



PERFORMANCE AUDIT REPORT

ON

REAL ESTATE MANAGEMENT

IN

**STATE LIFE INSURANCE
CORPORATION OF PAKISTAN**

FOR THE YEAR 2015-16

AUDITOR GENERAL OF PAKISTAN

PREFACE

The Auditor General conducts audit as provided under Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973 read with Sections 8 and 12 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001. The Performance Audit of Real Estate Management in State Life Insurance Corporation of Pakistan (SLIC) for the period 2015-16 was carried out accordingly.

The Directorate General of Commercial Audit & Evaluation (DG CA&E), Karachi conducted Performance Audit of Real Estate Management in SLIC for the period 2015-16 during March 20, 2017 to April 17, 2017 with a view to report significant findings to the stakeholders. Audit examined the economy, efficiency, and effectiveness aspects in Real Estate Management of SLIC. In addition, Audit also assessed, on test check basis, whether the management complied with applicable laws, rules, and regulations in managing the affairs of Real Estate in SLIC. The Performance Audit Report indicates specific actions that, if taken, will help the management realize the objectives. Most of the observations included in this report have been finalized in the light of discussions in the DAC meeting.

The Performance Audit Report is submitted under Section 10 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 to the President of Pakistan in pursuance of the Article 171 of the Constitution of the Islamic Republic of Pakistan, 1973 for causing it to be laid before both Houses of Parliament.

Islamabad
Dated:

Javaid Jehangir
Auditor General of Pakistan

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ABBREVIATIONS AND ACRONYMS

AGP	Auditor General of Pakistan
BoD	Board of Directors
DH	Divisional Head
GoP	Government of Pakistan
GoS	Government of Sindh
ICI	Imperial Chemical Industries
INTOSAI	International Organization of Supreme Audit Institutions
KANNUP	Karachi Nuclear Power Plant
NESPAK	National Engineering Services Pakistan (Pvt.) Ltd.
RED	Real Estate Division
SLIC	State life Insurance Corporation
SOP	Standard Operating Procedure

EXECUTIVE SUMMARY

Directorate General, Commercial Audit & Evaluation, Karachi conducted the Performance Audit of Real Estate Management in State Life Insurance Corporation of Pakistan (SLIC) for the period 2015-16. The main objectives of the audit were to assess whether the Real Estate Management in SLIC was managed with due regard to economy, efficiency, and effectiveness. The audit was conducted in accordance with INTOSAI Auditing Standards.

Key Audit Findings:

- i. Non-formulation of Manual/SOP/Policy for Real Estate/Risk Management Committee reported in 04 cases.
- ii. Blockade of funds amounting to Rs.272.452 million reported in 02 cases.
- iii. Non-protection of assets reported in 02 cases.
- iv. Non-transferring the title of properties in the name of SLIC.
- v. Expected loss of Rs. 193.437 million due to non-traceable decreed assets of tenants and vacating of the premises by Tenants without payment of outstanding rent.

Recommendations:

- i. Policies/manual/SOP regarding tenancy, real estate management and risk assessment may be formulated and adopted.
- ii. Vacant plots may be constructed to increase rental income.
- iii. To investigate the causes of non-renting of vacant spaces of SLIC buildings.
- iv. Compliance of relevant rules must be ensured.
- v. Performance targets/bench marks may be set for real estate management and building managers.

1. INTRODUCTION

State Life Insurance Corporation of Pakistan was incorporated in Pakistan on November 1, 1972 under the Life Insurance Nationalization Order, 1972 (LINO). The principal office is located at State Life building No.9, Dr. Ziauddin Ahmed Road, Karachi. It operates in Pakistan through 33 Zones for individual life business and 4 Zones for group life business. In addition 5 new zones located in the gulf countries (comprising United Arab Emirates (UAE), Saudi Arabia and Kuwait will start their operation subsequent to the year end. The Corporation is engaged in the life insurance business, health and accident insurance business. Subsequently on April 06, 2016 Presidential Order was issued by the Pakistan Ministry of Law and Justice to provide for reorganization and conversion of the State Life Insurance Corporation of Pakistan into a Public Limited Company. As soon as may be after the commencement of this ordinance, the Federal Government shall establish a company, namely, State Life Insurance Company Limited, by shares and cause, to be incorporated under the Company Ordinance, 1984 with the principal object of taking over the business, functions, contracts, policies, proceedings, undertakings, assets, liabilities etc. The corporation is under the process of reorganization and conversion into Public Limited Company.

