



20<sup>th</sup> October, 2017

TL17/2010/1A

Chairman,  
National Highway Authority,  
Islamabad.

**Sub. Auditor General Pakistan Reports “Over Rs. 400 Billion Irregularities  
found in Road Projects”**

Dear Sir,

Transparency International Pakistan refers to the TI reply TL17/0903/8A dated 9 March 2017 sent to Chairman NHA in response to NHA letter No 2//GM (P&CA)/NHA\_2017/362 dated 8<sup>th</sup> March 2017, with respect to the complaint in the Award of Karachi-Lahore Motorway Project. The letter was also copied to NAB. (Annex-A).

However, the Auditor General Pakistan report published in Dawn of 17<sup>th</sup> October 2017, reveals irregularities in NHA Projects, including in the award of the Karachi-Lahore Motorway Project, and the Rs. 294.352bn contract for the Sukkur-Multan section of the motorway, awarded to the China State Construction Engineering Corporation (CSCEC). (Annex-B).

AGP reports Rs 400 Billion irregularities in NHA. If correct, it is a very serious issue, as it is equivalent to about US \$ 4 Billion, and amounts to total foreign loan taken on commercial terms (@ over 8% interest/annum) by government in last 3 years.

From the AGP report following irregularities has been noted in the Award of Karachi-Lahore Motorway Project.

1. One of the main NHA projects mentioned in the report was the Rs148bn engineering, procurement and construction of a 230km section of the Karachi-Lahore Motorway between Lahore and Abdul Hakeem. The work was awarded to a joint venture (JV) of China Railway 20 Bureau Corporation (CR20G) and Zahid Khan & Brothers (ZKB) on Dec 8, 2015.
2. The audit observed that the whole project was tendered in one package. “Very tight condition of experience for pre-qualification reduced the quantum of response,” the audit noted, explaining that no Pakistani firm could win tenders in its individual capacity. “Had the project been divided into multiple packages, it would have resulted in more healthy competition,” the auditors opined.



3. According to the report, a joint venture of ZKB and the China Gezhouba Group Company was disqualified in the pre-qualification process.
4. However, ZKB was allowed to form another JV with CR20G at the bidding stage, in violation of PPRA rules.
5. At the time of bidding, the lowest bidder also did not provide the mandatory bid security of Rs. 500 million, and consequently, the bid was supposed to be declared "non-responsive". However, the audit noted that this was not done by the NHA.
6. Later, the JV reduced their bid from Rs159.784bn to Rs148.654bn following negotiations between the NHA and the contractor, another violation of PPRA rules, the report said. "It is evident that the work was awarded irregularly."

Transparency International Pakistan has noted that NHA in its letter dated 8<sup>th</sup> March 2017 clarified to TI Pakistan that no price negotiations were held with M/S China Railway 20 Bureau & ZKB, and that FWO did not qualify, whereas M/S China Railway 20 Bureau & ZKB were qualified.

But as reported by AGP, M/s ZKB and the M/s China Gezhouba Group Company JV was disqualified in the pre-qualification process, and JV of China Railway 20 Bureau Corporation (CR20G) and Zahid Khan & Brothers (ZKB) submitted bid, which is not allowed under PPRA Rules. The second violation committed by NHA is that JV reduced their bid from Rs159.784bn to Rs148.654bn following negotiations which is also violation of PPRA rules.

PPRA Rule No 30 quoted below does not allow NHA to change the prequalification condition for M/s ZKB, once it is a condition of the tender.

**30. Evaluation of bids - (1)** All bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents. Save as provided for in sub-clause (iv) of clause (c) of rule 36 no evaluation criteria shall be used for evaluation of bids that had not been specified in the bidding documents.

In the view of wrong clarification given to TI Pakistan by NHA, and the serious irregularities detected in the Audit report of Auditor General Pakistan, it appears that NHA has not only violated the PPRA Rules, but also deliberately awarded the contract to a NHA disqualified company for this very project, M/s Zahid Khan & Brothers (ZKB) by illegally allowing ZKB to form a new JV with China Railway 20 Bureau Corporation.

