 84,017,000 and Rs. 11,319,000 provided in the original grant for Investment in the Share Capital of Agricultural Development Bank of Pakistan and Pakistan Security Printing Corporation and to provide equity cover for non-viable projects of PTV Corporation respectively. A member of the Committee asked for the difference between the two types of investment. The departmental representative explained that as the PTV Corporation was showing losses all the time and the department felt that it was a Non-viable Corporation equity contribution was made to cover the losses. The member enquired as to why such losses could be covered by out right grants to write them off. The departmental representative assured the Committee that he would look into the matter. As for the surrender of the amounts, *the Committee directed the departmental representative to furnish the reasons thereof to Audit.*

2334. *Grant No. 135—Other Loans and Advances by the Federal Government (Pages 420—423-AA).*—As reported in the Appropriation Accounts the saving of Rs. 10,000,000 against the final Grant of Rs. 610,000 under "Charged" represented a debit for the year 1979-80 recovered by the AGPR in 1981-82. As regards the saving of Rs. 27,721,554 under the "Other than Charged" grant, the Division stated that AGPR Karachi had reversed a debit of Rs. 20 million booked under the head loans to non-financial Institutions during 1979-80. In that year a loan of Rs. 20 million was sanctioned to Government of Sind for purchase of 100 Refuse Removal Vans for KMC. The loan was twice by Audit under the function '731—To Province' as well as under '734—To Non-Financial Institutions.

2335. *After discussion, the Committee directed that a list of Non-Financial Institutions to whom loans are given to furnished every year.*

2336. *Grant No. 180—Development Loans and Advances by the Federal Government (Pages 424—433-AA).—The Accounts showed a net saving of Rs. 2,345,891,971 against the final Rs. 3,747,043,000 charge grant of Rs. 1,618,086,461 and another net saving of against the 'Other than Charged' grant of Rs. 1,436,249,000, the former saving includes a sum of Rs. 5,390,380 under function head '731—To Provinces Loans out of Internal Resources. The Division explained that the saving was a result of providing twice in the grant for the loan to be given to the Government of Punjab for rehabilitation of hawkers in Rawalpindi.*

2337. The net saving of Rs. 1,618,086,461, under other than charged includes a gross saving of Rs. 2,304,501,591 against 'Loans out of External Resources—Loans for Provincial ADPS. It was explained by the Division that against the final grant of Rs. 295,035,000 against this had actual disbursement was Rs. 61,852,778 only, and the actual saving was of Rs. 233,182,222 due to smaller disbursement of foreign loans for Provincial project. However, during the year Pakistan was relieved of a debt liability of Rs. 2,107,319,369 relating to projects located in Bangladesh. This reduction in liability had been carried out by the AGPR as minus entry under this head which had converted the expenditure of Rs. 61,852,778, into a minus figure of Rs. 2,045,466,591, on the one hand and increased the savings from Rs. 233,182,222 to Rs. 2,340,501,591, on the other.

2338. A member of the Committee observed the reduction in debt liability relating to projects located in Bangladesh, must have been recorded in the books of the Finance Division. The departmental representative replied that whatever outstanding amount was transferred to Bangladesh, the Division had reduced it in their books.

2339. *Function head '732—To Local Bodies (Other than Charged) Loans out of Internal Resources' (Page 424-AA).—After examining the list of organization printed in the Appropriation Accounts and the information given by the Ministry and the Audit comments thereon, the*

Committee took the following decision :—

‘Whenever government provides money to or has a direct or indirect financial interest in or creates for itself any current or direct or indirect contingent liability in respect of any organisation or entity corporate the Accounts of such an organisation should normally come to the P.A.C. The Finance Division may, therefore, obtain and furnish the requisite number of copies of the Accounts of all such organisations and entities, e.g.—Fauji, Shaheen, Bahria, and Police foundations, PICIC, IDBP, KPT, KESC, Nationalised Banks, NDFC, Bankers equity to the Auditor-General, for submission to and review by the Committee.

2340. *Object ‘739—Others—Loans to Needy Students’ (Page 432-AA).*—The Accounts show an expenditure of Rs. 5,191,360 under this Object, against an original grant of Rs. 2,000,000 and final grant of zero. Audit stated that the entire expenditure was booked at Lahore, and appeared to be incorrect. This would be looked into and correction made. The departmental representative assured the Committee that they would look into the matter and would inform Audit of the correct position.

2341. *Interest on Domestic Debt: 711—Permanent Debt (Pages 442—444-AA).*—The department explained that the excess of Rs. 485,211,204 shown in the Appropriation Accounts was due to the fact that the interest due on the subscription of banks towards 11-3/4 per cent Loan—2001 amounting to Rs. 7953 million was not fully budgeted as the acceptance of full subscription by the banks towards this loan was decided after the budget provision had been made. Interest was calculated on 50 per cent of the total holdings of Commercial Banks. No explanation was, however, given as to why no supplementary grant was obtained.

2342. *Interest on domestic Debt 711—613—Floating Debt—(Page 442-AA).*—As regards the saving of Rs. 108,106,436 shown against this object in the Appropriation Accounts, the Division stated that the actual expenditure was Rs. 831,523,564. Whereas Audit had shown it as Rs. 753,947,564, and the saving was of Rs. 30,530,436 only the difference being due to non-booking by the A.G.P.R., Lahore office of the interest on account of floating debt, which as advised by the State Bank of

Pakistan, Lahore amounted to Rs. 77.576 million on the short-term borrowing under Treasury Bills on Tap and Government Treasury Deposit Receipts. Audit asked Finance to inform them as to when their attention was drawn to the non-booking of Rs. 77.576 million, particularly as no reconciliation had been carried out.

2343. *Interest on Demestic Debt: '711—614—Unfunded Debt' (Page 442-AA).*—The Division explained that there was an excess of Rs. 764,157,498 and not Rs. 580,857,536 as appears in the Appropriation Accounts. The actuals as reported by the various offices had come to Rs. 1,636,103,498, and not Rs. 1,452,803,536 as recorded by Audit on enquiry the Division stated that unfunded debt consists of (i) Small Savings Scheme including Postal Life Insurance Fund and (ii) State Provident Funds. Audit reported that its figures had been obtained from circles and Offices, to supply office-wise and circle-wise details alongwith full particulars of payments etc. for the reconciliation of the differences.

2344. *The Committee was not satisfied with the explanation of the Division or Audit and directed the departmental representative to look into it and supply details as requested by Audit and reconcile the expenditure with Audit, and report to the Committee.*

2345. *Interest on Domestic Debt: 711—616—Other Payments (Page 442-AA).*—The accounts exhibited an excess of Rs. 96,119,342 over a provision of Rs. 21,565,000, on enquiry the Division stated that the entry for this debit which was for interest on reserve funds originated in A.G.P.R. office and that information had not been given to Finance in time by Audit, after discussion, the Committee took the following decisions :—

- (i) *It may be examined whether it was necessary to maintain Reserve Funds pertaining to organisation like Railways and T&T. The amounts against their national Reserves may be considered to be adjusted by the Finance Division against releases.*
- (ii) *Finance may also propose lists of all Reserve Funds, floating loans etc. under different heads of Accounts and then discuss them with Committee. It may also be examined whether*

simpler accounting would be possible by showing any net increases or decreases at the end of each year.

2346. *Interest on Foreign Debt: '713—612—Foreign Debt' (Page 446-AA).*—The Committee after examining the explanation given by the Division for the saving of Rs. 9,867,069 under this head observed that it was unsatisfactory and required elaboration. A member of the Committee suggested that it may be worth government's while for Finance to have a paper proposed which would give full details of all the figures in regard to the Foreign Debt. The information should be both in currencies of repayment and rupees. *The Committee desired that the Finance Secretary should look into the matter.*

2347. *Repayment of Domestic Debt: '715—871—Permanent Debt' (Page 448-AA).*—The Appropriation Accounts show an excess of Rs. 385,594,731 with actual expenditure of Rs. 2,428,703,731. The Division maintained that the actual expenditure as reported by State Bank of Pakistan and the Central Directorate of National Savings was Rs. 1,232,558,050, only giving an excess of Rs. 189,449,050. This excess expenditure was due to higher encashment of National Prize Bonds. After the introduction of Prize Bonds of high denomination volume of Receipts and Encashments showed tremendous increase on the subject written by the Division to Audit was read out by the Secretary, Ministry of Finance which was to be delivered to the Audit with a copy to the Federal Council Secretariat. *The Committee directed that Audit and the Division should reconcile the figures of actual expenditure.*

2348. *Floating Debt—Treasury Bills (Page 448-AA).*—The department explained that the excess of Rs. 1,391,686,561, shown in the Appropriation Accounts, was a little over 1 per cent of the final Appropriation and so was within reasonable limits, and it was difficult to arrive at more accurate estimating. The attention of the Finance Secretary was drawn to the reappropriation from the head to the other floating loans. The amount transferred from the former to the latter was excessive for both heads.

2349. *The Committee directed the Division to prepare a paper giving details of all floating debt borrowings, including case credits, loans etc. and the variations in a given year and furnish to. Audit and than to PAC.*

2350. *Un-authorized Payment of Rs. 840,740 on conveyance Allowances (Para 3, Page 91-AR).*—Some employees of the Pakistan Mint residing within the work premises office-cum-residence were paid conveyance allowance since May, 1977. Audit reported that this infringement of Finance Divisions Office Memo N.F. (1)-Imp-1/77, dated 26th April, 1977 resulted in overpayment of Rs. 840,740 till June, 1980. The unauthorised payments have not been stopped nor any recoveries made the Divisions did not agree that the employees were not residing within the work premises. According to them the employees did not live within the work area guarded by the Punjab Police and wherein entry was allowed only to the authorised persons on proper identification. Such work area is inaccessible to the Mint employees after working hours and during holidays and remains entirely under the charge of the Police. Audit draw attention to clarification issued by Finance Division on 16th December, 1979 which was as produced below :—

‘The term ‘work premises’ for the purpose of grant of conveyance allowance means such premises as are used as office-cum-residence and also those where office and residence either adjoin each other or are within the precinct of the main office building. Audit further pointed out that in view of this clear ruling, payment of conveyance allowance by sub-ordinate formation of Finance Division was not understandable. The payment was continued till the end of 1984, and the whole amount should be recovered.

2351. The departmental representative further explained to the Committee that it had remained under consideration whether the conveyance allowance was an additional salary or should be treated as compensation for actual expenses. It was indirect increase in the salary. As far as the ‘Work Premises’ were concerned, the Government had taken a stand that there must be some distinction. The employees who were living in the same premises they should not be given the allowance and only those who live outside the premises be allowed to get it.

2352. *After hearing from the departmental representative the Committee decided that as audit had a valid point for consideration, the department should look into it and try to satisfy the Audit on this point.*

2353. *Non-Recovery of Overpayment of Rs. 31,225 (Para 4, page 91-AR).*—The Committee decided to drop the paragraph on the recommendation of Audit.