2. AUDIT OBJECTIVES

The major objectives of the audit were to;

- i. Evaluate whether real estate administration design is adequately planned, easy to administer, enable to achieve target.
- ii. Review project performance against intended objectives.
- iii. Assess whether the investment and administrative properties were managed with due regard to economy, efficiency, and effectiveness and to review whether compliance with applicable rules, regulations and procedures were done for the benefit of the corporation.
- iv. Evaluate the process /approach of the department to assess whether it is effective enough to provide proper facilities to the tenants/users.
- v. Evaluate the tendering process for construction of building, keeping in view the procurement rules and efficacy requirements.
- vi. Evaluate whether assets are procured and safeguarded properly.
- vii. Evaluate whether key-monitoring mechanism and indicators cover all areas and are effective enough for operational performance.
- viii. Evaluate whether proper system of collecting and analyzing data on performance indicators is in place.

3. AUDIT SCOPE AND METHODOLOGY

- i. Review the guidelines/policy to run the affairs/function of real estate division.
- ii. Overview of purchase / sale of State Life properties under the real estate division.
- iii. Overview of selection of architects / consultant for new running projects.
- iv. Overview on any pending tenancy / recovery and litigation matters of tenants.
- v. Overview selection of contractors for construction of projects.
- vi. Overview of maintenance / renovation of buildings including works like Civil, Electrical, and mechanical and electronic etc.
- vii. Overview replacement / updating of services like lifts, Air conditioning, firefighting etc.
- viii. Overview of services (security, water, janitorial and firefighting etc.)
Review progress of projects.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Organization and Management

4.1.1 Non-formulating the Manual/SOP/Policy for Real Estate Management by the BoD

Rule-5(7) of Public Sector Companies (Corporate Governance) Rules,2013 stated that the board shall formulate significant policies of the Public Sector Company, which may include;(h) Acquisition or disposal of fixed assets and investment.

During Performance Audit of Real Estate Management in State Life Insurance Corporation (SLIC) for the year 2015-16, it was observed that the Real Estate Department was managing Corporation's properties throughout Pakistan having market value of over Rs.32.00 billion haphazardly in the absence of any manual/SOP/policy as Board of Directors did not formulate policy/manual/SOP for real estate management so far.

Audit is of the view that in the absence of policy/manual/SOP for real estate management, Real Estate Department could not achieve the revenue at optimal level.

The matter was reported to the management in June, 2017.DAC meeting was held in September 2017. The management informed the DAC that committee has been formed to develop SOP for Real Estate Management which will complete the task by 31-12-2017. DAC directed the management to share the manual with audit after formal approval of the BoD. However, no progress was reported till the finalization of this report.

Audit recommends implementation of DAC directives.

4.1.2 Non-formulation of Risk Management Committee

Rule-12 of Public Sector Companies (Corporate Governance) Rules, 2013 states that the board shall set up a inter alia, Risk Management Committee, in case of public sector companies either in the financial sector or those having assets of five billion rupees or more, to effectively review the risk function.

During Performance Audit of Real Estate Management in State Life Insurance Corporation (SLIC) for the year 2015-16, it was observed that the Board of Directors has not setup Risk Management Committee required to effectively review the risk formation, which is a clear violation of above rule.

Audit is of the view that according to above mentioned rule the Board of Director were responsible to set up risk management committee for seeking assistance in the decision making process and to review the risk function. However, nonexistence of the said committee is a violation of above mentioned rule.

The matter was reported to the management in June 2017. DAC meeting was held in September 2017. The management informed the DAC that Risk management Committee has been formed and so far number of meeting already held. DAC directed the management to provide record to audit. However, no progress was reported till the finalization of this report.

Audit recommends implementation of DAC directives.

4.1.3 Non- formulation of tenancy policy

Rule-5(1)(7) of Public Sector Companies (Corporate Governance) Rules,2013 states that the board shall formulate significant policies of the Public Sector Companies, which may include;(e) Marketing of goods to be sold or services to be rendered by the Public Sector Companies.

During Performance Audit of Real Estate Management in State Life Insurance Corporation (SLIC) for the year 2015-16, it was observed that the

tenancy section of real estate department did not design a comprehensive tenancy policy for finalization of tenancy agreement including all related issues of recovery of outstanding rent, renewal of leases, escalation, freezing of rent besides matters of defaults, handling of court cases and out of court settlements.

Audit is of the view that in the absence of comprehensive tenancy policy the objectives of it could not be met and this result in poor management of assets of the organization.

