



**PERFORMANCE AUDIT REPORT
ON
INVENTORY MANAGEMENT IN
MULTAN ELECTRIC POWER COMPANY
AUDIT YEAR 2016-17**

AUDITOR GENERAL OF PAKISTAN

PREFACE

The Auditor General conducts audits in terms of 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, Terms and Conditions of Service) Ordinance 2001. The performance audit of Inventory Management in Multan Electric Power Company (MEPCO) was carried out accordingly.

The Directorate General of Audit WAPDA conducted performance audit of Inventory Management in MEPCO during March & April, 2017 for the period 2011-12 to 2015-16 with a view to reporting significant findings to the relevant stakeholders. Audit examined the economy, efficiency and effectiveness aspects of the Inventory Management in MEPCO. In addition, Audit also assessed on test check basis, whether the management complied with applicable laws, rules and regulations or not in managing the Inventory Management in MEPCO. The Performance Audit Report indicates specific actions that, if taken, will help the management realize the objectives of the Inventory Management in MEPCO. Most of the observations included in this report have been finalized in the light of discussions in the DAC meeting.

The Audit Report is submitted to the President 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 Majlis-e-Shoora [Parliament].

Islamabad
Dated: 12 APR 2018

Sd/-
(Javaid Jehangir)
Auditor General of Pakistan

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ABBREVIATIONS AND ACRONYMS

AAC	Name of Electricity Conductor
ACSR	Name of Conductor
ADB	Asian Development Bank
CE	Chief Engineer
CEO	Chief Executive Officer
CER	Certified Emission Credits
CFL	Compact Fluorescent Lamp
CSIS	Computerized Stores Inventory System
DAC	Departmental Accounts Committee
DISCOs	Distribution Companies
EOT	Extension of Time
ERP	Enterprise Resource Planning
FD	Finance Director
FIFO	First in First Out
FIR	First Information Report
GSO	Grid System Organization
GWH	Gaga Watt Hour
IBs	Incandescent Bulbs
KM	Kilo Meter
KV	Kilo Volt
LD	Liquidated damages
MEPCO	Multan Electric Power Company
MMM	Manager Material Management
MoWP	Ministry of Water and Power
MP	Manager Procurement
MW	Mega Watt
NEPRA	National Electric Power Regulatory Authority
NIT	Notice for Invitation
NTDC	National Transmission & Dispatch Company
O&M	Operation and Maintenance
PC	Planning Commission
PCC	Plain Cement Concrete
PC Pole	Pre-stressed Concrete Pole

PKR	Pakistani Rupees
PMU	Project Management Unit
PO	Purchase Order
PPRA	Public Procurement Rules
RSL	Reserve Stock Limit
SEs	Superintending Engineers
SOP	Standard Operating Procedure
T&G	Transmission and Grid
T&P	Tools and Plants
TRW	Transformer reclamation workshop
US\$	United State Dollar
VED	Vital Essential and Desirable
WAPDA	Water and Power Development Authority
WASP	Name of Electricity Conductor
XEN	Executive Engineer

EXECUTIVE SUMMARY

The Directorate General Audit WAPDA conducted performance audit of inventory management in MEPCO during March & April, 2017. Main objectives of the audit were to evaluate economy, efficiency and effectiveness of inventory management. The audit was conducted in accordance with prevailing rules and regulations.

Multan Electric Power Company Limited (MEPCO), registered under Companies Ordinance, 1984, started its operations as a Public Limited Company during May, 1998. The principle activity of the Company is to purchase electricity from NTDC and sell it to the consumers of Southern Punjab. Being one of the largest electricity distribution company, MEPCO has grid system comprising 127 grids, 3351 Km 132 KV & 1054 Km 66 KV transmission lines and distribution system comprising 153871 distribution transformers, 1172 feeders, 72,156 km H.T & 47,403 km LT lines. MEPCO has to spend billions of rupees in procurement of grid & distribution material / equipment to ensure operation, maintenance and investment in development of system.

The entire MEPCO inventory management system right from planning to procurement and handling of inventory in stores transpired that the economy aspect was not properly observed regarding procurement of substantial inventory items i.e. distribution transformers, conductors and Single phase meters. The instances of violation of Public Procurement Rules-2004 were noticed in MEPCO.

The present inventory management system of MEPCO was not efficient as it caused loss to the company's exchequer in the shape of unnecessary and surplus procurement, frequent damage & theft of transformers, non-physical stock verification at the end of each financial year, non-accountal / consumption of material at the time of procurement. These instances were frequently observed during course of performance audit. This state of inefficiency was mainly due to mismanagement, slackness, untimely procurement, weak internal control system and non-transparency within the working of company's formations.

The inventory management was not as effective as it should be, which can largely be attributed to the poorly maintained inventory at stores and generation of ineffective stores data, which resulted into unrealistic procurement planning and over / less procurement & stocking. The lapses like procurement of all major items without preparing estimates and its comparison with the quoted rates, frequent splitting gave rise to the conclusion that the inventory

management system did not remain effective on the one hand and transparent on the other hand. Hence economy, efficiency and effectiveness did not exist in inventory management system of MEPCO.

a) Key Audit Findings

- Irregular evaluation of bids without involvement of Finance Directorate- Rs. 30,190.00 million
- Non-achievement of envisaged benefits- Rs. 9,172.00 million
- Irregular purchase of material at post bid reduced rates- Rs. 5,231.19 million
- Loss due to procurement of electrical material / equipments at higher rates -Rs. 2,798.97 million
- Mis-procurement of electrical material without open competitive bidding in violation of PPRA Rules -Rs. 2,782.85 million
- Loss due to damage of transformers -Rs. 1,632.30 million
- Loss due to procurement of sub-standard material - Rs. 1,098.20 million
- Unjustified splitting of planned procurement, difference in delivery period and piecemeal issuance of purchase orders- Rs. 1076.31 million
- Non-accountal / consumption of CFLs - Rs. 893.64 million
- Loss due to theft of electrical material- Rs. 274.80 million
- Loss due to non-replacement of defective power transformers- Rs. 200.00 million
- Blockage of funds due to procurement of surplus material- Rs. 53.76 million
- Energy loss due to non-distribution of CFLs- Rs. 51.82 million
- Non-disposal of unserviceable material / vehicles - Rs. 10.18 million

b) Recommendations

The PEPCO management needs to strengthen its internal controls and institute transparency for better inventory management in an economic, efficient and effective manner to achieve the desired objectives for smooth running of the distribution system of the Company. On the basis of audit findings, the management is required to:-

- Ensure inclusion of Manager Internal Audit and Finance Director in Bid Evaluation process
- Investigate and fix responsibility for ;
 - non-achievement of envisaged benefits due to lapses in inventory management
 - procurement at higher rates and irregular purchase orders at post bid reduced rates entailing increase in procurement cost
 - irregular award of contract without open competitive bidding, piecemeal procurement and unjustified splitting of planned procurement
 - non-accountal / consumption of material , theft/damage of transformers, non-replacement of defective transformers and procurement of sub-standard material
 - blockage of funds due to procurement of surplus material
 - energy loss due to non-distribution of CFLs
 - non-disposal of unserviceable material / vehicles

1. INTRODUCTION

The Directorate General Audit WAPDA conducted performance audit of inventory management in Multan Electric Power Company (MEPCO) during March & April, 2017.

MEPCO, registered under Companies Ordinance 1984, started its operations as a Public Limited Company during May, 1998. The registered office of the Company is situated in Multan. The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The jurisdiction of MEPCO includes eight Operation Circles, one Project Construction Circle, one Grid System Construction Circle and two Grid System Operation Circles. The Company had obtained distribution license from National Electric Power Regulatory Authority (NEPRA) for distribution of electricity exclusively to service territory spread over 13 administrative districts of southern Punjab. The Company purchases electricity from NTDC on 220 KV Grid Station Yousaf Wala, Garanund Road Faisal Abad, NGPS Peeran Ghaib, Kot Addu Power Company, Muzzafargarh Power House and Gaddu Power House, and sells it to the consumers of Multan, Sahiwal, Vehari, Bahawalpur, Lodhran, Bahawalnagar, Rahim Yar Khan, D.G Khan and Muzzafargarh districts.

Being one of the largest electricity distribution companies, MEPCO have grid system comprising 127 grids, 271 Power Transformers, 3351 KM 132 KV & 1054 KM 66 KV transmission lines and distribution system comprising 153,871 Distribution Transformers, 1172 Feeders, 72156 km H.T & 47403 km LT lines. MEPCO has to spend billions of rupees to ensure operation, maintenance and investment in development of such a huge grid & distribution system. The large part of this expenditure spends over the procurement of grid, transmission & distribution system material/equipment comprising a simple nut bolt to more advanced & sophisticated equipment like power transformers. To manage all this process right from planning to procurement, storing & accounting demand an inclusive inventory management system.

In order to have an effective control over procurement and movement of stores material, Computerized Stores Inventory System (CSIS) was implemented in 1992. Due to less responsive to address the issues like preparation of Annual Procurement Plan, comparative statements for procurement, inventory movement & delayed inventory valuation & availability status, MEPCO has to adopt

Enterprise Resource Planning (ERP) System in December, 2015 by developing management policies and procedures to ensure efficient and effective inventory management. The ERP system is in transitory stage and it would certainly help in redressing the said bottlenecks once it was implemented completely.

Since, inventory management starts with the preparation of Annual Procurement Plan, its implementation involves purchases of material at National / International level and delivery of the same as well as its handling in stores. At present in MEPCO, the offices of Chief Engineer Planning & Engineering (P&E), Chief Engineer Development, PMU and Director Civil are responsible to manage this activity.

i) Chief Engineer Planning & Engineering (P&E)

He is responsible for preparation of Annual Procurement Plan, procurement and its handling for development and maintenance of electricity distribution system (Lines & Service Connections) and material required for transformer reclamation workshop. The following two subordinate offices are performing key functions:

a. Manager Procurement

After approval of Procurement Plan for distribution material / equipment, Manager Procurement is responsible for its implementation right from tendering, preparation of bidding documents, evaluation of bids, placement of Purchase Orders and delivery of goods at stores.

b. Manager Material Management

Manager (Material Management) supervises the maintenance / handling of inventory through four Regional & eight Field Stores. The distribution system inventory was consisting of items being diversified in its nature, therefore, it may be broadly classified as distribution transformers, conductors, poles, meters, T&P / hardware items and copper coils, oil for transformer reclamation workshop (TRW). The necessary details are reflected as under:-

Annual Procurement Plan Vs Procurement of Distribution material

(Rs. in million)

Inventory	2011-12	2012-13	2013-14	2014-15	2015-16
Planned	8,250.80	7,344.40	5,540.79	6,871.00	8,773.12
Purchased	6,826.37	5,134.02	3,624.61	5,369.17	6,529.20

ii) Director Civil

Director Civil is responsible for procurement of LT/HT Plain Cement Concrete (PCC) Poles of different sizes and specifications for utilization in electricity distribution system from the own and other private PCC Pole Plants. Overall amount of Rs.3,100 million was incurred for procurement of PCC Poles of different size and specifications from 2011-12 to 2015-16.