2354. *Doubtful Expenditure of Rs. 29,493 (Para 5, page 92-AR).*—The Committee decided to drop the paragraph subject to verification by Audit.

2355. *T.A. Advances not adjusted—Rs. 187,343 (Para 6, Page 92-AR).*—As the explanation of the Division was acceptable, the paragraph was treated as settled subject to verification finalization by Audit.

2356. *Outstanding Audit and Inspection Reports [Para 1, Sl. No. (5) (i) to (v), page 280-AR].*—Audit informed the Committee that annotated replies to the five Audit and Inspection Reports had been received on 6th January, 1985. But Finance Division had taken 2 to 4 years to furnish the first replies to the five Reports. The paragraph was therefore, dropped subject to the satisfaction of Audit.

2357. *Delay in Processing of G.P. Fund cases (Para 2, pages 281—283, Sl. No. 19—21-AR).*—Audit had reported that three cases of G.P. Fund were pending in the Finance Division (Military), Rawalpindi. The departmental representative replied that a Cell had been opened for the finalization of the pending cases of G.P. Fund. *The Committee desired that Finance improve the method of handling and that the cases should be finalized as early as possible and also further stressed that departmental representative should look into it.*

COMMERCIAL ACCOUNTS

2358. *Examination of Accountns relating to the Institutions Controlled by the Ministry of Finance [Para 3(xi) to (xv), page 6-ARCA].*—Audit had reported that the accounts for 1981-82 pertaining to the following Institutions had not been examined as they had declined to entertain Government Audit, except House Building Finance Corporation whose accounts were not made available upto February, 1983 :—

(i) Equity Participation Fund.

- (ii) House Building Finance Corporation.
- (iii) Investment Corporation of Pakistan.
- (iv) National Development Finance Corporation.
- (v) National Investment Trust.

2359. The Division had intimated that necessary instructions had been issued to all the above institutions about audit of Accounts. The paragraph was treated as settled.

2360. *Delay in the Disposal of Audit/Inspection Reports (Para 48, pages 46-47-ARCA).*—Audit stated in their comments that the details asked for by the Division in their reply were being provided to them, and the cases were being processed, the Committee decided to drop the paragraph subject to the satisfaction of Audit.

Agricultural Development Bank of Pakistan

2361. *(Para 144, page 90-ARCA).*—Audit had reported that the operational expenses of the Bank increased from Rs. 269.414 million during the year 1980-81 to Rs. 314-397 million in 1981-82 mainly due to abnormal increase in certain establishment expenses. The explanation given by the Division was acceptable by Audit. As such the Committee decided to drop the paragraph.

2362. *(Para 145, page 90—ARCA).*—Audit further reported that the State Bank of Pakistan reduced the rate of interest on the borrowings of ADBP from 8 per cent to 4 per cent with effect from 7th December, 1979; while the ADBP's lending rate (*viz.* 11 per cent) remained unchanged. The savings as a result of this reduction were offset by increase in administrative expenses. Since the reply of the Ministry was acceptable to Audit, the paragraph was treated as settled.

2363. *(Para 146, page 90-ARCA).*—Audit had reported that loans and advances included overdue loans of Rs. 503.27 million as on 30th June, 1982, and had asked for a year-wise analysis there-of. The Division had provided such an analysis to Audit and to the Committee. After the scrutiny of the statement Audit had recommended that the old debits outstanding since 1954-55 should be written off if considered to be recoverable.

2364. A member of the Committee drew attention to the figure of Rs. 136.07 million for the year 1977-78 in the overdue statement and observed that it was very large. The departmental representative explained to the Committee that basically the amount represented the loans which were given to the agriculturists to after the disastrous floods of the mid seventies. The ratio of the overdue loans to the total loan portfolio of 1979 was 35 per cent. In 1982 it went to 23 per cent. The portfolio was also much large. In reply to a question by the same member, the departmental representative replied that about Rs. 220 million had been written off. Then same member further observed that the Bank had made further provisions of Rs. 110 million. The departmental representative informed the Committee that during the last year there were disbursements of about 600 million and the disbursements in 1982-83 were Rs. 3,140 millions. *Thereupon, the Committee directed that Audit should check the figures to satisfy themselves.*

2365. *The Committee further directed that a note should be furnished to the PAC about the sale of government investment (for example in ADBP etc.) to the State Bank of Pakistan.*

2366. (Para 147, page 90-ARCA).—Since Audit had verified the result of physical inventories of furniture and fixtures, the paragraph was treated as dropped.

2367. *Embezzlement of Rs. 321,150 due to fictitious loan payments and unauthorised drawal of pay and allowances by staff (Para 18, page 28-ARCA).*—According to Audit, in a branch of the ADBP, the branch Manager and his staff embezzled funds amounting to Rs. 472, 640 by advancing fictitious loans (Rs. 320,750) withdrawing unauthorised pay and allowances for themselves (Rs. 41,890) and mis-appropriating cash (Rs. 110,000) during the year 1976-77. The case of embezzlement was reported to Police in October, 1976 and all persons involved there-in were suspended from service. The case of fraudulent withdrawal of cash is sub-judice in Civil Court and no decision had been given as yet.

2368. The Division explained that on receipt of report of mis-appropriation of Bank's funds by the Manager and staff of ADBP Branch at Gujar Khan, the Regional Manager, Rawalpindi made immediate inquiry and took disciplinary action against the three

employees involved and suspended them on 21st October, 1976. The ex-Manager was suspended by Director (Admn) on 25th October, 1976, and was later dismissed from the Bank's service together with the three employees. The Division further stated that a Criminal case was registered and filed in the court of special Judge anticorruption (Central) on 26th October, 1976 against the four employees. The Judgements were given on 3rd April, 1983, against the aforesaid four culprits.

2369. As regards remedial measures, the Division stated that in this case the entire staff of the branch committed the fraud jointly by mis-using the instruments designed for normal banking operations.

2370. Audit made the following comments :—

- (i) Was there any possibility of recovering the loss from the culprits out of their dues with banks ?
- (ii) Whether the loss had been written off ?

2371. *After some discussion, the Committee took the following decisions :—*

- (i) *Write-off proceedings should be expedited wherever called for and intimation thereof sent to Audit.*
- (ii) *A note should be submitted to the PAC on the embezzlements in Nationalised Banks during the previous two or three years and on the remedial measures adopted or proposed to be adopted to check this menace.*

2372. *Loss of Rs. 40,000 due to replacement of Bank guarantee by forged one (Para 19, pages 28-29-ARCA).—*The departmental representative informed the Committee that the case had now been finalized. The department was taking necessary action against the persons who were found guilty in this case. The Committee was satisfied with the explanation of the departmental representative and the paragraph was treated as settled subject to verification by Audit.

2373. *Irregular payment of House Rent Allowance of Rs. 19,667 to a Bank employee (Para 20, page 29-ARCA).—*Audit had reported that the ADBP allotted residential accommodation to one of its officers from 2nd

July, 1977 by cancelling on 9th July, 1977, the allotment of a house previously made in the name of his wife. It was thus obvious that his wife was residing with him but at the same time she was in receipt of house rent allowance which was in contravention of Government orders.

2374. It was explained by the ADBP representative that the house rent allowance of Rs. 19,667 paid to Mst. Amina Khatoon, Extra Assistant Director was not irregular. It would be relevant to add that such practice was prevalent in other organizations. The matter had also been brought to the notice of the Finance Division for a policy decision on the subject. Thereupon Audit asked for a report on further progress of the case referred to Finance Division.

2375. *The Committee directed that the Finance Division should expedite the issue of instructions on the reference sent to them by ADBP. The paragraph was deferred.*

Federal Bank for Cooperatives, Islamabad

2376. (*Paras 048—150, page 91-ARCA*).—Since the explanation given by the Division was generally acceptable to Audit, the paragraphs were dropped.

House Building Finance Corporation

2377. (*Para 151, page 92-ARCA*).—According to Audit, the net profit of the Corporation decreased to Rs. 8.94 million during the year under review from Rs. 28.55 million earned in the preceding year. The abnormal decrease of Rs. 19.61 million *i.e.*, 69 per cent in the net profit was mainly due to the following factors :—

- (i) Decrease in Income from Rs. 247.94 million to Rs. 241.43 million.
- (ii) Payment of Rs. 11.28 million during the year under review as against Rs. 0.79 million in the year 1979-80 made to the State Bank of Pakistan being share of profit under profit sharing scheme.
- (iii) Increase in the establishment expenses from Rs. 12.51 million to Rs. 16.07 million.

2378. The Division explained that the reason for the lower was that interest accruing on flood loan accounts during the year 1981-82 aggregating to Rs. 34.52 million was not taken into the books. The comparable figure in the previous year was Rs. 25.37 million.

2379. A member of the Committee drew the attention of the departmental representative to Note 2 on page 336 of Commercial Accounts 1981-82 (Vol. I) and observed that the department had not revalued the closing balance at the rates prevalent on that date and recommended that the Division should check the position and get it cleared. The departmental representative admitted that the objection of the member was valid. *After further discussion, the Committee issued the following directives :—*

- (i) *HBFC should start building up a reserve, to be able to write off bad debts.*
- (ii) *A complete review should be carried out by HBFC about its financial position, reserves etc. and a note furnished to the PAC.*

State Bank of Pakistan

2380. *The Working Results (Para 152—155, pages 93-94-ARCA).*— Audit had reported that the increase in net profit during the year 1979-80 as compared to the year 1978-79 was due to inclusion of Rs. 5,000 million income on account of un-realised appreciation in the value of gold during the year as against Rs. 750 million in 1978-79. The inclusion of such appreciation in the value of gold in the income of the Bank was discontinued from the year 1980-81 as the same did not represent real income. Audit further reported that the Bank earned net profit of Rs. 1,35,691 million during 1981-82 as against Rs. 510.024 million during the year 1980-81. The increase was mainly due to increase in Bank's earnings on account of interest, profit on purchase/sale of foreign exchange, etc. and increase in return from the profit and loss sharing accounts.

2381. *After examining the replies of the Division on the above paragraphs the Committee directed that the State Bank should examine the advisability of revaluing assets and liabilities in SDR and Asian Monetary Units, like other currencies, on the balance sheet date.*

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2382. *Reconciliation of the Accounts with Audit (Para 1123, page 325-PAC Report 1979-80).*—In compliance the Ministry explained that the Audit and the departmental figures of expenditure for the year 1982-83 had been reconciled. The paragraph was treated as settled.

2383. *Grant No. 40—Pakistan Mint (Page 54-AA) (Para 1126, page 325 PAC Report 1979-80).*—The Committee had directed Audit to verify the correct position. In compliance. Audit reported that the position had been verified. Accordingly, the paragraph was dropped.

2384. *Grant No. 43—Other Expenditure of Finance Division (Page 57-AA) (Paras 1136-1137, page 327-PAC Report 1979-80).*—Subject to verification by Audit the paragraphs were dropped.