The matter was reported to the management in June 2017. DAC meeting was held in September 2017. The management informed the DAC that draft comprehensive tenancy policy has been prepared which will be presented to next BoD meeting for approval. DAC directed the management to share the policy with audit after formal approval of BoD. However, no progress was reported till the finalization of this report.

Audit recommends implementation of DAC directives.

4.1.4 Non- recovery of sales tax on rented property

Government of Sindh through Finance Act-2015, imposed service tax @ 6% on renting of immovable property which was enhanced upto 8% in 2016.

As per clause-42BBB(3) Sindh Sales Tax, every person providing or rendering the renting of immovable services, shall issue tax invoices in the prescribed manner and shall charge and collect tax at the rate of 6%.(4) every person providing or rendering the renting of immovable property services shall deposit the amount of tax, in the prescribed manner, by the 15th day of the month and shall also file the return within 3 days from the due date for payment of tax.

During Performance Audit of Real Estate Management in State Life Insurance Corporation (SLIC) for the year 2015-16, it was observed that management did not recover the sales tax from the tenants as the tenancy

agreements are made without the clause for recovery of sales tax. This resulted into non recovery of sales tax.

Audit is of the view that the management has extended undue favour to the tenants by not deducting sales tax from them.

The matter was reported to the management in June 2017. DAC meeting was held in September 2017. The management informed the DAC that the detail judgment has recently been passed by Sindh Revenue Board thereby; in the light of judgment service tax will not be levied on the properties rented out by SLIC. DAC directed the management to revise all the tenancy agreements with the provision that all Federal/Provincial taxes will be levied on tenant, in addition to rent. However, no progress was reported till the finalization of this report.

Audit recommends that all tenancy agreements may be revised by inserting the sales tax recovery clause and sales tax on rent may be recovered.

4.2 Assets Management

4.2.1 Non-utilization of vacant plots - Rs. 35.020 million

Rule-5(1) of Public Sector Companies (Corporate Governance) Rules, 2013 state that the board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During Performance Audit of Real Estate Management in State Life Insurance Corporation (SLIC) for the year 2015-16, it was observed that the Real Estate Department is responsible to manage Corporation's properties throughout Pakistan. However, the following four plots having value of Rs. 35.020 million remained unutilized since 1995.

(Rs. in million)

Location	Book value
Plot 66 Old Civil Lines Sargodha	22.516
Plot 553/3 Abu Dhabi Rd Rahimyar Khan	10.956
Deh Thano Malir Karachi	1.503
Dullah Khurd Ferozpur Road, Lahore	0.043
Total	35.020

Audit is of the view that non-utilization of above plots clearly indicates that the management has failed to manage the corporation's assets objectively to generate the revenue.

The matter was reported to the management in June 2017. DAC meeting was held in September 2017. The management informed the DAC that the matter has yet to be placed before BoD. DAC directed the management to place the matter before BoD to explore the options for best utilizations of these plots and court cases should be pursued vigorously and progress may be intimated to Audit/Ministry. However, no progress was reported till the finalization of this report.

Audit recommends implementation of DAC directives.

4.2.2 Loss due to non-renting of building No.12, Hashoo Centre - Rs.237.432 million

Rule-5(1) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During Performance Audit of Real Estate Management in State Life Insurance Corporation (SLIC) for the year 2015-16, it was observed that in year 1996 the management purchased a building "Hashoo Centre" with the total area of 122,038.9 sq.ft. (now State Life building No.12) Abdullah Haroon Road, Karachi) at a total cost of Rs.237.432 million. Premises remained under the use of Zonal Office till year 2010 and since then out of 122,039 sq.ft. area only space of 7600 sq.ft. is rented out and space of 114,438.9 is lying vacant till year 2016. This resulted into loss of rental income amounting to Rs.27.47 million (114,438.9 sq.ft. vacant x rent @ Rs.20 per sq.ft. x 12 months) annually. It is pertinent to mention that rental income from the building is only Rs.150,000 per month against the monthly overhead expense of Rs.366,200 per month. The details are given as under.

Sr. No.	Floor	Area (sq.ft.)	Rented (sq.ft.)	Vacant (sq.ft.)
1	Basement	29519	4400	25119
2	2 nd	2525.9	--	2525.9
3	3 rd	8835.9	3200	5635.5
4	4 th	23359.2	--	23359.2
5	5 th	24973.8	--	24973.8
6	6 th	15775	--	15775
7	7 th	17050.5	--	17050.5
	Total	122038.9	7600	114438.9

Audit is of the view that due to poor management of assets organization is suffering loss of rental income on recurring basis which could have been easily avoided.