**Annual Procurement Plan Vs Procurement of
Grid Stations / Transmission Line material**

(Rs. in million)

Inventory	2011-12	2012-13	2013-14	2014-15	2015-16
Planned	110.00	66.00	300.00	1,100.00	1,886.60
Purchased	0	0	20.952	1,092.04	1,593.78

2. AUDIT OBJECTIVES

The main objectives of the performance audit were to evaluate whether the:

- Procurement was made in accordance with the annual requirement
- Procurement was made in economical, efficient and transparent manner
- Internal Controls were functioning properly
- Public Procurement Rules were observed strictly during the process of procurement.

3. AUDIT SCOPE AND METHODOLOGY

The period under review for Performance Audit was Financial Years 2011-12 to 2015-16. During this period, the distribution, grid & transmission lines material / equipment amounting to Rs. 33,290.14 million was procured against Annual Procurement Plans of Rs. 40,242.71 million. The auditable record was made available in the offices of Chief Engineer P&E, Chief Engineer Development PMU, Manager Procurement, Manager (Material Management), Director Civil and Warehouse, Regional / Field Stores.

Following audit methodology was adopted, on test check basis, during the course of execution of Performance Audit:-

- i) Interviews and discussions with the project management.

- ii) Examination of selected record and necessary auditable documents including but not limited to:
- Procurement Plans
 - Tendering Process
 - Bidding Documents
 - Bid Evaluation Reports
 - Award of Purchase Orders / Contract agreements
 - Stores Ledgers.

4 AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Organization and Management

4.1.1 Irregular evaluation of bids without involvement of Finance Directorate – Rs. 30,190 million

According to Chief Executive Officer MEPCO, Multan's office order No. 793-96/ MMM /07 dated February 02, 2010, a standing committee comprising Chief Engineer (P&E) MEPCO, Finance Director (MEPCO) and Manager Material Management was reconstituted for technical and commercial evaluation of bids in respect of tenders opened for procurement of distribution material.

During performance audit of inventory management in MEPCO, it came to notice that despite a three member standing committee constituted by the competent authority for technical & commercial evaluation of bids, the bids for procurement of distribution material valuing Rs. 30,190 million were evaluated without Finance Director or his authorized representative. Keeping Finance Directorate away from evaluation of bids defeated the very purpose of transparency and fairness.

Violation to the Authority's instructions resulted in irregular evaluation of bids of Rs. 30,190 million for distribution material.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that Finance Director remained active member in the process of technical, commercial and financial evaluation of the tenders. The reply was not acceptable being not substantiated with documentary evidences.

The DAC in its meeting held on May 15, 2017 directed the management to provide reply along with documentary evidences showing active participation of Finance Director in evaluation process of tenders.

Audit recommends that the management need to investigate the matter for fixing responsibility regarding non-compliance to the Authority's instructions by keeping Finance Directorate away from valuation of bids during the financial years 2011-12 to 2015-16.

(Para No.94)

4.2 Procurement and Contract Management

4.2.1 Irregular purchase of material at post bid reduced / negotiated rates – Rs. 5,231.19 million

According to Rule-31 (1) of Public Procurement Rules-2004, "No bidder shall be allowed to alter or modify his bid after the bids have been opened. However the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid".

During performance audit of inventory management in MEPCO, it came to notice that purchase orders for procurement of different types of electrical material valuing Rs. 5,231.19 million were issued to different suppliers at post bid negotiated / reduced rates. The post bid negotiations/ reduction in rates was made by the bidders to match the prices at par with the rates offered by first lowest bidders/ previous purchase rates of MEPCO.

Non adherence to the PPRA Rules-2004 resulted in irregular procurement of electrical material valuing Rs. 5,231.19 million.

The matter was taken up and reported to the Ministry in May, 2017. The management replied that the suppliers had reduced their rates to become at par with the rates of 1st lowest bidder or previous purchase rates and in some cases the other bidders were approached to reduce the rates at par with 1st lowest bidder. The reply was not tenable as the procurement at post bid reduced / negotiated rates was against the PPRA Rules.

The DAC in its meeting held on May 15, 2017 did not accept the view point of management and directed to submit revised reply along with record to Audit within a week.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding issuance of purchase orders at post bid negotiated / reduced rates in violation of PPRA Rules.

(Para No. 17, 18, 20, 25, 27, 29, 30, 32, 33, 34, 35, 36, 37, 39, 42, 45, 47, 51, 54, 59, 61 & 71)

4.2.2 Blockage of funds due to non-procurement of material for new energy connections - Rs. 3,610.28 million

According to Rule-8 of Public Procurement Rules-2004, "within one year of commencement of these rules, all procuring agencies shall devise a mechanism, for planning in detail for all proposed procurements with the object of realistically determining the requirements of the procuring agency, within its available resources, delivery time or completion date and benefits that are likely to accrue to the procuring agency in future".

During performance audit of inventory management in MEPCO, it was noticed that budget provision for procurement of material valuing Rs. 14,910.91 million against new energy connection was kept for years 2011-12 to 2015-16. However, funds to the tune of Rs. 3,610.28 million remained un-utilized during these years. This happened due to lack of capacity in Directorate of Procurement which in turn attributed to shortage of trained manpower and lack of coordination between Manager Material Management and Manager Procurement.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that the material was procured as per tentative requirement of field formations for the financial year instead of budget available. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on May 15, 2017 directed the management to provide last five (5) years procurement plan at MEPCO against application.

Audit recommends that the management needs to investigate the matter for fixing responsibility for non-procurement of material valuing Rs. 3,610.28 million.

(Para No.70)

4.2.3 Irregular procurement of PC Poles - Rs. 2,782.85 million

According to Rule-20 of Public Procurement Rules-2004, "the procuring agencies shall use open competitive bidding as the principal method of procurement of goods, services and works".

During performance audit of inventory management in MEPCO, it was noticed that four (04) contracts valuing Rs. 2,782.85 million for manufacturing & supply of Spun Hollow PC Poles were awarded to different firms without calling / inviting tenders. Further technical estimates of PC Poles was neither sanctioned nor approved by the competent authority.

Non-adherence to the PPRA Rules resulted in irregular procurement of PC Poles valuing Rs. 2,782.85 million.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that proper reply will be furnished very shortly. Further progress was not reported till finalization of the report.

The DAC in its meeting held on May 15, 2017 directed the management to provide revised reply along with documentary evidence regarding non-compliance of PPRA Rules.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding non observance of PPRA Rules.

(Para No.76)

4.2.4 Heavy loss due to procurement of single phase static energy meters at higher rates – Rs. 1,105.94 million

According to the instructions issued by WAPDA dated July 17, 1982, “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During performance audit of inventory management in MEPCO, it was noticed that Manager Procurement MEPCO Multan floated various tenders for the procurement of single phase static energy meters during the year 2011-12 to 2015-16. In each tender, limited firms i.e. four to five participated in tender opening process. The rates of every firm were almost the same among the firms with slight change. At the time of bid evaluation quoted rates of the bidders were compared with the previous rates of MEPCO and other DISCOs as MEPCO did not have its own estimate of single phase static energy meter. Accordingly, Purchase Orders were placed on the firms. The rates of the single phase static energy meter during the last five years were as under:-

Sr. No.	Year	Rate (Rs.) per meter
1	2011-12	1,672
2	2012-13	1,850
3	2013-14	1,950
4	2014-15	1,335 , 1,358 , 1,367 , 1,388
5	2015-16	1,240

From the above table it was concluded that rates of Rs. 1,850/- and Rs. 1,950/- during the year 2012-13 and 2013-14 were abnormally very high as evident from the rates of Rs. 1,335/- or Rs. 1,358/- and Rs. 1,240/- during the year 2014-15 and 2015-16. Resultantly, company had to sustain a heavy loss of Rs. 1,105.94 million in the shape of higher rates during the year 2011-12 to 2013-14.

The mismanagement resulted in heavy loss of Rs. 1,105.94 million due to procurement of single phase static energy meters at higher rates.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that costs of meters were reduced on account of prevailing market scenario i.e. LME rate US exchange rates, Govt. taxes. Accordingly supplier reduced their rates. The reply was not tenable as no documentary evidence was provided along with reply.

The DAC in its meeting held on May 15, 2017 directed the management to provide cost analysis to Audit within 10 days.

Audit recommends that the management needs to investigate the matter for fixing responsibility besides making the loss good.

(Para No.62)

4.2.5 Loss due to procurement of sub-standard material - Rs. 1,098.20 million

Technical Committee constituted by the Chief Engineer (O&M) T&G MEPCO Limited Multan vide office order No. 3668-74 dated November 21, 2016 declared that out of Sixty two (62), twenty five(25) Nos. 31.25/40 MVA Power Transformers & 20/26 MVA Power Transformers (PEL Make) are not working in satisfactory position due to frequent faults.

During performance audit of inventory management in MEPCO, it came to notice that as per above referred report of Technical Committee 25 Nos. Power Transformers were not working in satisfactory position due to frequent faults. The Technical Committee was constituted by MEPCO in order to ascertain the satisfactory position of these Power Transformers installed at Multan and Sahiwal. This showed that pre-purchase inspection was not carried out according to the specification and the transformers purchased were sub-standard. This caused loss of Rs. 1,098.20 million to the Company.

The mismanagement resulted in loss of Rs. 1,098.20 million due to procurement of sub-standard material up to the financial year 2015-16.

The matter was taken up with management and reported to the Ministry in May, 2017. The management replied that all transformers were functional and working smoothly on full load even after the expiry of warranty period. The reply was not acceptable as no documentary evidence was provided.

The DAC in its meeting held on May 15, 2017 directed to produce satisfactory report of proper working by the GSO authorities to Audit within a week.

Audit recommends that the management needs to investigate the matter for fixing responsibility for procurement of substandard material besides making the loss good.

(Para No.40)

4.2.6 Unjustified splitting of planned procurement, difference in delivery period and piecemeal Purchase Orders – Rs. 1,071.36 million

According to Rule-09 of Public Procurement Rules-2004, “a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned”.

During performance audit of inventory management in MEPCO, it came to notice that five (05) tenders for procurement of different types of electrical material were split up into two to five lots. Twenty (20) Purchase Orders (POs) valuing Rs. 1,071.36 million were issued with different delivery periods. Splitting of procurement, disparity in delivery period for the supply of same items and issuance of piecemeal purchase orders were unjustified in violation of PPRA Rules.

Non-adherence to Public Procurement Rules-2004 resulted in unjustified splitting of planned procurement, difference in delivery period and piecemeal P.Os valuing Rs. 1,071.36 million upto the financial year 2015-16.