Grant No. 44—Grants-in-Aid and Miscellaneous Adjustments between the Federal and the Provincial Governments (Page 58-AA) (Para 1138, Page 327-PAC Report 1979-80).

Grant No. 133—Other Loans and Advances by the Federal Government (Page 153-AA) (Paras 1145—1159, pages 328-329-PAC Report 1979-80).

2385. The Committee after going through the departmental replies decided to drop the above paragraphs.

2386. *Grant No. 131-A—Capital Outlay on Pension (Page 151-AA) (Paras 1139-1141, pages 327-328-PAC Report 1979-80).*—The Committee after going through the departmental reply and Audit Comments dropped the above paragraphs subject to verification by Audit.

2387. *Grant No. 146—Development Expenditure of Finance Division (Page 171-AA) (Paras 1150-1151, page 329-PAC Report 1979-80).*—In compliance with the previous directive of the PAC, the Division explained that the belated adjustment was booked in 6/80 (Final) and Audit had informed the Division thereof on 2nd March, 1981. The

Auditor-General of Pakistan in his endorsement No. 275-A/c. I/36-80, dated 25th May, 1981 that the amount of Rs. 394,050,000 gave the reason why the debit had been raised in 1979-80. The position had been explained in a foot-note in the Appropriation Accounts. Audit confirmed that it was a belated adjustment. The Committee accepted the explanation and dropped the paragraphs.

2388. *Appropriation—Repayment of Foreign Debt (Page 242-AA) (Para 1155, page 330-PAC Report 1979-80).*—The Committee had previously requested the departmental representative to send a 'note' on repayment of Foreign Debt. In compliance, the department informed the Committee that 25 copies of the requisite 'note' had been sent to the Federal Council Secretariat *vide* the Finance Division O.M. No. 2139-F&A/84, dated 25th December, 1984. A copy thereof was also appended with the brief for the persual of the members of the PAC. Audit commented that although the Division maintained that the loss or gain would be adjusted in the relevant year, yet they were not making adequate provisions to meet the loss in such years.

2389. *In view of the position stated above, the Committee directed that adequate provision should be made by Supplementary Grant to meet such losses.*

2390. *Irregular expenditure incurred by the defunct Provincial Coordination Wing (Para 13, pages 25-26-AR) (Para 1156, pages 330-331-PAC Report 1979-80).*—The Committee after going through the departmental reply dropped the above paragraph.

2391. *Agricultural Development Bank of Pakistan (Para 213, page 120-ARCA) (Paras 1157-1158, page 331-PAC Report 1979-80).*—The Committee had lastly directed that the Corporation should furnish to it a list of its share-holders and their contributions as on 30th June, 1980. In compliance, the department furnished the following list.

DETAILS OF PAID UP CAPITAL—ADBP

Federal Government.....	284,340,000
State Bank of Pakistan.....	64,600,000

Punjab.....	2,770,500
Sind.....	1,189,500
NWFP	680,500
Baluchistan	359,500
Former East Pakistan.....	5,000,000
	Rs. 358,940,000

2392. A member of the Committee observed that Provincial Government still have some share as would be seen from the details given by Department in their above reply, but the member was not convinced with the explanation of the department, and the Committee would discuss it later on.

2393. *Cash in transit (Para 216) Paras 1163-1164, page 332-PAC Report 1979-80).*—The Committee had previously asked that the Division explain as to why the Cash in transit, Pertaining to the period 1976-77 to 1978-79 amounting to Rs. 159,853 could not be cleared as yet. The Ministry explained that the matter had already been taken up with National Bank of Pakistan and the amount had now been reduced to Rs. 120,459 as given below :—

	Rs.
1976-77.....	23,951
1977-78.....	45,513
1978-79.....	50,995
	120,459

2394. Thereupon, Audit pointed out in their comments that the Corporation had cleared only Rs. 39,393 after the issue of the directive of the Committee in January, 1983. Furthermore, the Division had not replied to the question as to why the Cash in transit pertaining to 1976-77 could not be cleared.

2395. *After discussion the Committee directed the departmental representative that further information should be provided as on 30th June, 1984 to PAC. The paragraphs were therefore deferred.*

2396. *Disputed Cheques (Para 217) (Para 1165—1167, pages 332-333-PAC Report 1979-80).—The Committee had previously directed Audit to verify the latest position and report to the PAC. In compliance, Audit informed the Committee that the amount of disputed cheques is stated to have been reduced to Rs. 0.26 million, but the reduction could not be verified due to non-production of relevant record. Accordingly the Committee decided to defer paragraphs.*

Pakistan Refugees Rehabilitation, Finance Corporation (merged HBFC) [Para 3 (iv), page 6-ARCA] (Paras 1170—1173, page 333-PAC Report 1979-80).

Security Printing Corporation of Pakistan Limited (Para 1178, page 335-PAC Report 1979-80).—

2397. The Committee after going through the departmental replies and Audit Comments dropped the above paragraphs.

2398. *Points not discussed to be treated as settled.*—The Committee did not make any observation on the other paragraphs and points concerning Appropriation and Commercial Accounts 1981-82 and the Audit Reports thereon ; and the compliance on 1979-80 PAC Report. These would be deemed settled subject to such regularisation actions as may be necessary under the rules.

NATIONAL ASSEMBLY SECRETARIAT

Tuesday the 26th August, 1986.

Tenth Sitting (PAC)

*603. The Public Accounts Committee assembled at 0900 A.M. in the Parliament Building, Islamabad to continue the examination of the Federal Accounts for 1982-83. The following were present:—

P.A.C.

- | | |
|--------------------------------------|-----------------|
| 1. Sardarzada Muhammad Ali Shah, MNA | <i>Chairman</i> |
| 2. Sardar Aseff Ahmed Ali, MNA | <i>Member</i> |
| 3. Rai Arif Hussain, MNA | <i>Member</i> |
| 4. Ch. Muhammad Sarwar Khan, MNA | <i>Member</i> |
| 5. Nawab Muhammad Yamin Khan, MNA | <i>Member</i> |
| 6. Mr. Miangul Aurangzeb, MNA | <i>Member</i> |

National Assembly Secretariat

1. Mr. M. A. Haq, Secretary
2. Ch. Abdul Qadir, Joint Secretary
3. Mr. Muhammad Aslam, Deputy Secretary
4. Mr. Gulzar Ahmed, Officer on Special Duty

Audit

1. Mr. Riyaz H, Bokhari, Auditor-General of Pakistan
2. Mrs. Suraiya Hafeez, Deputy Auditor General (CA)
3. Mr. S.I. Shabbir, Deputy Auditor General (Co-ord)
4. Mr. A.A. Zaidi, Deputy Auditor General (A&R)
5. Sh. Muhammad Sadiq, Accountant General Pakistan Revenue
6. Mr. M. S. Amjad, Director General (PEC)
7. Mr. Ahmed Nawab Qureshi, Director General, Commercial Audit

*Paragraphs prior to 603 pertain to other Ministries/Divisions.

FINANCE DIVISION

618. The Committee then took up for examination Appropriation Accounts etc; pertaining to the Finance Division. The following departmental representatives were present:—

1. Mr. H. U. Beg, Secretary,
2. Mr. Sadiq Sayeed Khan, Additional Secretary
3. Mr. Inam-ul-Haq, Additional Secretary
4. Mr. Arshad Zaman, Additional Secretary
5. Mr. A. R. K. Baloch, Joint Secretary
6. Mr. K. N. Cheema, Joint Secretary
7. Mr. Mohammad Sher Khan, Joint Secretary
8. Mr. S. M. Shaukat, Master of Mint
9. Mr. Mukhtar Ali Khan, Chief Director, National Savings
10. Mr. Hasan Jafer, M. D. Security Printing Corporation
11. Mr. I. K. Khalil, M.D. Federal Bank for Co-operatives
12. Mr. M. Abdur Razzaq, Secretary, Small Business Finance Corporation
13. Rana Shabbir Ahmed Khan, Chairman (ADBP)
14. Mr. K. M. Talpur, Executive Director Finance (HBFC)

619. This Division controlled the following grants:—

S. No.	Name of Grant	Grant No.
1.	Finance Division	38
2.	Pakistan Mint	39
3.	Superannuation Allowances and Pensions	40
4.	National Savings.....	41
5.	Other Expenditure of Finance Division	42
6.	Grants-in-aid and Miscellaneous adjustments between Federal and Provincial Governments.	43
7.	Grants and subsidies to non-financial institutions ..	44
8.	Federal Miscellaneous Investments	132
9.	Other Loans and Advances by the Federal Governments.....	133
10.	Development Expenditure of Finance Division	146
11.	Capital Outlay on Mint	177

S. No.	Name of Grant	Grant No.
12.	Miscellaneous Capital Investments.....	178
13.	Capital Outlay on Special Development Programmes of Provinces.....	179
14.	Development Loans and Advances by the Federal Government.....	180
15.	Audit.....	—
16.	Servicing of domestic debt.....	—
17.	Servicing of Foreign debt.....	—
18.	Repayment of domestic debt.....	—
19.	Repayment of Foreign debt.....	—

APPROPRIATION ACCOUNTS

620. *Grant No. 38 — Finance Division (Page 261 — AA).*— The grant closed with a net saving of Rs.546,444, which was within permissible limits. The Chairman PAC observed that Central Zakat Administration had also been provided under this demand and that the Committee wanted to know something about operation of Zakat Fund. The Department explained that Zakat Fund Foundation was created with an amount of Rs. 100,000,000 in the first instance for helping those who could not be paid under Shariat Law. The Committee directed that a report on the Performance of Zakat Foundation may be submitted to P.A.C.

621. *Grant No. 42 — Other Expenditure of Finance Division (Page 263 — AA).*— There was a net saving of Rs. 31,056,140 which was about 6% of the final grant. The Department explained that an amount of Rs. 29,508,000 was surrendered on 30-6-1984 but had not been accounted for by Audit. Similarly a debit of Rs. 1,494,118 on account of interest differential on foreign currency deposit was also not raised by A.G.P.R. Sub-office, Lahore, inspite of repeated reminders. If these amounts were accounted for there remained a nominal saving of Rs. 54,022 only. The Department explained that working conditions were imposed on loans of World Bank and International Monetary Funds. Increase in rates etc. effected the funds position. Audit observed that the surrenders were not made up to the last date fixed for such surrenders, as such they could not be accounted for under existing procedure. Non-accountal of interest

differential was being checked with the Sub-office, Lahore. On a query from Chairman PAC as to the assessment of operation of these loans/projects etc; given to the Provincial Governments by the Federal Government. The Finance Secretary explained that the Performance of these projects was monitored by the Planning and Development Division and Departments. Auditor-General pointed out that the matter pertaining to the surrenders after due date was further required to be streamlined for fixing a realistic date.