The other Project mentioned in AGP Report is Rs. 294.352bn contract of Sukkur-Multan section of the motorway. The auditors have found something fishy in the award of a



Rs294.352bn contract for the Sukkur-Multan section of the motorway, awarded to the China State Construction Engineering Corporation (CSCEC). The project, whose cost was estimated by CSCEC at Rs 240.158bn was awarded to the same firm at higher rates, the report said, adding that the rates quoted by CSCEC were “very much on the higher side” as compared to the PC-1 rates offered by the same contractor. In this case, agent of CSCEC is reported to be Javed Saddiq, who accepted that he gets about 6% agency commission on this project.

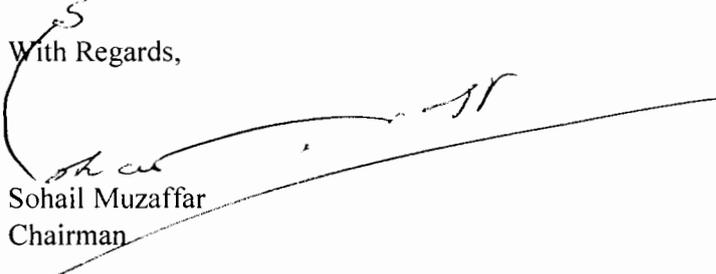
Prima facia this is a case of Mis-Procurement under Rule No 5, and M/s China Railway 20 Bureau Corporation (CR20G) and M/s Zahid Khan & Brothers (ZKB) and concerned officers of NHA are involved in committing an act of corruption under Rule 2(f). According to PPRA Rule No. 7, Integrity Pact, ten times the loss incurred to the exchequer as reported by AGP, is recoverable from the JV as fine.

NAB has already taken up the complaint against M/s China Railway 20 Bureau Corporation (CR20G) and M/s Zahid Khan & Brothers (ZKB) as reported in press on 21<sup>st</sup> July 2016. (Annex-C).

NAB is requested to examine the AGP Audit Report for the NHA’s accounts for the audit year 2016-17, and investigate all the irregularities, and if the irregularities are found correct, action be taken under NAO 1999.

Transparency International Pakistan is striving for across the board application of Rule of Law, which is the only way to stop corruption.

With Regards,

  
Sohail Muzaffar  
Chairman

Copies forwarded for the information with request to take action under their mandate,

1. Secretary to Prime Minister, Islamabad.
2. Registrar, Supreme Court of Pakistan, Islamabad.
3. Managing Director, PPRA, Islamabad.



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9<sup>th</sup> March, 2017

TL17/0903/RA

Mr. Shahid Ashraf Tarar,  
Chairman,  
National Highway Authority,  
Islamabad.

**Sub: Allegation of Collusion in the Award of Karachi-Lahore Motor-way Project to M/S China Railway 20 Bureau & ZKB at a Cost of Rs 148.654 bn Causing Loss of Rs 14 Billion.**  
**Ref: NHA Letter No 2//GM (P&CA)/NHA/2017/362 dated 8<sup>th</sup> March 2017**

Dear Sir,

Transparency International Pakistan refers to the NHA letter No 2//GM (P&CA)/NHA /2017/362 dated 8<sup>th</sup> March 2017 on the clarifications of NHA dated 15.6.2016, on the complaint in respect to the Award of Karachi-Lahore Motor-way Project, forwarded vide its letter dated 29<sup>th</sup> April 2016, on which further the deliberations were held between Advisor TIP and NHA management at your office on 6.3.2017.

Following two issues reported to NHA by Transparency International Pakistan on 29.4.2016 were further clarified by NHA Management during the discussions held in the office of Chairman NHA on 6.3.2017.