The matter was taken up and reported to the Ministry in May, 2017. The management replied that delivery time and splitting was adjusted/made keeping in view of storage and financial position. Moreover, splitting of tenders was made for maximum participation of the bidders. The reply was not tenable as the splitting of procurement of same item and change in delivery period was an undue favour extended to the Supplier.

The DAC in its meeting held on May 15, 2017 directed the management to provide the record in support of its version to Audit within a week. Further progress was not reported till finalization of report.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding unjustified splitting of planned procurement, difference in delivery period and piecemeal P.Os in violation of PPRA Rules.

(Para No.14, 15, 38, & 55)

4.2.7 Irregular award of contract at higher rates - Rs. 956.66 million

According to Rule-20 of Public Procurement Rules-2004, “the procuring agencies shall use open competitive bidding as the principal method of procurement of goods, services and works”.

During performance audit of inventory management in MEPCO, it came to notice that contract No.MEPCO-ADB-33 dated 02.07.2012-Tender No.ADB-MEPCO-01-2011 (Lot-I) for procurement of 132/11.5KV Power Transformers under ADB Loan No.2727-PK (TRANCHE-II) valuing Rs. 956.66 million was placed on M/s PEL for procurement of 31.25/40 MVA Power Transformers & 20/26 MVA Power Transformers on the basis of rates quoted by single bidder. Subsequently, repeat order valuing Rs. 263.051 million was issued at the reduced rate from Rs. 50.20 million to Rs. 47.95 million per transformer (31.5/40 MVA Transformer). This state of affairs clearly indicated that M/s PEL had earlier quoted higher rates of Rs. 2.25 million against 31.5/40 MVA Transformer. Hence, rate analysis of M/s PEL was essential before award of contract but the same was not done in order to arrive at competitive rates. Thus the acceptance of rates of the single bidder was not competitive and contrary to the provision of PPRA Rules Rules-2004.

Non adherence to PPRA Rules resulted in irregular award of contract valuing Rs. 956.66 million up to the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that six bidder participated in bidding process instead of one bidder. Therefore, no contract was awarded at higher rate. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on May 15, 2017 did not accept the view point of management and directed to submit revised reply to Audit within a week.

Audit recommends that the management needs to investigate the matter for fixing responsibility of award of contract at higher rates.

(Para No.41)

4.2.8 Irregular award of purchase order - Rs. 456.30 million

According to Rule-04 of Public Procurement Rules-2004, Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During performance audit of inventory management in MEPCO, it was noticed that tender for procurement of 200,000 Nos. single phase static energy meter for the fiscal year 2013-14 was floated and five firms participated in the tender opening process. The rates of all the firms were the same as Rs. 1,950/- quoted by all the firms. Out of all these firms, only M/s Micro Tech Industries quoted rates for the quantity of 200,000 Nos. meters. The remaining firms did not offer full quantity of the tender. Audit was of the view that rate was quoted by the all firms through cartel as it was not possible to be the same rate among the five firms. Therefore, it was managed among the five firms before submission of their tender documents. Therefore, procurement valuing Rs. 456.30 million could not be termed as regular on competitive manner.

Non-adherence to Public Procurement Rules-2004 resulted in irregular award of P.Os valuing Rs. 456.30 million upto the financial year 2013-14.

The matter was taken up with the management and reported to the Ministry in May, 2017.

The management explained that tender No. 27 for the procurement of 200,000 Nos. single phase static energy meters was floated. Five bidders participated in the bidding process and quoted their rates Rs. 1,950. Accordingly purchase orders were placed on these five firms according to the offered quantity. The reply was not acceptable as procurement through cartel rates was against the PPRA Rules which were irregular.

The DAC in its meeting held on May 15, 2017 did not accept the view point of management and directed to submit revised reply to Audit within a week.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding non observance of PPRA Rules.

(Para No.57)

4.2.9 Irregular award of purchase orders – Rs. 388.01 million

According to Rule-38 of Public Procurement Rules-2004, the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

During performance audit of inventory management in MEPCO, it came to notice that a Tender was floated for procurement of conductor of different size. A consortium comprising three firms namely M/s Atlas Cables (Pvt) Ltd, M/s Universal Industries Ltd, Karachi and M/s Mutahir Metal Works (Pvt) Ltd was found lowest bidder. Accordingly a letter of intent was issued to consortium. But purchase orders were placed on the three different firms instead of one PO. The placement of three purchase orders was irregular as only one purchase order was to be placed in the name of M/s Consortium on the basis of which bid was submitted for bidding. Therefore, award of purchase orders valuing Rs. 388.01 million could not be termed as regular.

Non-adherence to the Public Procurement Rules-2004 resulted in irregular award of purchase orders amounting to Rs. 388.01 million.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that contracts were awarded to those firms who were involved in Consortium.

The DAC in its meeting held on May 15, 2017 directed the management to provide copy of Consortium along with evaluation report and to submit revised reply to Audit within a week.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding irregular award of purchase orders.

(Para No.98)

4.2.10 Undue favour in procurement of material - Rs. 383.06 million

According to Rule-9 of Public Procurement Rules-2004, a procuring agency shall announce in an appropriate manner all proposed procurements for

each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned.

During performance audit of inventory management in MEPCO, it came to notice that a tender having eight Lots (material-wise) was published on June 22, 2011. Later on, a corrigendum was issued and Lot-VIII was split into two lots thereby created another Lot-IX. Moreover, qualification criterion was also changed to make it mandatory for the bidders to have five years manufacturing experience. Consequently, only M/s Newage Cables could fulfill the criterion for participation and won two purchase orders valuing Rs. 383.06 million.

Non adherence to the rules resulted in undue favour in procurement of material valuing Rs. 383.06 million.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that only one bidder participated in bidding process. Accordingly purchase order was placed. The reply was not tenable because devising criterion to favour a particular contractor was against the rules.

The DAC in its meeting held on May 15, 2017 directed the management to provide all documents regarding splitting of lots, price reduction and criterion relaxation.

Audit recommends that the management need to investigate the matter for fixing responsibility regarding undue favour to one firm.

(Para No.03)

4.2.11 Loss due to procurement of 200 KVA transformers at higher rates - Rs. 296.09 million

According to the instructions issued by WAPDA dated July 17, 1982, “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During performance audit of inventory management in MEPCO, it was noticed that 1,255 Nos. 200 KVA transformers were procured during the year 2011-12. The procurement rate was Rs. 363,465/-, Rs. 580,165/-, Rs. 458,406 and Rs. 564,000/- against 105 Nos., 300 Nos., 450 Nos. and 400 Nos. respectively. The comparison of these rates with Purchase Order No.0603593 dated 19.07.2011 revealed huge difference as this Purchase Order was placed for procurement of 200 KVA transformers at the rate of Rs. 363,465/- for quantity of

105 Nos. transformers. In fact procurement of transformers was made in piecemeal throughout the financial year 2011-12 in order to give financial benefit to the suppliers. This state of affair reflected that procurement of 1,150 Nos. 200 KVA transformers was made at the higher rates during the year 2011-12 that caused loss to the tune of Rs. 296.09 million to Company's exchequer.

Non-adherence to the rules resulted in loss of Rs. 296.09 million due to procurement of 200 KVA transformers at higher rates.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that cost of meters was reduced on account of prevailing market scenario i.e. LME rate US exchange rates, Government taxes. Accordingly suppliers reduced their rates. The reply was not tenable as no documentary evidence was provided along with reply.

The DAC in its meeting held on May 15, 2017 directed the management to provide cost analysis to Audit within 10 days.

Audit recommends that the management needs to investigate the matter for fixing responsibility of loss upon the person (s) at fault.

(Para No.69)

4.2.12 Loss due to procurement of 25 KVA transformers at higher rates - Rs. 231.56 million

According to the instructions issued by WAPDA dated July 17, 1982, "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During performance audit of inventory management in MEPCO, it was noticed that 8,500 Nos. 25 KVA transformers were procured during the year 2011-12. The procurement rate was Rs. 129,500/- for 4,700 Nos. 25 KVA transformers and Rs. 168,338 for 3,800 Nos. 25 KVA transformers. Similarly, 3,250 Nos. 25 KVA transformers were also procured during the year 2012-13 @ Rs. 147,780/-. The comparison of these rates with the procurement of 25 KVA transformer during the year 2013-14 and 2014-15 revealed huge difference as 5,565 Nos. 25 KVA transformers were procured @ Rs. 104,400/- and Rs. 107,750/-. This state of affair reflected that procurement of 8,500 Nos. 25 KVA transformers was made at the higher rates during the year 2011-12 and 2012-13 Therefore, price variation in the subsequent years led to the conclusion that procurement of 25 KVA transformers made during the years 2011-12 and

2012-13 was at the higher rates which had caused loss to the tune of Rs. 231.56 million to Company's exchequer.

Non-adherence to the Authority's instructions resulted in loss of Rs. 231.56 million due to procurement of 25 KVA transformers at higher rates up to the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that cost of meters was reduced on account of prevailing market scenario i.e. LME rate US exchange rates, Government taxes. Accordingly the Suppliers reduced their rates. Audit held that abnormal decrease in prices was not possible. The reply was not tenable as no documentary evidence was provided along with reply.

The DAC in its meeting held on May 15, 2017 directed the management to provide cost analysis to Audit within 10 days.

Audit recommends that the management needs to investigate the matter for fixing responsibility of loss upon the person (s) at fault.

(Para No.68)

4.2.13 Loss due to procurement of 50/100 KVA Transformers at higher rate Rs. 208.72 million

According to the instructions issued by WAPDA dated July 17, 1982, "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During performance audit of inventory management in MEPCO, it was noticed that procurement of 50/100 KVA transformers during 2011-12 was made in five (05) to seven (07) lots. It was worth mentioning that in each case procurement was significantly cheaper than previous procurement indicating a huge difference i.e. difference in rates of 50 KVA Transformers was Rs. 79.01 million and in 100 KVA was Rs. 129.71 million. This reflected that procurement was made on higher rates causing loss to the tune of Rs. 208.72 million to the company.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that procurement of 50 KVA distribution transformers for the year 2011-12 was made through open competitive bidding. The difference in prices of transformers was due to fluctuation in the prices of raw material. The reply was not tenable as price

variation was found within the same year. Therefore, version of management did not prove to be true.

The DAC in its meeting held on May 15, 2017 directed the management to provide revised reply along with complete correspondence and evidence.

Audit recommends that the management needs to investigate the matter for fixing responsibility besides making the loss good.

(Para No.73&74)

4.2.14 Loss due to non-replacement of defective 31.5/40 MVA Transformers – Rs. 200 million

According to the tender conditions of the purchase orders, defective or sub-standard material will be replaced within warranty period.

During performance audit of inventory management in MEPCO, it came to notice that four 31.5 MVA Power Transformers valuing Rs. 200 million were procured from M/s PEL. After installation of these transformers at different grid stations some oil leakage and damage was observed by the S.E Grid System Operation Circle MEPCO, Sahiwal. The contractor was requested to replace the defective transformers but the same was not done inspite of various requests and reminders from time to time.