622. The representative of the Finance promised that they would sit with Audit and streamline procedure further. A member observed as to why the budget should not be an on going process as it was in the case of MNA's Development funds. The Finance intimated that this aspect could also be considered.

623. The Committee directed that the Ministry of Finance is consultation with the Auditor General should consider revision of the rules to permit surrender of the funds by Departments after the prescribed date.

624. *Grant No. 146 — Development Expenditure of Finance Division (Page 267 — A A).*— As per Appropriation Accounts there was a saving of Rs.1,250,000. The Department explained that total releases under this grant during the year amounted to Rs. 38,796,000 which were exactly equal to the final grant and there was no variation at all. The reasons for saving of this amount of Rs.1,250,000 as explained by the A.G.P.R. were that the amount had been lying in State Bank under suspense due to non-availability of full particulars. When the detailed particulars were traced, the accounts for 1982-83 has already been closed and this amount was adjusted in the accounts for 1983-84. An amount of Rs. 1.25 million released on 4th instalment on account of Qarz-e-Hasna was not accounted for by A.G.P.R. it was also suggested that A.G.P.R. should go by the sanction letter of the Department and should not wait for clearance from State Bank. The Chairman at this point observed that there were certain complaints about the functioning of Qarz-e-Hasna Scheme. The Department then explained the whole working of this scheme which was being operated in collaboration with the Bank. The Committee wanted to know about the project Lyari General Hospital, Karachi against which there had been an expenditure of Rs.22,500,000

during the year under this demand. The Department intimated that funds in this case were transferred to the Provincial Government and they were not aware about construction and completion position of this hospital. They would, however, let the PAC know about it after getting the information from the Provincial Government.

625. The Committee after discussion directed that all projects funded by the Federal Government under execution by the Provincial Government must be inspected by the Federal Government. The Scheme regarding grant of interest free loans to the deserving students alongwith a list of student sent abroad under this scheme may be supplied to PAC. A list of those receiving Qarz-e-Hasna should also be published in the news papers whenever such interest free loans are given, in future.

626. *Grant No. 39—Pakistan Mint (Page 269—AA).*—The saving being negligible, the Committee did not make any observation.

627. *Grant No. 177—Capital Outlay on Mint (Page 271—A A).*—There was no variation under this grant.

628. *Grant No. 40—Superannuation Allowances and Pensions (Page 272—A A).*—There was a saving of Rs. 2,525,804 under 'Charged' section of this grant which worked out to 16% of the final grant of Rs. 15,187,000, whereas they was a excess of Rs. 89,625,094 under 'Other than Charged' section which required regularisation through excess budget statement. The department reported that the process of estimation under this grant was being improved and corrective measures were being taken in implementing the procedure. The Committee recommended the regularisation of excess.

629. *Grant No. 41—National Navings (Page 274—A A).*—The grant closed with a net excess of Rs. 1,073,440. The Department contested the figures of final grant and reported that the amount of economy cut was reduced from Rs. 1,952,000 to Rs. 413,500 as such there was actually a saving of Rs. 465,060 and net excess as pointed out by Audit. However, Audit did not accept the position on the plea that a confirmation of reduction of economy was asked for from Finance Division who did not reply.

630. The Chairman wanted to get Performance Report on the working of the National Savings. The Department reported that the National Saving was presently giving return more than any other organisation. After a brief discussion the Committee directed that the Performance of National Savings may be evaluated by Ministry and a report furnished to the P.A.C.

631. *Grant No. 43 — Grant in Aid and Miscellaneous Adjustments between the Federal and Provincial Governments (Page 277 — A A).*— There was a saving of Rs.63,489,845 under 'other than Charged' section of this Grant which was within permissible limits. The Chairman remarked that Finance and Audit should solve the problem of surrenders. The Committee did not make any other observation.

632. *Grant No. 44 — Grants and Subsidies to Non-Financial Institutions (Page 278 — A A).*— There was no variation in this grant.

633. *Grant No. 132 — Federal Miscellaneous Investments (Page 279—AA).*—There was a net saving of Rs.66,113 which was nominal. The Committee desired a report on Government investment in Banks etc. furnished to PAC by the Finance Division.

634. *Grant No. 178 — Miscellaneous Capital Investment (Page 281 — A A).*— There was no variation in this grant.

635. *Grant No. 133 — Other Loans and Advances by the Federal Government (Page 283 — A A).*— The saving of Rs.7,282,152 under 'Other than Charged' section of this grant was within permissible limits. The Committee did not make any observation.

636. *Grant No. 179 — Capital Outlay on Special Development Programme of Provinces (Page 290 — A A).*— This grant closed with an excess of Rs.29,524,041 which was about 5% of the final grant. The Department explained that the excess of Rs.22,500,000 was sanctioned to Government of Azad Jammu Kashmir, but by mistake the expenditure was booked under head "742 — Local Bodies". The Committee accepted the explanation and recommended the excess.

637. *Grant No. 180 — Development Loans and Advances by Federal Government (Page 285 — AA).*— As per appropriation Accounts, the “Charged” section closed with a saving of Rs. 522,816,200 and “Other than Charged” section of this grant with a saving of Rs. 1,728,607,741. The percentage of saving as compared to final grant under “Charged” section was 10% and under “Other than Charged” section was 24%.

638. The Committee wanted to know the total amount of loans, advanced terms of such loans, recovery position, and the position of led debts. The Department explained that these were Development Loans and that the position will be intimated to the PAC next time. The Committee desired that report on loans and advances alongwith terms of recoveries and the name of Defaulters may be submitted to the P.A.C.

639. *Appropriation Audit (Pages 291—294 — AA).*— There was an excess of Rs. 928,971 in this grant which the P.A.C. recommended for regularisation.

640. *Servicing of Domestic Debt (Page 295 — A A).*— Audit pointed out that against final appropriation of Rs. 5,831,962,000, the actuals were Rs. 6,186,370,870 which resulted in an excess of Rs. 354,408,870 and was about 6% of the final grant. The Department explained that the figures of final grant and actual expenditure as shown in the Appropriation Accounts were not correct. A difference of Rs. 60,3 million was due to the fact that the surrender order sanctioned by the Federal Land Commission, who were not authorised to operate this grant, was accepted by AGPR. Similarly actual expenditure as reported by State Bank of Pakistan was Rs. 2,549,642,752. The excess, therefore, worked out to Rs. 175,771,752 and not as shown in the Appropriation Accounts. Audit, however, stated that the position was not correct and the figures of final grant were accepted by the Department in their letter dated 3-4-84. Similarly difference of Rs. 124,709,700 was due to non accountal of Rs. 130,781,800 pertaining to T&T Wing for establishment of T&T Funds under Presidential Order and a difference of Rs. 8,900,000 was on account of non-receipt of debits relating to Income Tax Bonds of State Bank of Pakistan.

641. The Chairman observed that had the reconciliation been carried out, this situation should not have arisen. The Committee directed

that a system to reconcile the figures with State Bank and AGPR be devised. Monthly statements should also be furnished for reconciliation of figures under the supervision of Finance Ministry to have a better control over reconciliation.

642. *Appropriation Repayment of Domestic Debts (Page 298—AA).*— The grant closed with a saving excess of Rs.4,427,360,085 which was within the permissible limits. The Committee, however, discussed in brief repayment of domestic debts and directed that the procedures for reconciliation of figures with State Bank and AGPR might be revised by the Ministry of Finance in consultation with the Audit within two months.

643. *Appropriation Servicing of Foreign Debts (Page 297-AA).*— The grant closed with a net saving of Rs.52,631,493 which was within permissible limits. No observations were made by the Committee.

644. *Appropriation Repayment of Foreign Debts (Page 300 — AA).*— A net saving of Rs.31,381,204 in his case was again within permissible limit. The Committee did not make any observation.

AUDIT REPORT

National Saving Centre

645. *Loss of Rs.124,518 due to dacoity (Para 1 (I), page 39 — AR).*— As per Audit Report an armed dacoity took place at the National Savings Centre, Lahore in September, 1982 from where Rs. 124,518 in the shape of hard cash and Prize Bonds were robbed due to inadequate security measures. The Department explained that there was a loss of Rs.103,518 in this case and loss of life of one Gun Man. Out of this Rs.21,000 were recovered which were in the possession of Police. Death penalty had been awarded to the culprit by the Martial Law Court. The security arrangements had also been strengthened by posting three gunmen at the centre. The help of the local police for armed guard had also been arranged. The Committee after going through the explanation directed that the amount of un-recovered loss should be written off.

646. *Embezzlement of Rs. 84,338 due to inaction of the authorities (Para 1 (3), page 39 — AR).*— Audit pointed out that an amount of Rs. 59,338 was embezzled by a National Saving Officer of Lalamusa up to November, 1977. Due to non-initiating legal/disciplinary action against him he was able to draw another sum of Rs.25,000 fraudulently. The Department explained the full history of the case and intimated that a sum of Rs.72,483 had since been recovered and efforts to recover the remaining amount of Rs.11,854 were under way. Audit had verified the recovery already made.

647. The Committee dropped the paragraph subject to recovery of the balance amount and verification by Audit.

COMMERCIAL ACCOUNTS

Agricultural Development Bank of Pakistan

648. *Outstanding Loans — Rs.1.027 million (Para 149, page 99 — ARCA).*— Audit pointed out that an amount of Rs.5,426,596 million on account of loans and advances up to the year 1982-83 included over due loans of Rs.1027.315 million as on 30th June, 1983. Year wise analysis of this amount was not given. The Department explained that the recovery position had improved as against 57% in 1983, it was 73% in 1985. All loans were covered by land guarantee. The over all recovery position was 95%, out of 400 crores of loans, 13 crores were 10 years old.

649. The Chairman observed that Department should ensure that all loans were genuine and precautionary measures should also be taken to see that loans were not mis-used. The Department intimated that such cases were very rare and not more than one percent.

650. The Committee appreciated the services of Mr. Jamil Nishtar (Late) and offered Fatheha for his soul. The PAC, however, directed that a report on the programmes of the Agriculture Development Bank including its working procedures and over heads should be supplied to the Committee.

House Building Finance Corporation

651. *Infructuous Expenditure of Rs.8.43 million on defective piling work of the Foundation of House Building Finance Corporation (Page 25—ARCA).*— The work of a building for pile work in foundation which was supervised by consultants on whose certificates payments were made to the contractors, was found defective. The corporation spent Rs.8.43 million on the structure of the building which ultimately proved to be infructuous. A case against the consultants who were responsible for supervision of the work was pending in a court of law. The Department accepted the Audit observation and intimated that the PEPAC a Government undertaking, was consultants in this case, who were asked subsequently to re-design the whole building and that were not a minor punishment. Recovery was not possible from them. The committee directed that an inquiry may be held by the Ministry of Finance in association with Audit to fix the responsibility for financial and other losses. A report containing salient features alongwith action taken against the defaulters should be submitted to the PAC within three months.