NHA Clarified as under,

**1. Objection: Tampered and Lower Quantities Submitted by China Railways:**

- a. The NHA clarified that the BOQ quantities indicated in the NHA Tender were approximate, and estimated for the Formation of Embankment of Borrow Excavation in Common Material, Granular Sub-base, Asphalt Base Course Plant Mix (Class-A), Aggregate Base Course, Asphalt wearing Course Plant Mix (Class-A), and Bill No 9, providing of Intelligent Transportation System is the mandatory requirement of the Project.
- b. This is an EPC Contract, and is not based on BOQ quantities or quoted rates, and is a Lump Sum Contract for all works to be carried out according to the approved design within the contracted cost.
- c. The estimated quantities in the NHA bidding document were based on the profile to maintain minimum clearance of 5.5 meters height, and were rightly quoted by the all the bidders.
- d. M/s FWO, besides being not shortlisted due to failure to meet experience requirement, in their unsolicited bid had quoted the price of Rs. 134 billion, which was based on the profile to maintain minimum clearance of 3.5 meters



- height for road alignment instead of 5.5 meters height, and when quantities were reworked for the 5.5 meters height, FWO cost worked over Rs. 180 billion.
- e. The cost of Bill No.9-“Intelligent Transformation System” which is estimated to cost Rs. 10 billion is part and parcel of the contract, and the contractor China Railways 20 Bureau & ZKB will provide the Intelligent Transportation system under the overall quoted lump sum EPC contracted price.

**2. Objection: According to PPRA Rules, no price negotiation is allowed:**

NHA, has not negotiated the tendered price with the bidder, and complied with PPRA Rules. Only the technical negotiations were held on the design etc. and the quoted prices by the bidder were based on EPC design submitted by the bidder remains unchanged.

The position on the above quoted two objections 1&2 was deliberated. It was confirmed by NHA that the Contracted Project Cost includes all works to comply with the Specifications of NHA, including the supply, installation and operations of Intelligent Transportation System, and that the PPRA Rules of negotiation were fully complied with by NHA.

Transparency International Pakistan is given to understand that the FWO's unsolicited quoted price of Rs 134 bn was for reduced scope of work, which is in fact over Rs 180 bn for complete scope of work,, and that the contractor M/s China Railway 20 Bureau & ZKB will carry out all motorway works including the supply & installation of the complete Intelligent Transportation Intelligent Transportation system worth over Rs. 10 billion, within the quoted price.

In the view of clarification of NHA, and the assurance of Chairman NHA, Transparency International Pakistan is of the view that the allegations pointed by the complainant against this tender were not based on facts.

Transparency International Pakistan is striving for across the board application of Rule of Law, which is the only way to stop corruption.

With Regards,

  
Sohail Muzaffar  
Chairman

Copies forwarded for the information of

1. Secretary to Prime Minister, Islamabad.
2. Chairman, NAB, Islamabad.
3. Chairman, PMIC, Islamabad.
4. DG, NAB, Karachi.
5. Registrar, Supreme Court of Pakistan, Islamabad.
6. Managing Director, PPRA, Islamabad.

DAWN

## Over Rs400bn irregularities found in road projects

Syed Irfan Raza Updated October 17, 2017

ISLAMABAD: The auditor general of Pakistan (AGP) has found irregularities worth hundreds of billions of rupees in the award of various road projects by the National Highway Authority (NHA), including certain projects initiated under the China-Pakistan Economic Corridor (CPEC).

The report on NHA's accounts for the audit year 2016-17 found 52 cases, involving an amount of around Rs470 billion, where irregular award of contracts, violations of Public Procurement Regulatory Authority (PPRA) rules and unauthorised expenditures were observed.

In 102 cases, auditors pointed out weakness in internal controls that led to irregularities/losses to the tune of around Rs120bn. The audit report also points out seven cases of poor performance, including mismanagement, placing an undue burden on the national exchequer and inefficient utilisation, which caused a Rs7bn dent in the national kitty.