Non-adherence to the provisions of the purchase order resulted in loss of Rs. 200 million due to non-replacement of defective 31.5/40 MVA Transformers.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that these transformers were working in satisfactory condition and there was no fault. However, some oil leakages have been removed. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on May 15, 2017 directed to produce satisfactory report of proper working by the SE GSO, XEN T & I or P & I. to Audit within a week.

Audit recommends that the management needs to investigate the matter and fix responsibility of loss due to non-replacement of defective transformers.

(Para No.97)

4.2.15 Irregular procurement of Osprey Conductor from 2nd lowest bidder through restoration of rejected tender – Rs. 132.121 million

According to Rule-34 (1) of Public Procurement Rules-2004, “If the procuring agency has rejected all bids under rule 33 it may call for a re-bidding”.

According to Rule-38 of Public Procurement Rules-2004, “The bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract.”

During performance audit of inventory management in MEPCO, it came to notice that a tender No.79 for 600 km ACSR Osprey Conductor was opened on April 01, 2014. M/s Mutahir Metal Works stood 1st lowest bidder with quoted rates of Rs. 217,900/km for partial quantity of 150 km and M/s Newage Cables remained 2nd lowest with rate of Rs. 218,000/km for full quantity of 600 km. Accordingly P.O was placed on M/s Mutahir Metal Works for supply of 150 km conductor and bid of the 2nd lowest bidder was rejected. For the remaining quantity of 450 km conductor, re-tendering was made on June 06, 2014 and M/s Mutahir Metal stood 1st lowest but instead of procuring the material from the said bidder, purchase order valuing Rs. 132.12 million was placed on the 2nd lowest bidder of previously rejected/ scraped tender No.79 i.e. M/s Newage Cables. Since the tender No.79 had been rejected/ scraped, therefore, its restoration was irregular.

Non-adherence to Public Procurement Rules-2004 resulted in irregular procurement of Osprey Conductor valuing Rs.114.78 million from 2nd lowest bidder by restoration of scraped tender upto the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that since the previous tender was not scraped therefore, the same was revived. The reply was not tenable as rebidding itself had depicted rejection/ scrapping of the previous tender.

The DAC in its meeting held on May 15, 2017 directed the management to justify this action in the light of PPRA Rules.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding irregular procurement from 2nd lowest bidder in violation of PPRA Rules.

(Para No.24)

4.2.16 Mis-procurement of brand name / proprietary specific grid material in violation of PPRA Rules– Rs. 82.86 million

According to Rule-10 of Public Procurement Rules-2004, “Specifications shall allow the widest possible competition and shall not favour any single contractor or supplier nor put others at a disadvantage. Specifications shall be generic and shall not include references to brand names, model numbers,

catalogue numbers or similar classifications. However if the procuring agency is convinced that the use of a reference to a brand name or a catalogue number is essential to complete an otherwise incomplete specification, such use or reference shall be qualified with the words “or equivalent”.

During performance audit of inventory management in MEPCO, it came to notice that a tender for procurement of Grid Station and Transmission Line material was opened on December 31, 2014. Despite the fact that electrical items valuing Rs. 82.86 million for Lots IV to X bear WAPDA’s specified technical specifications, the same were stated as proprietary nature & brand name specific during bid evaluation. Further bids were required to be technically evaluated in the light of WAPDA’s specified technical specifications but the same was not done. In presence of WAPDA’s specified technical specifications, mentioning brand name / proprietary nature of material in NIT was against the Public Procurement Rules.

Non-adherence to Public Procurement Rules-2004 and non-evaluation of bids technically resulted in mis-procurement of grid material valuing Rs. 82.86 million.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that procurement was of proprietary nature and installed inside the major electrical equipment of Grid station. The reply was not tenable as the procurement was not covered under the PPRA Rules.

The DAC in its meeting held on May 15, 2017 directed the management to submit revised reply with evidence.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding mis-procurement of brand specific grid material in violation of PPRA Rules.

(Para No.87)

4.2.17 Irregular procurement of conductor through repeat/ additional orders in violation of PPRA Rules - Rs. 73.75 million

According to Rule-42 (c) (iv) of Public Procurement Rules-2004, repeat orders exceeding 15% of the original procurement are not allowed.

During performance audit of inventory management in, it came to notice that four repeat /additional purchase orders valuing Rs. 73.75 million were issued to three different suppliers for additional supply of Rabbit, Ant & Dog conductor

during April, June & August, 2013. The quantity of these repeat orders was 25% of the original purchase orders, which was over & above the limit of 15% as specified by Public Procurement Rules.

Non-adherence to Public Procurement Rules-2004 resulted in irregular procurement of conductor through repeat / additional orders valuing Rs. 73.75 million up to the financial year 2015-16.

The matter was taken up with management and reported to the Ministry in May, 2017. The management replied that repeat orders were issued 25% of the total procurement. The reply was not acceptable as no justification for placing repeat orders more than prescribed limit was furnished.

The DAC in its meeting held on May 15, 2017 did not accept the view point of the management and recommended to fix responsibility upon the person at fault who allowed repeat orders in excess from the provision of 15% under PPRA Rules.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding irregular procurement of conductor through repeat orders in violation of PPRA Rules, as recommended by DAC.

(Para No.22)

4.2.18 Loss due to ignoring first lowest bidder in violation of PPRA Rules – Rs. 63.42 million

According to Rule-38 of Public Procurement Rules 2004, “ the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity”.

During performance audit of inventory management in MEPCO, it came to notice that purchase orders for supply of different electrical material were issued to the 2nd lowest bidders. The 1st lowest bidders were declared financially non-responsive. As the 1st lowest bidders were pre-qualified approved manufacturers / suppliers on the technical and financial basis, so, declaring it financially non-responsive was unjustified. Resultantly, Company sustained a loss of Rs. 63.42 million due to ignoring the 1st lowest bidder.

Non adherence to Public Procurement Rules-2004 resulted in loss due to ignoring first lowest bidder Rs. 63.42 million upto the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that 1stlowest bidder was not

financially sound, therefore, it was declared non-responsive and contracts were awarded to the 2nd lowest bidders. The reply was not tenable as declaring non-responsive to the already pre-qualified 1st lowest bidders was unjustified.

The DAC in its meeting held on May 15, 2017 directed the management to provide the documentary evidences along with pre-qualification of 1st and 2nd lowest bidders.

Audit recommends that the management need to investigate the matter for fixing responsibility regarding loss caused by ignoring 1st lowest bidder in violation of Public Procurement Rules.

(Para No.12, 16, 86, 89, 93 & 96)

4.2.19 Undue favour to the Supplier by changing delivery period for supply of WASP conductor – Rs. 52.47 million

According to Note-iii of Notice for Invitation to Tender (NIT) for procurement of distribution material for the financial year 2015-16, "time period for performance of contract was upto 60/90 days or earlier from the issuance of purchase order". According to Rule-09 of Public Procurement Rules-2004, "a procuring agency shall announce in an appropriate manner all proposed procurement for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned".

During performance audit of inventory management in MEPCO, it came to notice that a tender No.16 for procurement of 1200 km AAC Wasp Conductor by splitting up into two lots each for 600 KM was invited. Accordingly, M/s Steel Complex Pvt. Ltd. was awarded two purchase orders for supply of conductor for both the lots. However, in second P.O No. 0604413, the delivery period was extended to 133 days in contrary to the delivery period specified in NIT. The splitting of same item into two lots and disparity in delivery period for the supply of same item was unjustified that defeated the very purpose of economic & efficient procurement.

Non adherence to the Notice for Invitation of Bids & Public Procurement Rules-2004 resulted in undue favour to the supplier by changing in delivery period for supply of WASP conductor valuing Rs. 52.47 million up to the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that the delivery period was adjusted keeping in view of storage and financial position. The reply was not

tenable as change in delivery period in the violation of NIT was an undue favour extended to the Supplier.

The DAC in its meeting held on May 15, 2017 directed to provide the record in support of contention.

Audit recommends that the management need to investigate the matter for fixing responsibility regarding splitting of lots and difference in delivery period.

(Para No.13)

4.2.20 Mis-procurement of electrical material without open competitive bidding in violation of PPRA Rules – Rs. 18.11 million

According to Rule-20 of Public Procurement Rules-2004, Save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During performance audit of inventory management in MEPCO, it came to notice that two Letter of Intents for supply of 11 KV outgoing panels & ACSR Conductor valuing Rs. 18.11 million were placed on M/s M.K Engineering Works and M/s Mutahir Metal Works without any bidding, which was unjustified.

Non-adherence to Public Procurement Rules-2004 resulted in mis-procurement of electrical material amounting to Rs. 18.11 million without open competitive bidding.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that educational orders were placed on the firms in order to promote newly established firms. The reply was not tenable as the procurement was not covered under the PPRA Rules.

The DAC in its meeting held on May 15, 2017 directed the management to provide SOP for placement of educational order along with revised reply to Audit within a week.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding mis-procurement of electrical material in violation of Public Procurement Rules.

(Para No.88)

4.2.21 Loss due to delayed procurement of Ant conductor in violation of PPRA Rules – Rs. 7.80 million

According to Rule-08 of Public Procurement Rules-2004, within one year of commencement of these rules, all procuring agencies shall devise a mechanism, for planning in detail for all proposed procurements with the object of realistically determining the requirements of the procuring agency, within its available resources, delivery time or completion date and benefits that are likely to accrue to the procuring agency in future. Moreover, according to Rule-04 of Public Procurement Rules-2004, Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During performance audit of inventory management in MEPCO, it came to notice that Tender No. 169 for procurement of 2000 Km AAC Ant Conductor was opened on June 17, 2015 by dividing it into three lots. Accordingly three (03) different purchase orders valuing Rs. 86.40 million were placed on the two different firms. Prior to placement of said purchase orders, AAC Ant Conductor pertaining to same Procurement Plan i.e. 2014-15 had already been procured @ Rs. 39,300/- per Km on November 25, 2014 . Had the procurement of total 2,000 KM AAC Ant Conductor been made in November 25, 2014, the company could have avoided loss of Rs. 7.80 million.

Non-adherence to Public Procurement Rules-2004 resulted in loss of Rs. 7.80 million due to delayed procurement of Ant conductor upto the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May 2017. The management replied that if LOTS were not made then small firms could not avail the opportunity of competition. Therefore, LOTS were made accordingly. The reply was not tenable as the action of the executives was not covered under PPRA Rules.

The DAC in its meeting held on May 15, 2017 did not accept the view point of management and directed to submit the revised reply within one week.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding loss due to splitting of procurement in violation of Public Procurement Rules.

(Para No.19)

4.2.22 Non-forfeiture of performance guarantee – Rs. 4.71 million

According to Purchase Order Caluse-14, the contracting officer will have the right to forfeit the security bond / guarantee performance bond, if the Contractor fails to supply the goods within the time specified.