Pakistan Security Printing Corporation Limited

652. *Book Debts of Rs.39.08 million (Para 164, page 106 — ARCA).*— The Book Debts as on 30-6-83 stood Rs.39.08 million out of which a sum of Rs. 1.67 million was outstanding for a period of more than three years against which provision of Rs.1.70 million was made for doubtful debts. An amount of Rs.0.106 million pertained to 1974-75 and was due to a rejected claim on account of defective and delayed supply of printed stamps. The Department explained that the position was improving now and the rejected claim of Rs. 0.106 million related to stamps supplied to Jordanian Government. The Board of Directors had since written off this amount. The PAC directed that the recoveries of outstanding debts may be expedited and recovery/write off got verified by Audit.

State Bank of Pakistan

653. *Avoidable expenditure of Rs.44,375 on requisitioning of House in excess of the ceiling (para 14, page 25 — ARCA).*— According to Audit

Report a Manager of State Bank, Lahore was provided hired accommodation at monthly rent of Rs. 2,500, subsequently increased to Rs. 3,000 w.e.f. June, 1979 against his entitlement of Rs. 1,380 to 1575 p.m. This resulted in an irregular payment of Rs. 44,375. The Department explained that facility of rent free accommodation to the Chief Manager was inherited from Former Reserve Bank of India. It was the Board of Directors which regulate such expenditure with the approval of the Federal Government. Thus there was no irregularity in it and as such question of regularisation did not arise. The Committee being satisfied with the explanation of the Department, settled the paragraph.

654. *Non-recovery of House Building Advance from Ex-employees Rs. 56,593 (Para 16, page 26 — ARCA).*— Audit pointed out that an employee of State Bank of Pakistan was allowed House Building Advance of Rs. 40,000. The employee tendered his resignation subsequently which was accepted in July, 1977. A case for recovery was filed in the court of law. The court directed that the repayment should be made Rs. 1000 p.m. Since then no recovery had been made and an amount of Rs. 56,593 including the amount of interest was still recoverable.

655. The Department held that since the employees of the Bank were not governed by the Pakistan Essential Act 1952, the resignation became effective from the date, it was tendered. An amount of Rs. 35,000 had since been recovered and the balance amount of Rs. 31,168 was being recovered. The paragraph was dropped subject to recovery of the balance amount and verification of Audit.

Small Business Finance Corporation

656. *Financial Assistance of Rs. 203.06 million (Para 170, page 108—ARCA).*— According to the Audit Comments on the accounts of the Corporation for the year 1982, the Corporation provided assistance to 46,000 applicants amounting to Rs. 203.06 million. The recovery position was required to be intimated by the Department. The Department explained that an amount of Rs. 30 million had since been recovered, which was 85% of the total outstanding amounts. The aging of loans between the period 1973—84 was being prepared and will be supplied to Audit. The Committee directed that the recoveries may be

expedited and Performance Evaluation Report of the Corporation should be submitted to the PAC within three months.

657. *Agricultural Marketing and Storage Ltd. (National Development Finance Corporation) Non-entertaining of Audit (Para 3, (12) and (15), pages 10 and 11 — ARCA).*— Audit pointed out that the accounts up to March, 1984 were not made available to Audit in respect of Agricultural Marketing and Storage Ltd. Similarly Government Audit was not being entertained by the National Development Finance Corporation on the plea that the matter stood referred to the Ministry of Finance. The Departmental representative stated that they were prepared to compile and present the accounts where required and further requested that the Governor State Bank of Pakistan, Chairman of the Banking Council and the Presidents of Banks may be heard before a decision in the matter was taken.

658. A member questioned, if the Banking Sector was fulfilling the requirement of various kinds of industries of all provinces and observed that it was within their right to get the accounts of the Banks for Audit. The Secretary Finance reported that it was an important issue and Department would determine if Audit could be carried out.

659. The Committee thereupon decided that it would like to hear Governor, State Bank of Pakistan, Chairman, Banking Council and the President, National Bank regarding submission of the Accounts of Nationalised Banks. In the meantime, the Ministry of Finance would study the pattern of working in other countries particularly in India and Egypt and a report be furnished to the PAC. The N.D.F.C. and Agricultural Marketing Storage Ltd; would however, get their accounts audited by the Auditor-General.

660. *Irregular payment of Bonus to Officers in Public Sector Organization (Para 51, page 44 — ARCA).*— Audit pointed out that officers of certain Corporation were paid Bonus amounting to Rs.741,175 during 1981-82 and Rs.287,756 during 1982-83 in contravention of the instructions of the Finance Division. The Department contested that the amount of payment of Bonus was not irregular. The Committee directed that the payment should be got

regularised and verified by Audit. Subject to verification by Audit the paragraph was dropped.

661. *Federal Bank for Cooperatives (Paras 7, 13, 14, 28 — ARCA 1976—82).*— Audit pointed out that replies to the paras were received from the Department on 23rd August, 1986 and could not be scrutinised. The consideration of the paras was deferred by the Committee.

Special Issues

- (a) The matter pertaining to Audit of Nationalised Banks by the Auditor General of Pakistan came under discussion. The Committee decided that the matter will be sorted out when the views of Governor State Bank of Pakistan, Chairman Banking Council and President of National Bank were heard by the Committee as decided while considering the accounts of Agricultural Marketing and Storage Limited.
- (b) The Chairman PAC requested the Ministry of Finance to examine the issues pertaining to existing budgeting process of Federal Government as discussed in a reference made by him to the Finance Minister copy enclosed (Annexure 'A'). The Secretary Finance promised to examine the issues.

662. *Points not discussed to be treated as settled.*—The Committee did not make any observations on other points in the Appropriation/ Commercial Accounts and Audit Reports thereon. These would be deemed to have been settled, subject to such regularisations and verification by Audit, as may be required under the rules.

Islamabad,

M. A. HAQ,
Secretary

NATIONAL ASSEMBLY SECRETARIAT

Sunday, the 19th July, 1987

Sixteenth Sitting (P.A.C.)

*792. The Public Accounts Committee assembled at 9.30 a.m. in the Parliament House, Islamabad to continue the examination of the Federal Accounts for 1983-84 & 1984-85. The following were present:—

P.A.C.

1. Sardarzada Muhammad Ali Shah, M.N.A. *Chairman.*
2. Sardar Aseff Ahmed Ali, M.N.A. *Member.*
3. Rai Arif Hussain, M.N.A. *Member.*
4. Ch. Muhammad Sarwar Khan, M.N.A. *Member.*
5. Mr. Miangul Aurangzeb, M.N.A. *Member.*
6. Shahzada Jam Muhammad Yusuf, M.N.A. *Member.*

National Assembly Secretariat

1. Mr. K.M. Chima, Secretary.
2. Ch. Abdul Qadir, Additional Secretary.
3. Mr. Muhammad Aslam, Deputy Secretary.
4. Mr. Gulzar Ahmed, Officer on Special Duty.

Audit

1. Mr. Riyaz H. Bokhari, Auditor-General of Pakistan.
2. Mrs. Suraiya Hafeez, Deputy Auditor General (CA).
3. Mr. A.A. Zaidi, Deputy Auditor General (A&R).
4. Sh. Muhammad Sadiq, Accountant General Pakistan Revenue.

*(Paragraphs prior to 792 pertain to other Divisions).

5. Mr. Ahmad Nawab Qureshi, Director General Commercial Audit.
6. Mr. Irfan Hussain, Director General (A&A Works).
7. Mr. Ziaul Haq Khan, Director General (PEC).

Ministry of Finance and Planning Division

1. Mr. Manzur Husain, Joint Secretary (Budget), Finance Division.
2. Dr. M.A. Aghai, Director General (Project Wing), Planning and Development Division.

793. *Accounts Examined.*—Accounts pertaining to the Finance Division were examined by the Committee during the course of the day.

Finance Division

794. The Committee first took up for examination, the Appropriation Accounts etc; pertaining to the Finance Division. The following departmental representatives were present :—

1. Sh. Izharual Haq, Secretary.
2. Mr. Inamul Haq, Additional Secretary.
3. Mr. Muzaffar Ahmed, Additional Secretary.
4. Dr. Shamsa Riaz Ahmed, Joint secretary.
5. Mr. Muhammad Sher Khan, Joint Secretary.
6. Mr. K.N. Cheema, Joint Secretary.
7. Mr. Hasan Jafar, MD (PSPC).
8. Mr. M.W. Memon, MD (IDBP).
9. Mr. Abdul Rashid, MD (SBFC).
10. MR. F.A. Rabbani, MD (HBFC).
11. MR. S.M. Shaukat, (Master of Mint).
12. Mr. Mukhtar Ali Khan, D.G. (National Savings).

13. Rana Shabbir Ahmed Khan, Chairman (ADBP).
14. MR. M.I.K. Khalil, MD Federal Bank for Co-operatives.
15. Mr. Anwar-ul-Haq Raazi, MD (AMSL Islamabad).

This Division controlled the following grants :—

<i>S. No.</i>	<i>Name of Grant</i>	<i>Grant No.</i>
1983-84		
1.	Finance Division.	38
2.	Pakistan Mint.	39
3.	Superannuation Allowances and Pensions.	40
4.	National Savings.	41
5.	Other Expenditure of Finance Division.	42
6.	Grants-in-aid and Miscellaneous Adjustment between the Federal and Provincial Governments.	43
7.	Grants and subsidies on non-financial institutions.	44
8.	Federal Miscellaneous Investments.	132
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Appropriation Accounts—1983-84

795. *Grant No. 38—Finance Division (Page 302—A.A.).*—The grant closed with an excess of Rs. 1,558,211 which was 3% of the Final Grant. An amount of Rs. 450,000 was surrendered by the Department ; Audit held that it was unnecessary surrender in view of the excess. The Department further explained that this excess was due to payment of advance salary on Eid. The Committee accepted the explanation and recommended the excess for regulariztion.

796. *Grant No. 39—Pakistan Mint (Page 306—A.A.).*—This grant closed with an excess of Rs. 2,797,301 which was 13% of the Final Grant. An amount of Rs. 1,718,148 was attributed towards belated adjustment and the remaining excess, to the payment of advance salary on Eid. The Department further explained that the belated adjustment pertained to the period 1971-72 to 1982-83. The Committee accepted the explanation and recommended the excess for regulariztion.

797. *Grant No. 40—Superarrnuation Allowances and Pensions (Page 272—A.A.).*—There was a saving of Rs. 23,851,755 under “charged” section of this grant, and an excess of Rs. 23,044,056 under “other than Charged” section. The Depatment explained that there was an overall saving of Rs. 807,699 under this grant. Since reappropriation between ‘Charged’ and ‘Other than Charged’ was not permissible, it could not be re-appropriated. The estimate under this grant generally did

not prove accurate. Various factors such as compulsory retirement, premature voluntary retirement and revision in rates of pension of retired public servants during the currency of year affect this grant. The amount could not be surrendered in time as the expenditure from Treasury Offices located at various stations could not be collected in time. The Department constituted a Committee in 1980 to identify the problems involved in preparation of budget estimate under this grant which had made certain suggestions in this regard. On a query from Chairman PAC, it was intimated that pension payments were about 10% of the budget estimate for 1987-88. The Chairman observed that there was an excess of Rs. 67 million in "Other than Charged" section and 50 million under "Charged" section of this grant during the year 1985-86 as reported by Audit which indicated that there was no improvement. Audit at this point observed that estimates had not proved accurate due to liberal pensionary benefits which had been allowed. There should be some sort of arrangements for funding of liberalised pensionary benefits, as and when required. This aspect was needed to be looked into in time by the Department.