The matter was reported to the management in June, 2017. DAC meeting was held in September 2017. The management informed the DAC about its efforts for early renting out of the said building. DAC directed the management to submit progress report to audit under intimation to the Ministry. However, no progress was reported till the finalization of this report.

Audit recommends implementation of DAC directives.

4.2.3 Loss of Property - hut No.151paradise point

Rule-5(1)of Public Sector Companies (Corporate Governance) Rules,2013 state that the board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During Performance Audit of Real Estate Management in State Life Insurance Corporation (SLIC) for the year 2015-16, it was observed that the management of SLIC possessed a hut No.151 at paradise point which has been taken over by KANNUP in national interest. However, it was observed that no efforts were made by the management to seek compensation of the said property. This resulted into loss of a property.

Audit is of the view that the management of SLIC showed slackness and could not get the compensation of it property.

The matter was reported to the management in June, 2017. DAC meeting was held in September 2017. The management informed the DAC that the said property has been handed over to KANNUP in national interest with the approval of the chairman. DAC directed the management to provide the approval of

chairman to audit. However, no progress was reported till the finalization of this report.

Audit recommends implementation of DAC directives.

4.2.4 Non-transferring the title of properties in the name of SLIC

Rule-5(1) of Public Sector Companies (Corporate Governance) Rules, 2013 state that the board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During Performance Audit of Real Estate Management in State Life Insurance Corporation (SLIC) for the year 2015-16, it was observed as per independent valuator/surveyors report dated 31-12-2015 SLIC is owner of properties whose market value of over Rs.32.00 billion. However, audit observed that the title of 19 properties have not been transferred in the name of state life. The detail is at **(Annex-1)**.

Audit is of the view that by not getting the titles of these properties transferred in the name of SLIC, there are chances that these properties end up in litigation and SLIC may suffer loss on this account. This shows that management has failed to safeguard the assets of the corporation which is its fundamental function.

The matter was reported to the management in June, 2017. DAC meeting was held in September 2017. The management informed the DAC that the transfer of titles of the properties is in process. DAC directed the management that efforts should be made for early transfer of title of the properties in the name of the SLIC and progress may be shared after 6 months with Audit/Ministry. However, no progress was reported till the finalization of this report.

Audit recommends implementation of DAC directives.

4.2.5 Non recovery of rent – Rs. 193.437 million

Rule-5(1) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During Performance Audit of Real Estate Management in State Life Insurance Corporation (SLIC) for the year 2015-16, it was observed that management failed to recover an amount of Rs. 193.437 million from the tenants. The position is as under:

Sr. No.	Tenant status	Outstanding rent
1	Tenant subject to court cases	111,860,632
2	Tenant vacated but subject to court cases	44,089,149
3	Tenant vacated the premises with outstanding rent	37,487,771
	Total	193,437,552

Audit is of the view that due to poor management of rented properties a huge amount of rent remained outstanding due to litigation. This shows slackness on the part of management.

The matter was reported to the management in June, 2017. DAC meeting was held in September 2017. The management informed the DAC that the court cases are being pursued vigorously to recover the defaulting amount. DAC directed the management that efforts should be made for early settlement of the issue and the progress will be shared after 6 months with Audit/Ministry. However, no progress was reported till the finalization of this report.

Audit recommends implementation of DAC directives.

4.3 Construction and Works

4.3.1 Poor performance due to delay in initiating the planned projects

Rule-5(1) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During Performance Audit of Real Estate Management in State Life Insurance Corporation (SLIC) for the year 2015-16, it was observed that the management of SLIC purchased various lands at different cities of the country for the purpose to construct state life buildings. The detail is as under;

State Life Building - Rahim Yar Khan.

A plot No.553/3, Abu Dhabi Road, Rahim Yar Khan was procured in 1995 for the purpose to construct State life Building. The project is consisting of 06 stories building (basement+ground+04 floors) having covered area of 66,394 sq.ft. with rentable area is 37,512 sq.ft. Tender for the project was invited 02 times, however, first tender called was scrapped due to technical issue pertaining to license of contractor and 2nd time due to non-availability of board of directors.

Status: The project has not been initiated so far.

State Life Building – Sialkot.

A plot No.7092713 city Road Sialkot, was procured in 1996 for the purpose to construct State life Building. The project is consisting of 06 stories building (basement+ground+04 floors) having covered area of 52,344 sq.ft with rentable area is 39,660 sq.ft.

Status: The project has not been initiated so far.

State Life Building – Sargodha.