During performance audit of inventory management in MEPCO, it came to notice that two (02) purchase prders valuing Rs. 48.86 million for supply of 39,800 meter power cable of different specifications and 600 meter grounding conductor were issued to M/s Continental Cables (Pvt) Ltd on June 10 & September 23, 2015. However, the supplier failed to deliver the goods within the stipulated period. Accordingly performance bonds of Rs. 4.71 million were required to be forfeited, which was not done.

Non-adherence to the provisions of purchase order resulted in non-forfeiture of performance guarantee of Rs. 4.71 million upto the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that the forfeiture of performance guarantee was under process in bank. The reply was not acceptable being not substantiated with documentary evidence.

The DAC in its meeting held on May 15, 2017 directed the management to provide the detailed reply to Audit within ten days.

Audit recommends that the management need to inquire the matter for fixing responsibility besides ensuring forfeiture of performance guarantee.

(Para No.01 & 09)

4.2.23 Undue favour to the Supplier due to unjustified grant of time extension to avoid liquidated damages - Rs. 4.37 million

According to Clause-11 of Purchase Order, “if the supplier fails to deliver the stores or any consignment thereof within specified delivery period, the MEPCO / WAPDA shall be entitled to recover liquidated damages levied at the rate of two percent (2%) per month or part thereof subject to the maximum up to 10% of the contract price”.

During performance audit of inventory management in MEPCO, it came to notice that a purchase order valuing Rs. 43.75 million for supply of 132 KV D/C Tower Type ZM-30, ZM-60 and extensions was issued to M/s Metropolitan Steel Corporation Ltd on October 05, 2012. The material was required to be delivered within 150 days upto March 04, 2013 but the supplier failed to do so

within stipulated date and requested for 66 days extension in delivery period up to May 09, 2013 by taking the plea of law and order situation in Karachi. The management extravagantly recommended time extension under 'Force Majeure' without ascertaining the genuineness of the claim by visiting the site and taking into consideration production and supply data. Hence, the time extension granted to the contractor was unjustified and merely a favour to the Supplier to avoid L.D charges of Rs. 4.37 million.

Non-adherence to the provisions of purchase order resulted in undue favour to the supplier due to unjustified grant of time extension, thereby avoiding liquidated damages of Rs. 4.37 million upto the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that no undue favour was extended in delivery period of the material. The reply was not tenable as no documentary evidence was provided.

The DAC in its meeting held on May 15, 2017 directed the management to provide detailed reply along with evidence i.e. application for EOT submitted by the supplier, the circumstances and approval of the competent authority for grant of EOT.

Audit recommends that the management need to investigate the matter for fixing responsibility regarding unjustified grant of time extension in delivery period besides ensuring recovery of LD charges from the supplier.

(Para No.11)

4.2.24 Non-recovery of liquidated damages from the supplier – Rs. 4.04 million

According to Purchase Order Clause-11, "if the supplier fails to deliver the stores or any consignment thereof within specified delivery period, the purchaser shall be entitled to recover liquidated damages levied at the rate of two percent (2%) per month or fraction thereof, subject to a maximum of 10% of the contract price".

During performance audit of inventory management in MEPCO, it came to notice that a purchase order No. 061218 valuing Rs. 40.36 million for supply of 4,000 three phase static meters was issued to M/s Intelligent Metering Systems (Pvt) Ltd on April 17, 2014. However, the supplier failed to supply the meters within stipulated date. Since, the material was not supplied within stipulated

period, liquidated damages amounting Rs. 4.04 million was required to be recovered from the Supplier but the same was not done.

Non-adherence to the provisions of purchase order resulted in non-recovery of L.D charges amounting to Rs. 75.95 million from the Supplier upto the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that recovery on account of liquidated damages had been effected. The same would be got verified from Audit very shortly. Further progress was not reported till finalization of report.

The DAC in its meeting held on May 15, 2017 directed the management to get the recovery record verified from Audit within a week.

Audit recommends that the management need to provide evidence of recovery of LD charges from the Supplier.

(Para No.10)

4.3 Assets Management

4.3.1 Loss due to damage of Transformers - Rs. 1,632.30 million

According to the instructions issued by WAPDA dated July 17, 1982, “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During performance audit of inventory management in MEPCO, it was noticed that 16323 transformers went out of order during the year 2011-12 to 2015-16. The repair of these transformers was carried out in Transformers Reclamation Workshop MEPCO Multan at cost of Rs. 100,000/- approximately per transformer. This indicated that either transformers were of low quality or proper care had not been taken at operational level. This resulted in loss of Rs. 1,632.30 million.

Non adherence to the Authority's instructions resulted in loss of Rs. 1,632.30million due to damaging of transformers up to the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that 16323 Nos. transformers were damaged during the year 2011-2012 to 2015-2016. Later on these transformers were got repaired /reclaimed in Transformers Reclamation

Workshop MEPCO Multan. The reply was not acceptable as no proper justification for frequent damage of transformers was put forth.

The DAC in its meeting held on May 15, 2017 directed the management to submit revised reply to Audit within a week period.

Audit recommends that the management needs to investigate the reasons and fix responsibility for frequent damage and cost incurred on repair.

(Para No.64)

4.3.2 Non-accountal / consumption of CFLs - Rs. 893.64 million

According to Para No.4.5 (Section-8) of WAPDA Distribution Store Manual, “the line superintendent will use the material on the job for which he drew and will record the consumption in EMB / MCR showing any material left after the work has been completed”.

During performance audit of inventory management in MEPCO, it was noticed that 5.69 million CFLs amounting to Rs.893.64 million were drawn by various line superintendent for distribution but record of its distribution was not produced. In the absence of distribution record i.e. EMB/MCR, batch wise CFL issuance register, acknowledgement vouchers, summary of coupons sent to Revenue Officers, authenticity could not be ascertained. No departmental action was taken against the concerned officials.

Non-adherence to WAPDA Distribution Store Manual resulted in non-accountal of CFLs valuing Rs. 893.64 million up to the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that requisite record in support of accountal and consumption of CFLs would be produced very shortly. Further progress was not reported till finalization of the report.

The DAC in its meeting held on May 15, 2017 directed the management to ensure its compliance within the shortest possible time and inform Audit accordingly.

Audit recommends that management needs to investigate the matter for fixing the responsibility besides ensuring production of accountal record of CFLs to Audit.

(Para No.80)

4.3.3 Un-authentic distribution of CFLs to the consumers - Rs. 520.43 million

According to Distribution Plan of MEPCO for distribution of CFL approved by the competent authority, vouchers as detachable portion of monthly electricity bill be mailed or delivered to the domestic consumers in advance. After the exchange of CFLs with incandescent bulbs, the IBs and customers, vouchers will be returned to the regional storage site where these will be verified by 3rd Party Inspector. After this, the bulbs will be destroyed and vouchers will be dispatched to the respective customers data centre for analysis.

During performance audit of inventory management in MEPCO, it was noticed that 5.70 million CFLs were handed over to MEPCO for distribution to the consumers. Out of this quantity 5.69 million CFLs were issued to the consumers. Against this, 2.37 million IBs were returned to the Store leaving a balance of 3.31 million. Hence, authenticity of distribution of 3.31 million CFLs valuing Rs. 520.43 million could not be ascertained. Moreover, documentary proof of coupons detached from the electricity bill was not produced during course of audit. In the absence of these coupons entirely distribution of CFLs could not be ascertained.

Non-adherence to the Distribution Plan of CFLs resulted in un-authentic distribution of CFL amounting to Rs. 520.43 million upto the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that instructions had clearly been delivered to SEs, Operation Circle to return IBs to Store. After completion of job Audit would be informed accordingly. Further progress was not reported till finalization of the report.

The DAC in its meeting held on May 15, 2017 directed the management to submit revised reply along with latest position of IBs returned to store.

Audit recommends that management needs to investigate the matter for fixing the responsibility of non-depositing of IBs in the Store as well as non-punching of coupons.

(Para No.82)

4.3.4 Blockage of funds due to un-necessary purchase of stores / electrical material -Rs. 396.26 million

According to Para-5 of WAPDA office memorandum dated January 17, 1978 on irregularities of purchases of stores and equipment, purchases should be

made only of such items and in such quantities as are required for a specific work. In no case should these purchases be made for storing an item for indefinite period.

During performance audit of inventory management in MEPCO, it came to notice that electrical material worth Rs.396.26 million was lying unutilized in stores. A portion of this material was lying un-issued since 1993. This scenario indicated that the material in question was procured without forecasting/assessing the actual demand.

Non-adherence to Authority's instructions resulted in blockage of funds of Rs. 396.26 million due to un-necessary purchase of stores / electrical material up to the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that material valuing Rs. 396.26 million was lying un-issued since 1993 as these items of material were falling under slow moving/inactive items. The reply was not acceptable as no proper justification was made in support of reply.

The DAC in its meeting held on May 15, 2017 directed the management to provide breakup of material on yearly basis along with its detailed justification.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding unnecessary procurement of material which caused blockage of Company's funds.

(Para No.05)

4.3.5 Un-necessary procurement of material out of foreign loans i.e. World Bank and ABD -Rs. 371.67 million

According to WAPDA office memorandum dated January 19, 1978, "purchases should be made only of such items and in such quantities as are required for a specific work. In no case, should these purchases be made for storing an item for an indefinite period."

During performance audit of inventory management in MEPCO, it was noticed that electrical material valuing Rs.371.67 million was procured out of foreign loans i.e World Bank Loan (Trench-1) project and Asian Development Bank Loan (7565PK). The material worth Rs. 77.27 million for Trench-1 project was lying in store unissued despite close of proposal in October, 2012. Similarly material worth Rs. 294.40 million procured under WB 7565-loan was

declared surplus. The procurement of loan based material without actual re-procurement caused not only blockage of funds but also a loss in shape of material changes without reaping any benefit thereof.

Non-adherence to Authority's instructions resulted in non-utilization of electrical material valuing Rs. 77.27 million procured under ADB loan for Tranche-I upto the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that the surplus material was utilized against MEPCO owned resources works after the completion of ADB projects. Further progress was not reported till finalization of report.

The DAC in its meeting held on May 15, 2017 directed the management to produce relevant record in support of utilization of the material for verification to Audit.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding non-utilization of material besides ensuring expeditious utilization of the material procured under ADB loan so that desired benefits could be achieved.

(Para No.07 & 63)

4.3.6 Loss due to theft of electrical material - Rs. 274.80 million

According to the instructions issued by WAPDA dated July 17, 1982, "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During performance audit of inventory management in MEPCO, it was noticed that transformers of various capacity were stolen during the year 2011-12 to 2015-16. Later on FIRs were lodged with the police but administrative action was not finalized to fix the responsibility of loss and to decide its fate. Even, no recovery was affected.