798. The Committee directed that the Ministry of Finance may carry out an exercise to regulate proper estimation of funds required due to increase in pensionary benefits and funding of this liability in future.

799. *Grant No. 41—National Savings (Page 313—A.A.)*.—There was an excess of Rs. 2,208,860 under this grant which was 5% of the Final Grant. This excess was attributed to advance payment of salary on Eid in June, 1984. The Committee recommended the excess for regularization through Excess Budget Statement.

800. *grant No. 42—Other Expenditure of Finance Division (Page 316—A.A.)*.—According to the Appropriation Accounts there was a saving of Rs. 63,176,304 under this grant. The Department, however, explained that an amount of Rs. 282,643,000 was surrendered on 31-3-1984, which was omitted while working out the Final Grant by Audit. Had this amount been accounted for, saving of 43,176,304 would have been converted in an excess of Rs. 219,466,696 which was due to double adjustment of four releases amounting to Rs. 219,507,000 made through the State Bank of Pakistan, Karachi in order to re-imburse losses of State Cement Corporation. The AGPR was asked to rectify the mistake but the excess debit raised has not so far been withdrawn. The Audit

observed that the Departmental contention was correct and promised to look in to the basis of wrong booking.

801. A Member at this pointed out that according to the existing procedure Zakat was being deducted twice. Something was required to be done to regularise the system. He quoted the concrete example of dividend paid by Burma Shell Corporation on which Zakat was deducted twice. The Ministry of Finance explained that this was a specific case in which Zakat was deducted on interim dividend as well as on final dividend and promised to look into this case. The Chairman PAC at this point wanted to know the total collection of Zakat alongwith total amount of disbursements and administrative expenses. The information was not available with the Department which informed the committee that it would be supplied in due course of time. A member wanted to know the total amount of losses reimbursed to Cement Corporation so far. The Department explained that it was Ministry of Production who could give this information. It was also reported that since all profits go to Government, as such the losses were re-imbursed by the Government. The Government control the prices and when the cost of production increases, the price cannot be increased. This may be one of the reasons for reimbursement of such losses.

802. The Committee directed that a detailed report on Zakat Policy, the system of collection and disbursement of Zakat and inherent defects in the system, with total amount collected and disbursed from the fund and the administrative expenses incurred may be submitted to the P.A.C. The report of the review committee formed alongwith comments of the Finance Division on the report of the review committee may also be supplied. The Committee also asked the Audit to study this matter.

803. *Grant No. 43—Grants-in-Aid and Miscellaneous Adjustments between Federal and Provincial Governments (Page 324—A.A.).*—There was a saving of Rs. 1,002,770 under the Grant which was explained to be due to non-booking of the amount by AGPR. The saving being nominal, the Committee did not make any observation.

804. *Grant No. 44—Grants and Subsidies to Non-Financial Institutions (Page 326—A.A.).*—This grant closed with a saving of Rs. 198,479,000 which was 72% of the Final Grant. Audit pointed out

that the grant represented, expenditure of subsidies to Pakistan Railways on account of difference of commercial rates and those charged from Government. Saving was required to be surrendered well in time. The Department explained that saving was due to the facts that the amount of Rs. 198,479,000 was booked under Demand No. 132. Audit at this point reported that loans were converted into investment and shown as such. The Chairman PAC at this point observed that the difference of the commercial rates and lower rates charged from Defence should be the responsibility of Defence Department. The auditor General of Pakistan, however, pointed out that this difference may pertain to other Departments also and not necessarily to Defence Department. The Department informed the Committee that this was a long practice of subsidizing railway on account of this freight difference. The Department observed that the expenditure could not be bifurcated among the Departments unless Finance Division knew the Department wise break up. Then again such practice may be due to national interest. The Chairman PAC, however, observed that this incorrect practice should dis-continue.

805. The Auditor General at this point again brought out that cash losses of Railway are picked up by the Government which were 119 million during this year, were being shown as investment in Railways.

806. The Committee directed that the Ministry of Finance may examine as to how loss of Railway were being shown as investment. Similarly existing procedure of subsidizing carriage charges of goods of Defence Services may also be looked into.

807. *Grant No. 132—Federal Miscellaneous Investments (Page 328—A.A.)*.—As for Appropriation Accounts there was an excess of Rs. 467,781,457 which was 27% of the Final Grant. The Department explained that this excess was due to booking of amounts of Rs. 430,000,000 and Rs. 198,479,000 relating to the years 1979-80 and 1980-81 which was reduced to Rs. 467,781,457 due to over estimated amount of Rs. 160,694,000. The Committee recommended the excess for regularization through Excess Budget Statement.

808. *Grant No. 133—Other Loans and Advances by the Federal Government (Page 330—A.A.)*.—As per Appropriation Accounts there

was a saving of Rs. 426,173,517 which was 62% of the Final Grant. The Department explained that there was some difference in the figures of actual expenditure and final grant as shown in the Appropriation Accounts and as per departmental record. Audit did not account for an amount of Rs. 417,830,000 sanctioned for making payment to Government of Iran on account of loans utilised. The Committee did not make any other observation on this grant.

809. *Grant No. 144—Development Expenditure of Finance Division (Page 334—A.A.).*—This grant closed with an excess of Rs. 1,249,500. The Committee after going through the explanation of the Department recommended the excess for regularization through Excess Budget Statment.

810. *grant No. 174—Capital Outlay on Mint (Page 338—A.A.).*—This grant closed with a saving of Rs. 1,486,269 which was 50% of the Grant. The Department explained that the saving was surrendered. The Committee did not make any observation on it.

811. *Grant No. 175—Miscellaneous Capital Investments (Page 340—A.A.).*—There was no difference between final grant and actual expenditure. The Audit reported to the Committee that this grant covers investment in equity to cover development expenditure on non-viable projects of P.T.V. The actual amount was Rs. 52.5 million. The Chairman PAC observed that when the PTV was running on profit, why could not they run this organisation themselves. The Department explained that it was the policy of the Government to bear the expenditure on non-viable projects which were being run exclusively under Government Instrucitons. The Auditor General observed that there should be a uniformity all over and this aspect required consideration. The Departmental representative informed that if something was operated under Government Instructions, Government must look after the losses, as had been the government policy to reimburse the losses in other cases. The Committee wanted to have a comprehensive study report from Planning Commisson who were working on all these issues.

812. *Grant No. 176—Capital Outlay of Special Development Programmes of Provinces (Page 344—A.A.).*—The Committee recommended nominal excess of Rs. 138 under this grant for regularization.

813. *Grant No. 177—Development Loans and Advances by the Federal Government (Page 344—A.A.)*.—There was a saving of Rs. 912,504,082 under “Charged” section and Rs. 4,140,890,724 under “other than Charged” section of this grant. Audit reported to the Committee that saving under “charged” section was 13% of the Appropriation. The Department explained that the Final Grant worked out by Audit as Rs. 6,557,867,700 was not correct. There was a difference of Rs. 929,980,000 which was due to non-accountal of surrender order of this amount by AGPR on the plea that it was done after 31-3-1984. Similarly saving of Rs. 4,140,890,724 was due to non-receipt of money from external sources and less receipt of aid for WAPDA. The Chairman PAC observed that excessive provision should be avoided in future.

814. *Appropriation Audit (Charged) (Page 359—A.A.)*.—There was an excess of Rs. 13,346,081 against final appropriation of Rs. 181,626,000 which was 7%. The excess was attributed mainly due to payment of advance salary on Eid. The Committee recommended the excess for regularization.

815. *Appropriation—Servicing of Domestic Debt (Page 363—A.A.)*.—There was an excess of Rs. 2,128,030,260. The Committee recommended the excess for regularization through Excess Budget Statement.

816. *Appropriation—Servicing of Foreign Debt (Page 364—A.A.)*.—There was a saving of Rs. 1,131,678,453. The Committee did not any make observation.

817. *Appropriation—Repayment of Domestic Debt (Page 364—A.A.)*.—There was a saving of Rs. 4,914,206,342. The Committee and not make any observation over it.

818. *Appropriation—Repayment of Foreign Debt (Page 366—A.A.)*.—There was a saving of Rs. 881,134,881 against this Appropriation. The Committee did not make any observation.

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819. *Grant No. 38—Finance Division (Page 339—A.A.)*.—The grant closed with a saving of Rs. 1,638,516. The Committee did not make any observation due to saving being within permissible limits.

820. *Grant No. 39—Pakistan Mint (Page 341—A.A.)*.—There was a saving of Rs. 830,259 which was within permissible limit. The Committee did not make any observation.

821. *Grant No. 40—Superannuation Allowances and Pensions (Page 343—A.A.)*.—There was an excess of Rs. 17,161,000 under “Other than Charged” section and Rs. 22,867,593 under Charged Section of this grant. The Department explained that the Budget Estimates under this grant were framed by the Accounts Officers, which generally did not prove to be accurate due to Liberalised Pension Rules and due to premature retirement of the officers. Where as collection of data relating to actual expenditure from Treasury Officers also took a lot of time. The correct Supplementary Demand and the surrenders could not be made accurately. The steps had now been taken to attain maximum possible accuracy in Budget estimation and collection of data. The Committee recommended the excess for regularization through Excess Budget Statement.

822. *Grant No. 41—National Savings (Page 344—A.A.)*.—As per Appropriation Accounts there was a saving of Rs. 1,166,737 under this grant. The overall saving was within permissible limit ; the Committee did not make any observation on it.

823. *Grant No. 42—Other Expenditure of Finance Division (Page 346—A.A.)*.—The Appropriation Accounts showed a saving of Rs. 981,652,071. The Department explained that an amount of Rs. 1,149,103,33 was surrendered in time which resulted in an excess of Rs. 167,450,929 under this Grant. This excess was due to wrong adjustment of a sum of Rs. 160,000,000 by AGPR, Lahore. While explaining the subsidy of Rs. 1,300,000,000 paid on edible oil, the Department stated that prices of Ghee manufactured by the Ghee Corporation of Pakistan were fixed by the Government, allowing subsidy on losses so incurred. Now G.C.P. has been allowed free selling on any price. Private Industry and G.C.P. were now at par. The Auditor General at this point observed that is should be better if amount of subsidy was budgetd in the Grant of Administrative Ministry. The Department appreciated this proposal of the Auditor General. The Chairman PAC observed that such loopholes in the system were required to be corrected.