A plot No.66 old Civil Line, Sargodha, was procured in 1995 for the purpose to construct State life Building. The project is consisting of 06 stories building (basement+ground+04 floors) having covered area of 43,535 sq.ft. with rentable area is 35,820 sq.ft.

Status: The project has not been initiated so far.

State Life Building –Islamabad.

The project is envisaged in two phases. Phase-1 of the project comprising structural works was completed in 2008. However, phase-II of the project for civil, electrical & plumbing was scheduled to be completed in May 2013. However, the project is still in process of completion.

Status: The project has not been completed so far.

The consultant firm M/S NESPAK was hired as project manager for execution of above projects. However, despite lapse of considerable period of more than 20 years, the projects are yet to be undertaken. In fact, no building was constructed in the fleet of state life building since then. This indicated poor performance of the management toward expansion of investment properties. The same need to be justified.

The matter was reported to the management in June, 2017. DAC meeting was held in September 2017. The management informed the DAC that the projects of State Life Building, Rahim Yar Khan, Sialkot, Sargodha and Islamabad are likely to be completed until 2020. DAC directed the management that concrete efforts should be made for early completion of the planned projects and progress may be intimated to Audit/Ministry. However, no progress was reported till the finalization of this report.

Audit recommends implementation of DAC directives.

4.4 Monitoring and Evaluation

4.4.1 Violation of IAS non-defining of self-occupied properties as administrative properties

According to IAS 40.10 **Partial own use**. If the owner uses part of the property for its own use and part to earn rentals or for capital appreciation and the portion can be sold or leased out separately, they are accounted for separately. Therefore, the part that is rented out is investment property. If the portion cannot be sold or leased out separately, the property is investment property only if the owner-occupied portion is insignificant.

During Performance Audit of Real Estate Management in State Life Insurance Corporation (SLIC) for the year 2015-16, it was observed that out total space available with the SLIC an area of 673,683 sq.ft which is 25% is under the use of SLIC itself. It was further observed that these properties are presently being reported in the books of accounts as investment properties instead of “self-occupied administrative properties” in violation of above mentioned IAS 40.10. This resulted into overstated assets in the Balance sheet of the organization which is misleading and may affect the decision making of stake holders.

Audit is of the view that the management has deliberately shown the self-occupied spaces to overstate its assets in the balance sheet.

The matter was reported to the management in June, 2017. DAC meeting was held in September 2017. The management informed the DAC that matter has been taken up with external auditors for separation of administrative and investment properties in books of accounts as per provisions of related IAS. DAC directed the management to provide the latest position for separation of administrative and investment properties in books of accounts. However, no progress was reported till the finalization of this report.

Audit recommends implementation of DAC directives.

5. Conclusion

5.1 Key issues for the future

The project in pipeline may be completed at the earliest to earn rental income for Corporation. Steps may be taken to rent out the vacant space. SOP may be designed for the department regarding real estate management.

Performance targets/bench marks may be fixed for the department. Building in charge may be hired having relevant qualifications and experience of real estate management.

ACKNOWLEDGEMENT

We wish to express our appreciation to the Management and staff of State Life Corporation Limited, Government of Pakistan for the assistance and cooperation extended to the auditors during this assignment.

Annexes

Annex-1
(See para No.4.2.4)

State showing the detail of properties not transferred in the name of SLIC

Sr. No.	Name of property
1	1-B M.T.Khan Road, Karachi
2	Plot# 10,4B,10/7 Nazimabad Karachi
3	Hut 151, paradise point,Karachi
4	State life 1.23 sharahe-quaide-azam Lahore
5	State life building 4.63 regal st.sharahe-quaide-azam Lahore
6	State life building 5.63 regal st.sharahe-quaide-azam Lahore
7	State life building 6.2 lyton road, Lahore
8	State life building 2 lyton road, Lahore
9	State life building -7, macloed road, Patiala Ground, Lahore
10	State life building 9 bank sq- sharahe-quaide-azam, Lahore
11	State life building 10, 12 Bank sq. sharahe-quaide-azam Lahore
12	24-D gulberg-3, Lahore
13	133-J/3 gulberg-3, Lahore
14	66-C/1 gulberg-3, Lahore
15	Plot #19,, khasra# 3296/18/32 bank sq. Lahore
16	State life building at Maza goal market Circular road, Faisalabad.
17	State life building #3 hyder road, Raawalpindi.
18	Plot# 720-A, cantonment Rawalpindi Plot#A
19	State life rest house plot#180 KhanspurAyubia Abbottabad.