Non-implementation of rules on safeguarding the assets of the company resulted in loss of Rs. 274.80 million.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that in most of the cases, FIRs have been lodged and Departmental Enquiries have also been completed. Further progress was not reported till finalization of the report.

The DAC in its meeting held on May 15, 2017 directed the management to initiate departmental action on the basis of findings of enquiry committee and submit revised reply to Audit within a week.

Audit requires expeditious finalization of legal and departmental inquiry proceedings besides production of recovery record.

(Para No.66)

4.3.7 Loss due to non-recovery of cost of damaged transformers - Rs. 76.75 million

According to the instructions issued by WAPDA dated July 17, 1982, “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During performance audit of inventory management in MEPCO, it was noticed that 307 Nos. transformers were completely damaged during the year 2011-12 to 2015-16. Later on, these could not be reclaimed through Transformers Reclamation Workshop MEPCO Multan. However, neither any action was taken nor recovery of damaged transformers was affected from the responsible persons.

Non-implementation of rules on safeguarding the assets of the company resulted in loss of Rs. 76.75 million due to non-recovery of cost of damaged transformers.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management explained that 307 Nos. transformers were completely damaged during the year 2011-12 to 2015-16. Later on, these could not be reclaimed through Transformers Reclamation Workshop MEPCO Multan. The reply was not tenable as no progress towards recovery of these transformers was made known.

The DAC in its meeting held on May 15, 2017 directed the management to submit detailed/revised reply to Audit within a week period.

Audit recommends that the management needs to expeditious finalization of departmental inquiry proceedings besides recovery of amount in-question.

(Para No.65)

4.3.8 Blockage of funds due to procurement of surplus material under ADB loan - Rs. 53.76 million

According to WAPDA office memorandum dated January 19, 1978, “purchases should be made only of such items and in such quantities as are required for a specific work. In no case, should these purchases be made for storing an item for an indefinite period.”

During performance audit of inventory management in MEPCO, it came to notice that HT PCC Poles & Conductors worth Rs. 53.76 million procured under ADB Loan was declared surplus. The procurement of loan based material without actual requirement caused not only blockage of funds but also bearing interest charges without reaping any benefits thereof by defeating the very purpose of loan.

Non-adherence to Authority’s instructions resulted in blockage of funds of Rs. 53.76 million due to procurement of surplus material under ADB loan upto the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that the surplus material was utilized against MEPCO owned resources works after the completion of ADB projects.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding procurement of surplus material under ADB loan.

(Para No.02)

4.3.9 Energy loss due to non-distribution of CFLs - Rs. 51.82 million

According to Section-III (1) of WAPDA Guidelines for enforcing responsibility for losses due to fraud, theft or negligence of individuals 1982 (amended upto June, 2001) “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officers in whose charge they were, to fix the cause of loss and the amount involved”.

During performance audit of inventory management in MEPCO, it was noticed that 12983 CFLs amounting to Rs. 2.04 million were lying un-distributed in the Store since 2013-14. The initial deadline for complete distribution of CFL was April 30, 2014 which was extended upto March 31, 2015 but the company failed to distribute entire CFL within the original as well as extended dates. Due

to non-distribution of remaining CFLs, main objective of the project i.e. energy conservation could not be achieved which caused loss of energy saving amounting to Rs. 51.82 million for which no responsibility was fixed.

Non-adherence to Authority's instructions resulted in energy loss of Rs. 51.82 million due to non-distribution of CFLs upto the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that remaining 12,983 Nos. CFLs would be distributed shortly as time had been extended by Ministry of Water and Power. Further progress was not reported till finalization of the report.

The DAC in its meeting held on May 15, 2017 directed the management to ensure its compliance within the shortest possible time and inform Audit accordingly.

Audit recommends that management needs to investigate the matter for fixing the responsibility of loss.

(Para No.79)

4.3.10 Non-disposal of unserviceable material / vehicles – Rs.10.18 million

According to Clause-1.4 of the WAPDA Disposal Procedure, "unserviceable vehicles and material / equipment are to be disposed off timely".

During performance audit of inventory management in MEPCO, it came to notice that unserviceable material and vehicles valuing Rs.10.18 million were lying for want of auction in Regional Store Multan since 2001. The vehicles and material were kept in the open and exposed to the adverse environment conditions causing deterioration and further decrease in value.

Non-adherence to disposal procedure resulted in non-disposal of unserviceable material / vehicles valuing Rs.10.18 million up to the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that disposal of un-serviceable material was under process. Further progress was not reported till finalization of report.

The DAC in its meeting held on May 15, 2017 directed the management to inform latest position to Audit within the shortest possible time.

Audit recommends that the management needs to expedite the disposal process to avoid further loss of value.

(Para No.04)

4.3.11 Non-valuation / stock verification of IBS - Rs. 7.11 million

According to Para 2.2 (5) of Audit Manual of MEPCO, Internal Audit will review the measures employed to safeguard assets and conduct physical stock verification by such assets.

During performance audit of inventory management in MEPCO, it was noticed that 2.37 million IB were returned to store against distribution of CFL by the field formation. Neither valuation of IBs was made in the inventory nor physical stock verification conducted by the stock verifier of Internal Audit. In the absence of physical stock verification of IBs authenticity of distribution of CFLs could not be ascertained. Even, it might lead to misappropriation of CFL at later stage.

Non-adherence to Authority's instructions resulted in non-valuation / stock verification of IB valuing Rs. 7.11 million.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that physical stock verification of 2.37 Million IB will be carried out very shortly. Further progress was not reported till finalization of the report.

The DAC in its meeting held on May 15, 2017 directed the management to make compliance within the shortest possible time.

Audit recommends that management needs to record value of IB in the books besides ensuring physical stock verification of IBs.

(Para No.77)

4.3.12 Expiry of warranty period of CFLs lying in Store - Rs. 2.04 million

According to clause-13 (warranty) of the contract, "the warranty period be expired within four months from the date of installation / commissioning from the date of delivery of consignment. As per instruction of Ministry of Water & Power issued vide letter No. IPPs (6170) / 2011 dated March 04, 2015, remaining CFLs be distributed to commercial and industrial consumers before March 31, 2015 according to SOP.

During performance audit of inventory management in MEPCO, it was noticed that 12983 Nos. CFLs valuing Rs. 2.041 million were not distributed to the consumers uptill March, 2015. The warranty of un-distributed CFL was upto June 30, 2015 which was expired and would not be claimed at later stage. Thus

the expenditure incurred on the purchase of un-distributed CFLs might have gone waste.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that balance of 13983 CFLs were in healthy condition. However, no complaint had been received of any defective CFL. The reply was not tenable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on May 15, 2017 directed the management to expedite the distribution of balance CFLs within shortest possible time and inform Audit accordingly.

Audit recommends that management needs to investigate the matter for fixing the responsibility of expiry of warranty un-distributed CFLs.

(Para No.81)

4.4 Environment

4.4.1 Non-reduction in emission of 460.32 tons green-house gases due to non-distribution of CFLs by MEPCO

According to Para 12.2 of PC-I of Prime Minister's National CFLs Project, the projected reduction in green-house gases emission due to replacement of incandescent bulbs with 30 million CFLs was 1.064 million ton per year.

During performance audit of inventory management in MEPCO, it was noticed that 12,983 Nos. CFLs out of 5.7 million CFLs were not distributed to the consumers within scheduled period. Due to non-distribution of remaining CFLs, 460.32 tons of greenhouse gases emission did not reduce, for which no responsibility was fixed.

Non-distribution of CFLs resulted in non-reduction of 460.32 tons greenhouse gases emission upto the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management replied that balance quantity of 12,983 Nos. CFLs would be distributed shortly. Further progress was not reported till finalization of the report.

The DAC in its meeting held on May 15, 2017 directed the management to expedite the distribution of balance CFLs among the consumers and inform Audit accordingly.

Audit recommends that management needs to investigate the matter for fixing responsibility regarding non-distribution of CFLs caused non-reduction in emission of green house gases besides expediting distribution of remaining CFLs.

(Para No.84)

4.4.2 Loss of Certified Emission Reduction (CER) credits due to non-distribution of CFLs - Rs. 0.69 million

As per PC-I of the project, “the clean development mechanism allows qualifying emission reduction projects in developing countries to earn Certified Emission Reduction (CER) credits, each equivalent to one ton of carbon dioxide. These CER can be traded, sold and used by the industrialized countries to meet a part of their emission reduction targets. For the purpose of motivation these emission reduction of GHGs are rewarded at US\$ 15/CER.

During performance audit of inventory management in MEPCO, it was noticed that 12,983 CFLs were not distributed to the consumers. Resultantly, 460.32 ton carbon dioxide emission could not be reduced. This caused financial loss of Rs.1.38 million in the shape of non-earning of Certified Emission Reduction (CER) credit which could not be traded / sold to industrialized countries to meet a part of their emission reduction targets.

Non-adherence to the provision of PC-I resulted in loss of Certified Emission Reduction credit amounting to Rs. 0.69 million due to non-distribution of 12,983 Nos. CFL up to the financial year 2015-16.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management explained that balance quantity of 12,983 Nos. CFLs will be distributed shortly. Further progress was not reported till finalization of the report.

The DAC in its meeting held on May 15, 2017 directed the management to expedite the distribution of balance CFLs among the consumers and inform Audit accordingly.

Audit recommends that management needs to investigate the matter for fixing responsibility for the loss of CER credits due to non-distribution of CFLs.

(Para No.85)

4.5 Sustainability

4.5.1 Non-achievement of envisaged benefits - Rs. 9,172 million

National Compact Fluorescent Lamp (CFL) Project was supposed to reduce MEPCO estimated Peak Demand of electricity by 224.3 MW and there shall be annual energy saving of 458.6 GWH on annual basis.

During performance audit of inventory management in MEPCO, it was noticed that MEPCO did not achieve target of Peak Demand reduction of 224.3 MW and Annual Energy Saving of 485.60 GWH on annual basis during the year 2014-15 and 2015-16. Resultantly, MEPCO could not achieve benefits of Rs. 9,172 million in the shape of Annual Energy Saving during the year 2014-15 and 2015-16. The purpose for which project was launched has been defeated.

Non-achievement of envisaged benefit / targets resulted in loss of Rs. 9,172 million in the shape of Annual Energy Saving.

The matter was taken up with the management and reported to the Ministry in May, 2017. The management explained that ADB has extended the due date upto 30 June 2017. Balance quantity of 12983 CFLs would be distributed shortly. Further progress was not reported till finalization of the report.

The DAC in its meeting held on May 15, 2017 directed the management to expedite the distribution of balance CFLs among the consumers and inform Audit accordingly.

Audit recommends that management needs to investigate the matter for fixing the responsibility of non-achievement of targets fixed as per Distribution Plan of CFL for MEPCO Multan.