824. *Grant No. 43—Grants in Aid and Miscellaneous Adjustments between the Federal and Provincial Governments (Page 349—A.A.).*—A saving of Rs. 2,666,303 under “Other than Charged” section of this grant was within the permissible limits. The Committee did not make any observation.

825. *Grant No. 44—Grants and Subsidies to Non-Financial Institutions (Page 350—A.A.).*—There was no variation under this grant.

826. *Grant No. 134—Federal Miscellaneous Investments (Page 351—A.A.).*—This grant closed with a saving of Rs. 755,166,175. The Department reported that an amount of Rs. 755,135,000 was surrendered on 31st March, 1985 well in time leaving a saving of Rs. 31,175. While explaining Supplementary Grant of Rs. 11.9 million, it was reported by the Department that this was obtained to pay subscription towards government equity in Serena Hotels at Quetta and Faisalabad. The Committee wanted to know details about this government equity and desired that the full details may be supplied in its subsequent meeting.

827. *Grant No. 135.—Other Loans and Advances by the Federal Government (Page 353—A.A.).*—There was a saving of Rs. 116,371,057 under this grant which worked out to 16% of the Final Grant. An amount of Rs. 16,188,000 was surrendered leaving balance of Rs. 100,183,057 which was explained by the Department as due to non-drawal of advances by Governemnt servants and incorrect booking of expenditure. It also included a sanction for Rs. 82,015,652 to Pak-Iran Textile Mills on account of outstanding instalment and interest thereon to Government of Iran of account of loan utilised by PITM which was not adjusted by AGPR. Secretary Finance reported to the Committee that in Principle a decision had been taken in the case of Pak-Iran Textile Mills. The implementation of the decision had been delayed due to certain reasons. The cost of the project was Rs. 36 crore. The Government of Iran at one stage desired that they would like to withdraw from the venture and they wanted that their capital of about Rs. 16 crore which was guaranteed by Government of Pakistan should be returned. A Committee was subsequently formed which made certain recommendations, but nothing has been finalised. Production Division will be in better position to say something on this subject. A Member of the Committee observed that an amount of Rs. 100 crore had so far been wasted and thus something must

be done. The Committee after some discussion directed that since heavy losses were being incurred, the present position of Pak-Iran Textile Mills issues may be reported to P.A.C. within one month.

828. *Grant No. 147—Development Expenditure of Finance Division (Page 355—A.A.).*—This grant closed with a nominal saving of Rs. 888. The Committee did not make any observation.

829. *Grant No. 179—Capital Outlay on Mint (Page 357—A.A.).*—There was a saving of Rs. 670,792 under this grant. The amount was surrendered. The Committee did not make any observation.

830. *Grant No. 180—Miscellaneous Capital Investments (Page 358—A.A.).*—There was no variation under this grant. Audit, however, informed the Committee that a Supplementary Grant of Rs. 15 million was obtained for equity in National Press Trust. The Committee observed that they would like to see the charter of the National Press Trust which may be supplied to the PAC for further action.

831. *Grant No. 181—Capital Outlay on Special Development Programmes of Provinces (Page 360—A.A.).*—The Committee did not make any observation, there being a nominal saving of Rs. 230 only.

832. *Grant No. 182—Development Loans and Advances by the Federal Governemnt (Page 362—A.A.).*—The “Charged” section of this grant closed with an excess of Rs. 244,574,020 which was 3% of the final Grant. The “Other than Charged” section of this grant closed with a saving of Rs. 5,049,792,685. The Department while explaining excess of Rs. 123,960,349 reported to the Committee that the amount represented payment by Government of Pakistan of overdue instalment of consortium loan of \$19 million which was actually by payable by National Shipping Corporation but due to default of National Shipping Corporation it had to be paid by Government of Pakistan being the guarantor. The Chairman PAC observed that the circumstances under which loans were taken when the Corporation was not in a position to return these loans may be explained by the Department.

833. The Auditor General of Pakistan at this point reported to the Committee that according to the Constitution when no services were

provided in the budget, no expenditure could be incurred against those services. The excess against the services provided could be passed through Excess Budget Statement, but there was no provision for incurring expenditure against a new service. In this case no provision was made for payment of this loan as such this was doubtful if this expenditure could be recommended through Excess Budget Statement. The Committee directed that a Member of the PAC, Finance and Audit should go into the affairs of Pakistan National Shipping Corporation where heavy amount of loans were being taken without their capacity to return.

834. *Appropriation "Audit" (Page 374 to 378—A.A.).*—There was a saving of Rs. 745,891 under this Appropriation which was within the permissible limit, the Committee did not make any observation.

835. *Appropriation—Servicing of Domestic Debt (Page 380—A.A.).*—There was an excess of Rs. 4,609,952,390 under this Appropriation which was 49% of the Final Appropriation. The Chairman PAC desired to know the details of the loans and the interest on these loans. The amount of the total interest paid. The number of projects on which these loans were spent with figures of income of these projects. A Member of the committee observed that in his opinion there must be some limit for deficit financing and inquired if any limit had been imposed by the Parliament on floating of such loans. The Auditor General at this point observed that purchasing power was reduced and indirectly everybody was taxed through deficit financing. Real value was now perhaps the criteria. A Member observed that actual deficit during last 40 years was 2.5 times to 4.2 times more than budgeted. The Department informed the Committee that the Parliament had not fixed any limit and government had to do it to create resources for running the show. The figures as given by the Audit Department differed from those of departmental figures. The Committee after some discussion directed that heavy difference in figures should be reconciled and following information may also be supplied to the P.A.C. :—

- (i) Total amount of loans with details.
- (ii) Amount of Interest paid.
- (iii) Name of Projects being financed from these loans.
- (iv) Revenue being generated from each project.
- (v) What was recurring expenditure ?

836. *Appropriation—Servicing of Foreign Debts (Page 381-AA).*—There was a saving of Rs. 489,304,164 under this Appropriation. A Member of the Committee observed that this saving was not understood when all expenditure was reimbursed. The Audit informed that this was due to the fact that the State Bank of Pakistan could not pay the amount before 30th June. The Committee did not make any other observation.

837. *Appropriation—Repayment of Domestic Debt (Page 382-AA).*—There was a saving of Rs. 7,630,404,547. The Chairman PAC wanted to know the Checks being imposed by the Finance over the companies which were looting the government and the public. The Department informed that they have issued warnings for legal action. The Committee observed that the details of the companies including corporations involved in illegal business should be supplied. The action being taken against such institutions including cooperatives may also be reported to the Committee.

838. *Appropriation—Repayment of Foreign Debt (Page 383-AA).*—There was a saving of Rs. 481,605,237 under this Appropriation. The Committee did not make any observation.

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839. *Mis-appropriation of Rs. 53,812 (Para 1, page 59—AR).*—Audit pointed out that during 1975-76, a sum of Rs. 53,812 was misappropriated which was noticed after 16 months by its inspection staff. The case was registered with FIA in August, 1978. No Departmental Inquiry was conducted to know flaws in the system. The Department explained that the matter was under investigation and a case was also in the Court of Law. Final action will be reported to Audit in due course. The Paragraph was settled subject to verification of final action by Audit.

COMMERCIAL ACCOUNTS — 1983-84

840. *Federal Bank for Cooperatives (Para 113, page 106—ARCA).*—According to the Audit Report, the Bank advanced a loan of Rs. 94 million (apart from Rs. 25 million investment) for business operations to its subsidiary Agriculture Marketing and Storage Limited

against the security of its stocks, in 1982-83. The loan was repayable within a year. AMSL repaid only Rs. 26 million (including interest) due to heavy losses during 1982—84. Loan adjustment of Rs. 74.96 million was still under negotiation. It was reported that Government has agreed to reimburse Rs. 44 million on account of unavoidable losses to AMSL. The Department in reply admitted that the planning in this case was not satisfactory. The company had suffered huge losses of 72 million. The Ministry of Finance after an investigation held that losses amounting to Rs. 44 million were beyond the control of the company and thus the amount was reimbursed. The Managing Director at that time had retired. It was a case of mis-management and inefficiency. There was another amount of Rs. 42 million which was being pursued in the court. It was, however, reported that some losses were classified as avoidable and others unavoidable. The unavoidable losses were reimbursed. The matter was still under inquiry with FIA. As for Potato Operation the company was conceived to create and develop marketing through cooperatives. The Chairman PAC at this point observed that there was no justification in entering into operation for which the Department had no proper technique and management. The Department reported to the Committee that there was exceptionally high crop of Potato. The Government decided to enforce the prices and also entrusted the job of finding a market for 65 thousand tons of Potato which was not within the capacity of the company which was not established for this purpose.

841. The Committee showed its displeasure on the affairs of this company and directed that all out efforts should be made to improve the efficiency.

842. (*Para 114, page 106—ARCA*).—According to the Audit Report, investment of Rs. 6.883 million as on 30th June, 1984 represented investment in shares of the Frontier Provincial Cooperative Bank under approval from the Ministry of Finance. In view of the advance liquidity position of the Frontier Provincial Cooperative Bank, the said investment has been treated as doubtful. Accordingly, provision for diminution in value of investment of Rs. 6.883 million has been made in the accounts under review.

843. The Department informed the Committee that the liquidity position of the Frontier Cooperative Bank had improved and it had

earned a profit of Rs. 3 million. The performance of Bank had improved during the last three years. The paragraph was settled.

844. (*Para 115, page 106—ARCA*).—It was reported by Audit that Bank advanced Rs. 1,133 million to Provincial Cooperative Banks (as on 30-6-1984). Short term loan of Rs. 11.1 million advanced for Kharif and Rabi in 1980-81 to Baluchistan Co-operative Bank were still recoverable. It has been reported that over due loan has since been rescheduled.

845. The Department informed that all out efforts were being made to recover the loans and improve the situation. The paragraph was settled.

HOUSE BUILDING FINANCE CORPORATION

846. *Non-recovery of liquidated damages from contractor Rs. 20.592 million (Para 25, page 40—ARCA)*.—Audit reported to the Committee that House Building Finance Corporation awarded contract of Rs. 76 million for construction of 312 houses in Lahore for Overseas Pakistanis in 1979. Not a single completed house was handed over by October, 1984 though the whole project was to be completed by December, 1982 as per agreement. Neither any formal extension was granted to the contractor nor liquidated damages of Rs. 20.9 million were claimed by HBFC (3000 per house per month as on October, 1984).