One of the main NHA projects mentioned in the report was the Rs148bn engineering, procurement and construction of a 230km section of the Karachi-Lahore Motorway between Lahore and Abdul Hakeem. The work was awarded to a joint venture (JV) of China Railway 20 Bureau Corporation (CR20G) and Zahid Khan & Brothers (ZKB) on Dec 8, 2015.

The audit observed that the whole project was tendered in one package. "Very tight condition of experience for pre-qualification reduced the quantum of response," the audit noted, explaining that no Pakistani firm could win tenders in its individual capacity. "Had the project [been] divided into multi[ple] packages, it would have resulted in more healthy competition," the auditors opined.

According to the report, a joint venture of ZKB and the China Gezhouba Group Company was disqualified in the pre-qualification process. However, ZKB was allowed to form another JV with CR20G at the bidding stage, in violation of PPRA rules. At the time of bidding, the lowest bidder also did not provide the mandatory bid security of Rs500 million, and consequently, the bid was supposed to be declared "non-responsive". However, the audit noted that this was not done by the NHA.

Later, the JV reduced their bid from Rs159.784bn to Rs148.654bn following negotiations between the NHA and the contractor, another violation of PPRA rules, the report said. "It is evident that the work was awarded irregularly. The issue has also been highlighted by Transparency International... had the work been retendered, and in packages, it would have been awarded on much lesser rates," the report said.

The report also pointed out that downward trends in the prices of bitumen and high-speed diesel post-2014 were not factored in. "This is evident from the unsolicited bid of Frontier Works Organisation (FWO) dated Sept 30, 2016 of Rs 132.6 billion for the project which was not accepted by NHA being against PPRA rules."

The audit noted that FWO rates were always inclusive of 15 per cent overhead charges and 7pc income tax, making FWO's actual bid at around Rs121.992bn, lower than the actual Rs148.654bn bid by CR20G-ZKB.

The auditors also found something fishy in the award of a Rs294.352bn contract for the Sukkur-Multan section of the motorway, awarded to the China State Construction Engineering Corporation (CSCEC). The project, whose cost was estimated by CSCEC at Rs 240.158bn was awarded to the same firm at higher rates, the report said, adding that the rates quoted by CSCEC were "very much on the higher side" as compared to the PC-1 rates offered by the same contractor.

The report also highlighted irregularities in the "calling of tenders and award of work without administrative approval" for the construction of a road from Thalian on M2 Motorway to New Islamabad International Airport.

The Rs1.918bn contract that had remained "under process" since Dec 2011 was awarded to Habib Construction Services in Nov 2015 after approval by the Executive Committee of National Economic Council (Ecneec). The audit observed that the procurement process was initiated when the PC-1 was under process, but the lowest bid was accepted after the project was retroactively approved by Ecneec.

The auditors also found that a project involving the construction of a main link road for the New Islamabad International Airport was awarded to the National Logistics Cell, even though it fell under a concession agreement on the M2 Motorway that had already been awarded to the FWO.

*Published in Dawn, October 17th, 2017*

# The Nation

## **NAB takes notice of award of Karachi-Lahore Motorway Project by NHA**

July 21, 2016

### **ISLAMABAD:**

The National Accountability Bureau (NAB) has taken notice on a complaint filed by Transparency International (TI) Pakistan regarding allegation of collusion in the award of Karachi-Lahore Motorway Project.

The Project of Karachi-Lahore Motorway by NHA to M/S China Railway 20 Bureau and ZKB of Pakistan at a cost of Rs 148.65 billion causing loss of allegedly Rs 14 billion to the national exchequer.

The NAB has authorized complaint verification into the alleged mis-procurement by officers of NHA including Award of Karachi-Lahore Motorway Project by NHA to M/S China Railway 20 Bureau and ZKB of Pakistan.

DG NAB Rawalpindi has been directed to complete complaint verification as per law and submit a report.

NAB reiterates its firm resolve to carry out fair, transparent and across the board proceedings.