(Para No.78)

4.6 Overall Assessment

Overall assessment of Inventory Management with reference to Economy, Efficiency and Effectiveness are as follows:-

4.6.1 Economy

The economy aspect was not properly observed regarding procurement of substantial inventory items i.e. Transformers of different capacities (10, 15, 25, 50, 100 & 200 KVA), conductors i.e. Ant, Rabbit, Osprey, Dog and Single phase meters. The bid prices / offered rates were compared with the procurement rates of other distribution companies and its own previous procurement rates.

This practice was not allowed under Public Procurement Rules as quoted rates were to be compared with the cost estimate and prevailing market rates in order to arrive at competitive rates. Moreover, price variation was also observed while placing different purchase orders against the procurement of same item within the same financial year. Resultantly, material was not procured at competitive rates which turned into heavy loss to the Company's exchequer.

4.6.2 Efficiency

The main objective of inventory management is to maintain inventory efficiently at appropriate levels so as to supply uninterrupted distribution of electricity, carry out operational activities smoothly, and maintain investment in inventories at a lean level to maximize profitability. Both inadequate and excessive quantities of inventories are considered undesirable.

In MEPCO, inventory management is not as efficient as it should be. This can largely be attributed to the poorly maintained inventory at stores. The inventory management mechanism starts from planning to procurement and its handling which was primarily based on the inventory data generated from the analysis of different stock levels maintained at stores. The following important stock levels, which constitute the very basis for forecasting were neither defined nor taken into view while preparing annual procurement plan. This resulted into unrealistic procurement planning and over / less stocking as some items of material remained short being highly in demand as distribution transformers & single phase meters and ultimately caused hampering in operations on the one hand and affect the working capital on the other hand.

- i) Determination of Stock Level
- ii) Determination of Safety Stock
- iii) Selecting a Proper System of Ordering for Inventory
- iv) Determination of Economic Order Quantity
- v) Reserve Stock Limit' (RSL)

4.6.3. Effectiveness

The present inventory management system did not prove effective and beneficial to the company as it caused loss to the company's exchequer in the shape of unnecessary and surplus procurement, frequent damage and theft of transformers, non-physical stock verification at the end of each financial year, non-accountal / consumption of material at the time of procurement, non-

transparency in the award of purchase orders as well as surplus procurement out of foreign loan. These instances were frequently observed during course of performance audit. This state of affair was mainly due to mismanagement, slackness, untimely procurement, weak internal control system and non-transparency within the working of company's formations.

The procurement of major items i.e. Transformers of different capacities i.e. 10 kva, 15 kva, 25 kva, 50 kva, 100 kva, 200 kva and 400 kva, Conductors, Single and Three phase meters was made without preparing estimates and comparison with the quotes rates. At the time of award of purchase orders estimate cost was not compared to arrive at competitive rates. Frequent splitting was also one of the main reasons to extend undue favour to the suppliers. From the above facts, it could easily be concluded that MEPCO inventory management system did not remain effective, beneficial and transparent.

5. CONCLUSION

The MEPCO inventory management system had certain lapses ,as pointed out in the audit findings, that caused loss to the Company's exchequer in the shape of unnecessary and surplus procurement, frequent damage and theft of transformers, non-physical stock verification at the end of each financial year, non-accountal / consumption of material at the time of procurement, non-transparency in the award of purchase orders as well as surplus procurement out of foreign loan. The issues like procurement of all major items without preparing estimates and comparison with the quoted rates, frequent splitting gave rise to the conclusion that MEPCO inventory management system, deficient of economy, efficiency and effectiveness ,did not remain beneficial on the one hand and transparent on the other hand. Hence, there is compelling need of addressing all the issues of inventory management, hampering the operational activities of the distribution Company.

6.

ACKNOWLEDGEMENT

We wish to express our appreciation to the management and staff of MEPCO for the assistance and cooperation extended to the auditors during this assignment.

ANNEXES TO THE AUDIT OBSERVATIONS OF PERFORMANCE
AUDIT REPORT ON INVENTORY MANAGEMENT IN MEPCO

Para No. 4.2.1

(Clubbed with IR Para No.17, 18, 20, 25, 27, 29, 30, 32, 33, 34, 35, 36, 37, 39, 42, 45, 47, 51, 54, 59, 61 & 71)

Statement of procurement at post bid reduced / negotiated rates

Sr No	IR Para No.	Description of material	Amount involved (Rs.)	Remarks
1	17	Ant Conductor	26.70	Repeat order issued at reduced rate
2	18	ACSR Osprey Conductor	410.93	Bidders reduced their rates to match with the previous purchase rate of MEPCO
3	20	AAC Ant Conductor	60.48	Bidder reduced its rates to match with the rates offered by lowest bidder
4	25	ACSR Rabbit Conductor	85.09	-do-
5	27	AAC Ant Conductor	65.51	5 th and 6 th lowest bidders were approached to reduce their rates at par with 1 st lowest bidder
6	29	ACSR Osprey Conductor	547.91	Bidders were approached to reduce their rates at par with 1 st lowest bidder
7	30	-do-	13.17	-do-
8	32	ACSR Osprey, Dog & AAC Wasp Conductor	106.48	-do-
9	33	ACSR Rabbit Conductor	37.06	-do-
10	34	-do-	79.170	Bidder reduced its rates to match with the rates offered by 1 st lowest bidder
11	35	ACSR Dog Conductor	14.522	-do-
12	36	AAC Ant Conductor	53.473	-do-
13	37	-do-	67.512	-do-
14	39	-do-	11.495	-do-
15	42	132/11.5 KVPower Transformer	263.051	Repeat order issued at reduced rate
16	45	200 KVA Transformer	63.800	Post bid reduction of rates by the bidders
27	47	50 KVA Transformer	369.672	Bidder reduced its rates to match with the rates offered by 1 st lowest bidder
18	51	Distribution Transformers	1,756.60	Post bid reduction of rates by the bidders
19	54	25 KVA Transformer	119.389	Bidder reduced its rates to match with the rates offered by 1 st lowest bidder
20	59	Single Phase Meters	386.10	Post bid reduction of rates by the bidders
21	61	200 KVA Transformer	258.882	Bidder reduced its rates to match with the rates offered by 1 st lowest bidder
22	71	PCC Poles	434.197	Post bid reduction of rates by the bidders
Total			5,231.193	

Para No. 4.2.2
IR Para No.70

Statement showing the detail of non-utilization of funds

S.No.	Financial Year	Description	Budget Provision (Rs. in million)	Utilization (Rs. in million)	Difference (Rs. in million)
1	2011-12	Capital Receipt	3,737.00	3,026.69	710.31
2	2012-13		2,548.00	1,530.92	1,017.08
3	2013-14		3,481.00	2,154.43	1,326.57
4	2014-15		2,750.00	2,433.59	316.41
5	2015-16		2,394.91	2,155.00	239.91
Total			14,910.91	11,300.63	3,610.28

Statement showing the detail of pending ripe connections

Type of connection	Position as on 30.06.2012	Position as on 30.06.2013	Position as on 30.06.2014	Position as on 30.06.2015	Position as on 30.06.2016
Domestic	40,534	13,379	61,136	42,950	39,116
Commercial	2,246	928	4,349	3,046	2,138
Industrial	663	320	517	437	211

Para No. 4.2.4
IR Para No.62

Statement showing the detail of single phase meter procured worth Rs. 3,456.25 and loss of Rs. 1,105.94 million due to procurement of single phase meter at higher rates

Sr. No.	Tender No. & Date	P.O.No. & Date	Name of Supplier	Qty	Rate (Rs.)	Amount (Rs. in million)	Rate at which to be procured (Rs.)	Difference (Rs.)	Loss (Rs. in million)
1	199/11.11.11	0603653/16.01.12	M/s KBK	125,000	1672	209.000	1240	432	54.000
2	221/18.06.12	0603797/03.09.12 0603802/03.09.12 0603798/10.09.12 0603800/13.09.12	M/s KBK M/s Micro tech M/s Creative M/s Escort	150,000	1850	277.500	1240	610	91.500
3	34/12.10.12	0603810/02.11.12 0603809/21.11.12	M/s Micro tech M/s Creative	150,000	1875	281.250	1240	635	95.250
4	27/15.07.13	0603960/10.09.13 0603956/03.09.13 0603955/02.09.13 0603954/30.08.13 0603959/09.09.13	M/s Creative M/s PEL M/s KBK M/s Micro tech M/s Escort	200,000	1950	390.000	1240	710	142.000
5	72/26.12.13	0604059/28.02.14 0604063/06.03.14 0604060/28.02.14	M/s KBK M/s Creative M/s Micro tech	100,000	1950	195.000	1240	710	71.000
6	88/11.04.14	0604101/03.04.14 0604102/04.06.14 0604104/10.06.14 0604100/03.06.14	M/s PEL M/s Micro tech M/s Creative M/s KBK	200,000	1950	390.000	1240	710	142.000
7	07/01.09.14	0604129/18.09.14 0604134/10.10.14 0604137/15.10.14	M/s Micro tech M/s IMS M/s KBK	200,000	1950	390.000	1240	710	142.000
8	138/06.04.15	0604286/11.05.15 0604288/15.05.15 0604287/15.05.15 0604285/11.05.15	M/s Creative M/s Creative M/s PEL M/s Creative	200,000	1335 1358 1388 1367 Avg=1362	272.400	1240	122	24.400
9	161/20.05.15	0604319/28.07.15 0604312/14.07.15 0604310/14.07.12 0604311/14.07.15	M/s Escort M/s Accurate M/s Transfo Power M/s PEL	300,000	1577 1576 1575 1580 Avg=1577	473.100	1240	337	101.100
10	177/19.06.15	0604403/17.01.16 0604408/11.01.16 0604410/13.01.16 0604411/13.01.16	M/s Escort M/s Transfo Power M/s PEL M/s Accurate	200,000	1650	330.000	1240	410	82.000
11	141/09.05.16	0604537/20.07.16 0604532/15.07.16 0604531/15.07.16 0604530/13.07.16	M/s Creative M/s Creative M/s Creative M/s PEL	200,000	1240	248.000	1240	--	--
						3456.25			945.25
								GST17%	160.69
								Total Loss	1,105.94

Para No. 4.2.5

IR Para No.40

Statement showing the detail of loss on account of procurement of sub-standard power transformers

Sr. No.	Capacity of Power Transformer	Total Installed	P/Trs: with satisfactory Results	P/Trs: with satisfactory Results	Rate per transformer (Rs. in million)	Amount Rs. in million)
GSO Circle Multan						
1	31.5/40 MVA	14	06	08	50.200	401.600
2	20/26MVA	26	10	16	40.400	646.400
GSO Circle Sahiwal						
1	31.5/40 MVA	10	09	01	50.200	50.200
2	20/26MVA	12	12	00	40.400	000
Total						1,098.200

Para No. 4.2.6

(Clubbed with IR Para No.14, 15, 38 & 55)

Statement regarding splitting of planned procurement, difference in delivery period and piecemeal P.Os