847. The Department explained that 200 houses were completed and 95% of the work of the remaining houses had also been completed. It was expected that the whole project will be completed by 15th August, 1987. A member wanted to know as to why the project which was commenced in 1979 and was scheduled to be completed by 1982 was not completed so far. The Department informed that basically it was the problems of funds, due to which the project could not be completed within the scheduled time. The Chairman PAC wanted to know if the condition of the construction work was according to the satisfaction of the Department, as according to his information the construction work was much below specifications. The Department informed that there was nothing wrong with the construction. The Committee after some discussion directed that the Committee comprising of members of the

reported that in 1981, 20,000 tiles were purchased at the rate of Rs. 7 per tile on quotations. Fixing and polishing work was also awarded to the supplier at Rs. 7 per tile. However only 6621 tiles were used in the Stationery Department up to August, 1982 and the remaining quantity was still lying un-utilized resulting in blockade of capital of Rs. 93,650. The Department intimated that quotation in this case were called for but the rates were very high and as such negotiations were carried out after survey of the market and work order placed. The Committee accepted the explanation and settled the paragraph.

856. *Irregular Purchase of Straw Board amounting to Rs. 42,240 (Para 28, page 42-ARCA).*—According to Audit in August, 1981, 1 ton straw board was purchased for Rs. 5,280 on single quotation basis. A month after 7 tons straw board was also purchased for Rs. 36,960 from the same supplier without calling new quotations. The supplier was also paid Octroi Charges and cartage although there was no such provision. The Department reported that in this case again work order was placed after negotiation in the best interest of the Government. The Committee accepted the explanation and settled the paragraph.

857. *Pakistan Security Printing Corporation Limited (Para 127, page 112 - ARCA).*—According to the Audit a sum of Rs. 20 million was drawn from NDFC as Loan in view of insufficient cash balance with the Corporation. The money was invested in Government Treasury Deposit Receipts (GTDR) and Short Notice Deposit Account at a lesser rate of interest, resulting in a loss of Rs. 0.76 million. The department explained that Machinery was to be imported and a sum of Rs. 80 million was immediately used for payment. The balance of Rs. 20 million was expected to be spent within the financial year, instead of keeping the money idle, it was invested. The estimates were incorrect. Cash management has now improved. The difference of interest paid and interest realised worked out to as loss. The Chairman PAC wanted to know the amount of loss. The Department informed that it was Rs. 7,60,000. The Committee showed its displeasure and directed that such things should not happen again.

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858. *Irregular purchase of 300 Tons imported Blue Papers (para 12, page 30—ARCA).*— Audit pointed out that in April, 1981, 200 tons blue paper was purchased for Rs. 3.75 million at the rate of Rs. 18,781 per ton on quotation basis. After having accepted the lowest quotation, an enhancement of Rs. 225 per ton was allowed on account of licence fee. In May, 1981 another quantity of 100 tons was purchased from another supplier at a rate of Rs. 18,480 per ton indicating that the earlier purchase was not the most economical one. The Department explained that this was imported paper which was not freely available in the market. The principle of competitive quotation were observed and the order was placed after due care. The Committee accepted the explanation and settled the paragraph.

Agriculture Development Bank of Pakistan

859. *Loss of Awarding work to Private Printer at high rates Rs. 249,200 (Para 11, page 30—ARCA).*— As reported by Audit Printing was got done at very high rates from a private press in 1981 while the same work was done by Bank's Press in 1982 at lesser rate. Loss calculated amounted to Rs. 249,200. The Committee after going through the explanation of the Department settled the paragraph.

860. *Agriculture Development Bank of Pakistan (Para 168, page 137 - ARCA).*— Audit reported to the Committee that out of Rs. 24.2 million refundable Income Tax accumulated for the period 1968—1979, Rs. 21.88 million remained as unsettled/unrecovered upto 30-6-1984. The Department reported that an appeal in this case have been filed and the Bank was conducting the case properly. The paragraph was settled subject to verification of final action by Audit.

861. *Industrial Development Bank of Pakistan overdue loans (Para 184, page 142 - ARCA).*— Audit reported that there are overdue loans of more than 36 months constituted 78% of the total overdue loans which needed attention. The Department reported that there were many reasons for these over due loans. Many cases were pending in the court of law for recovery. The percentage of such court cases was 25%. Then again there

the Corporation had in fact created a 'Reserve for contingencies' although it claimed that its dues were secured and recoverable as arrears of land revenue. Amount in this Reserve stood at Rs. 20 million in 1986.

865. The funds of the Corporation having been disinvested and with ban placed on future investments in Khas Deposits, there was room for enlarging the scope and volume of loan disbursement. The Corporation may consider opening its branches in Tehsil headquarters as well (in addition to District headquarters) in order to carry its services to the doorsteps of the needy people.

866. Financial assistance was extended in the past on interest. Loaning operations of SBFC were Islamised in 1980 subsequent to which interest was replaced with:—

profit or loss sharing (at predetermined fixed) rates on cash financial assistance. Hire charges on assets (also at predetermined fixed rates) under hire purchase system.

This was not essentially different from interest under the previous interest based system.

867. The Department reported to the Committee that the corporation had not invested funds since last two years. the Corporation has limited resources and with a paid up capital of 100 million, they had to operate within certain limitation? Special attention was being paid to the recoveries overdue. A special recovery campaign had been started. The rate of interest charged was very low as compared to other financial institutions.

868. The Committee after listening to the Department directed that Planning Division should carry out a study. Finance and Audit may also associate. A Report on the subject may be submitted to PAC.

ISSUE PERTAINING TO FINANCE DIVISION RAISED BY PUBLIC ACCOUNTS COMMITTEE

869. *Budgeting.*—Chairman PAC *vide* his letter of 22nd May, 1986 addressed to the Finance Minister, had raised certain issues about

budgeting process. The Ministry of Finance *vide* their D.O. Letter No. 2838-JS (Exp)/86, dated 28-9-1986, constituted a standing committee to examine the budgetary and accounting problems arising from time to time and to suggest workable solutions. The Committee was asked to focus its attention, for the present, on the following issues:—

- (1) To examine the budget making process so as to suggest measures to check over-provisioning/under-provisioning in the budget by anticipating fully the requirements of funds during the year.
- (2) To suggest the basis by which saving could be ascertained well in time and to suggest a date for surrenders and mechanism thereof which should provide a room to the Ministry of Finance to utilize the amount elsewhere and also cater to the difficulties of other Ministries/Divisions due to uncertainties about their expenditure.
- (3) To suggest measures to check excess in expenditure over the authorized allocations, more particularly by those organizations whose accounts were departmentalized.
- (4) To devise a procedure whereunder all the supplementary allocations get reflected in the book of Supplementary Grants.

On the recommendations of the Committee, the Finance Division has decided to substitute para 95 of GFR Vol. I as under:—

“All anticipated savings should be surrendered to Government immediately these are foreseen but not later than 15 May of each year in any case, unless they are required to meet excesses under some other units which are definitely foreseen at the time. However, savings accruing from funds provided through Supplementary Grant after 15th May shall be surrendered to Government immediately these are foreseen but not later than 30th June of each year. No savings should be held in reserve for possible future excesses”.

871. The Department informed the Committee that the letter from Chairman PAC basically dealt with Budgetary Processes, the Supplementary Grant and system. The existing system was to be reviewed so that it becomes more meaningful. A Committee was constituted with representative from Auditor General, Planning Division and O & M

Division. It was agreed that the existing procedure of making surrenders was required to be reviewed and that there should a date upto which surrenders could be accepted. It was decided that surrenders should be accepted up to 15th May of the financial year.

872. The problem of Supplementary Grant not being reflected in the Book of Supplementary Grant was also discussed in the Committee. During the last financial year all supplementary grants allowed upto 25th May were included in the Book of Supplementary. It future years, it was decided to link it with presentation of budget. It will provide sufficient time to reflect it in the Budget.

873. The Chairman PAC observed that a question was raised in the PAC meeting while examining the accounts of the Ministry of Communication (T&T) that there was no effective control on the Administrative Divisions for spending foreign exchange allocations in local currency. It was, therefore, probable that while the overall Grant had not been exceeded, the local currency allocations might have been exceeded.

874. The Finance informed the Committee that instructions were very clear on the subject. Foreign Exchange allocation could not be used in Rupees. As for Accounting Foreign Exchange component it was also shown in Rupees in Appropriation Account. Total budget was reflected in Rupees. It was also approved by legislative in Rupees. The existing procedure could, however, be reviewed.

875. A member at this point wanted to know as to how exchange fluctuations were taken into Account. How loss of fluctuation in rate which were in millions were dealt with. He was of the opinion that there could be some sort of Insurance. The Department informed that as for loans it was not possible, although some banks had given proposals. As for imports this could be examined but it was not mandatary.

876. *Audit of Commercial Bank, D.F.I's and Other Organisations.*—A meeting was held in State Bank Karachi on 11-2-1987 to apprise the PAC of the reactions of Nationalized Bank about the proposal for auditing the Nationalized Banks by the Auditor General of Pakistan. It was decided in the meeting that the Banking Council and the

State Bank of Pakistan shall formulate their proposals and furnish them to the PAC through the Auditor General of Pakistan. The proposals have not been received as yet. The Committee would also like to know the present position regarding the audit of the Development Financial Institutions about which the Finance Secretary had assured the Committee that they were being taken to get their accounts audited by the Auditor General. The Committee desired that the Accounts of all the Organisations in which the Federal Government has any financial interest directly or indirectly should be placed before it through the Auditor General.

877. The Department reported that they were awaiting proposals from Banking Council. These proposals will be considered and submitted to the Minister for amendment of existing law, if necessary. Auditor General informed that it was promised in the meeting at Karachi that a paper would be submitted to Auditor General, who would send it to Finance with his comments, but no such paper was received by him. The Department informed that the paper would be ready by the end of September, 1987.

878. As for other financial institutes, the Department informed that where it was entirely Govt. equity, these should be Audited by Auditor General. In the case of Private Companies, legal aspects were also required to be considered. As for joint ventures PICIC, they shall have to see larger national interest, Fauji Foundations were also purely private enterprises.

879. The Committee directed that a paper may be submitted to PAC by the end of September, 1987. Ministry of Finance may also examine the legal and other aspects of audit of Fauji Foundation and other Foundations and submit a report.

Marine Insurance

880. The Committee while examining the accounts of Defence Production Division desired that the Ministry of Finance should formulate a uniform policy regarding Marine Insurance Consignments. It should also examine the case regarding raising the liability limit of the shipping agents.

881. The Department informed the Committee that this had already been examined. A study was carried out in 1983-84. It transpired that losses were much less than the premium required to be paid in insurance cases. The Auditor General at this point observed that as an alternative, a fund could be created at some estimated rate and the losses met from that fund. The budgetary position thus will not be disturbed.

882. The PAC directed that a Committee comprising of representatives of Finance and Audit may be constituted to examine insurance of Government consignments with special reference to Food and Agriculture commodities.

883. *Points not discussed.*— The Committee did not make any observation on other points contained in the Appropriation Accounts and Audit Report. These would be deemed as settled subject to such regularisation action as may be necessary under the rules.

884. The Committee then adjourned to meet again at 9.00 A.M., on Monday, the 20th July, 1987.

K.M. CHIMA
Secretary.

Islamabad, the