IR Para No.14

Sr. No.	Description of material	P.O No.	Date	Qty in KM	Rate per KM	Amount	Quantity to be delivered	Delivery days	Completion period upto
1	ACSR Rabbit Conductor (Tender No.15)	0604418	20.01.2016	800	44,900	35,920,000	100%	60 days	19.03.2016
2		0604419	20.01.2016	800	44,900	35,920,000	100%	90 days	18.04.2016
3		0604420	20.01.2016	800	44,900	35,920,000	100%	120 days	18.05.2016
4		0604478	12.04.2016	800	44,900	35,920,000	100%	90 days	10.07.2016
5		0604479	12.04.2016	800	44,900	35,920,000	100%	90 days	10.07.2016
Total						179,600,000			

IR Para No.15

Sr No.	Description of material	P.O No.	Date	Qty in KM	Rate per KM	Amount	Quantity to be delivered	Delivery days	Completion period upto
1	AAC Ant Conductor (Tender No.17)	0604415	20.01.2016	1,000	37,000	37,000,000	100%	60 days	19.03.2016
2		0604416	20.01.2016	1,000	37,000	37,000,000	100%	90 days	18.04.2016
3		0604417	20.01.2016	1,000	37,000	37,000,000	100%	120 days	18.05.2016
4		0604472	11.04.2016	1,000	37,000	37,000,000	100%	90 days	09.07.2016
5		0604477	12.04.2016	1,000	37,000	37,000,000	100%	90 days	10.07.2016
Total						185,000,000			

IR Para No.38

Sr. No.	Description	Lot No.	PO No.	Tender No.	Date	Qty (km)	Rate (Rs.)	Amount (Rs.)
1	ACSR Dog Conductor (Tender No.33 & 97)	I	0604294	97	28.05.2015	500	95,800	56,043,000
2		II	0604295			500	95,800	56,043,000
3		III	0604296			500	95,800	56,043,000
4		I	0604190	33	22.12.2014	125	99,300	14,522,625
5		II	0604174		25.11.2014	125	99,300	14,522,625
Total								197,174,250

IR Para No.55

Sr. No.	Description of material	P.O No.	Date	Qty in	Rate per T/F	Amount	% of Quantity to be delivered	Delivery days
1	25 KVA Transformers (Tender No.19)	0604391	21.12.2015	700	124440	101,916,360	100%	224/254 days
2		0604380	09.12.2015	700	124440	101,916,360	100%	60/90 days
3		0604378	09.12.2015	700	124440	101,916,360	100%	60/90 days
4		0604392	21.12.2015	700	124440	101,916,360	100%	224/254 days
5		0604393	21.12.2015	700	124440	101,916,360	100%	224/254 days
Total						509,581,800		

Grand Total

Rs. 1,071.36

Para No. 4.2.11

IR Para No.69

Statement showing the detail of loss on account of procurement of 200 KVA Transformers valuing Rs. 296.09 million

Sr. No.	P.O. No. & Date	Qty	Rate Allowed (Rs. in million)	Rate at which it was to be procured	Difference (Rs. in million)	Loss (Rs. in million)
1	0603646 dt. 06.01.12	150	564,000	363,465	200,436	30.06
2	0603647 dt. 06.01.12	250	564,000	363,465	200,436	50.11
3	0603692 dt. 15.03.12	250	458,406	363,465	94,941	23.74
4	0603694 dt. 16.03.12	200	458,406	363,465	94,941	18.98
5	0603572 dt. 29.07.11	75	580,165	363,465	216,700	16.25
6	0603576 dt. 29.08.11	150	580,165	363,465	216,700	32.50
7	0603578 dt. 29.07.11	75	580,165	363,465	216,700	16.252
8	0603593 dt. 19.07.11	105	363,465	363,465	Nil	Nil
9	0603909 dt. 25.04.13	100	550,000	363,465	186,435	18.64
10	0603910 dt. 25.04.13	150	550,000	363,465	186,435	27.96
11	0603932 dt. 27.05.13	100	550,000	363,465	186,435	18.64
Total						253.07
GST17%						43.02
Total Loss						296.09

Para No. 4.2.12

IR Para No.68

Statement showing the detail of loss on account of procurement of 25 KVA Transformers valuing Rs. 231.56 million

S. No.	P.O. No. & Date	Qty	Rate Allowed (Rs.)	Rate at which it was to be procured	Difference (Rs.)	Loss (Rs. in million)
1	0603574 29.07.11	500	168,435	129,500	38,935	19.467
2	0603575 29.07.11	400	168,435	129,500	38,935	15.57
3	0603575 29.07.11	500	168,435	129,500	38,935	19.47
4	0603593 19.08.11	600	168,435	129,500	38,935	23.36
5	0603662 06.02.12	1200	163,250	129,500	33,750	40.50
6	0603651 12.01.12	600	163,250	129,500	33,750	20.25
7	0603835 31.12.12	3250	147,780	129,500	18,280	59.31
Total						197.92
GST17%						33.65
Total Loss						231.56

List of Purchase Orders at which 25 KVA Transformer was procured at cheaper rates

Sr. No.	P.O.No. & Date	Qty	Rate (Rs.)
1	0603693 15.03.2012	1,200	129,500
2	0603696 20.03.2012	3,500	129,500
3	0604112 16.07.2014	575	104,400
4	0604139 20.10.2014	575	107,750
5	0604142 23.10.2014	575	107,733
6	0604164 11.11.2014	575	107,550
7	0604165 14.11.2014	575	106,800
8	0604194 23.12.2014	500	110,000
9	0604198 01.01.2015	1,000	102,042
10	0604202 09.01.2015	500	102,042

Para No. 4.2.13 (Clubbed with IR No. 73 & 74)
IR Para No.73

Statement showing the detail of loss on account of procurement of 50 KVA Transformers valuing Rs. 79.01 million during the year 2011-12

Sr. No.	P.O. No. & Date	Qty	Rate Allowed (Rs. In million)	Rate at which it was to be procured	Difference (Rs. In million)	Loss (Rs. In million)
1	21936-43 06.02.12	311	231,000	190,162	40838	12.70
2	0603662 06.02.12	361	231,000	190,162	40838	14.74
3	0603650 12.01.12	328	231,000	190,162	40838	13.39
4	0603692 15.03.12	700	190,162	Nil	Nil	Nil
5	0603574 29.07.11	190	235,415	190,162	45253	8.60
6	0603576 29.08.11	200	235,415	190,162	45253	9.05
7	0603577 29.07.11	200	235,415	190,162	45253	9.05
Total						67.53
GST17%						11.48
Total Loss						79.01

IR Para No.74

Statement showing the detail of loss on account of procurement of 100 KVA Transformers valuing Rs. 129.71 million during the year 2011-12

S. No.	P.O. No. & Date	Qty	Rate Allowed (Rs. In million)	Rate at which it was to be procured	Difference (Rs. In million)	Loss (Rs. In million)
1	0603573 29.07.11	195	363465	235415	128050	24.97
2	0603575 29.07.11	100	363465	235415	128050	12.80
3	0603647 06.01.12	400	342525	235415	107110	42.84
4	0603690 12.03.12	800	273225	235415	37810	30.25
5	0603593 19.08.11	210	235415	235415	Nil	Nil
Total						110.86
GST17%						18.85
Total Loss						129.71

Grand Total = Rs. 208.72 million.

Para No. 4.2.16

IR Para No.87

Statement regarding Tender No PMU-MEPCO-28-2014 opened on December 31, 2014

Sr. No.	Lot No.	Description of material	1st lowest bidder	Make of material	Qty	Quoted FCS price without GST & SED Rs.
1	IV	11 KV Incoming CTs	M/s SSE Lahore	Siemens make or equivalent (800-1600/5)	21	760,200
				J&P make or equivalent (800-1600/5)	6	217,200
				FICO make or equivalent (1200-2400/5)	27	1,066,500
				FICO make or equivalent (800-1600/5)	15	543,000
				Alstom make or equivalent (800-1600)	9	325,800
		11 KV Outgoing CTs		J&P make or equivalent	12	328,800
				FICO make or equivalent	61	1,671,400
		Alstom make or equivalent	4	109,600		
2	V	132 KV & 66 KV Bushings	M/s Ittehad Electric Co. Lhr	132 KV Bushings (Maicafil make or equivalent)	6	11,244,000
				66 KV Bushings (Maicafil make or equivalent)	3	
3	VI	11 KV Bus Bar Insulators	M/s SSE Lahore	11 KV Bus Bar Insulators Siemens make or equivalent	30	131,970
				11 KV Bus Bar Insulators PEL make or equivalent	30	131,970
4	VII	11 KV incoming Vaccum Interrupter	M/s Al Amin Enterprises Lhr	Meidensha make or equivalent (VE-14)	3	705,000
			M/s Siemens	Siemens make or equivalent	30	9,060,000
				Siemens make or equivalent	6	2,040,000
			M/s SSE Lhr	Hyundai make or equivalent (HVS 10007)	24	3,273,600
		M/s SSE Lhr	J&P make or equivalent	6	1,500,000	
		11 KV Outgoing Vaccum Interrupter	M/s Siemens	Siemens make or equivalent	65	13,975,000
			M/s Al Amin Enterprises Lhr	Toshiba make or equivalent (VK 10M25)	6	1,020,000
				Meidensha make or equivalent (VFT -12)	27	4,725,000
M/s SSE Lhr	Hyundai make or equivalent (3AF2541-4)		37	4,884,000		
M/s SSE Lhr	J&P make or equivalent	6	1,044,000			
5	VIII	11 KV Incoming Trolley	M/s Siemens	Siemens make or equivalent (3AF2346-4Z)	7	6,265,000
			M/s SSE Lhr	S&Sons make or Equivalent (40 MVA)	1	724,000
				Hyundai make or equivalent	1	724,000
		11 KV Outgoing Trolleys	M/s Siemens	Siemens make or equivalent (3AF2346-4Z)	16	9,200,000
			M/s SSE Lhr	Hyundai make or equivalent (3AF2541-4)	10	6,500,000
				PEL Or equivalent (WPV-25-0)	1	685,000
6	X	Energy meters for Grid metering A type class 0.2		AEM Romania make or equivalent	230	0
Total						82,855,040

Para No.4.2.17

IR Para No.22

Statement regarding irregular procurement of conductor through repeat/additional orders

Sr. No.	Bidders	Material Description	Additional P.O No. & date	Additional Qty in km	Rate per KM (Rs.)	Amount (Rs.)	16 & 17% GST (Rs.)	Total Addl PO value (Rs.)
1	M/s Newage Cables	ACSR Rabbit Conductor	36135-39/MMM/Addl-PO-13 16.04.2013	925	45,000	41,625,000	6,660,000	48,285,000
2	M/s Atlas Cables	AAC Ant Conductor	42369-73/MMM/Addl-PO-13 20.06.2013	194	37,278.60	7,232,048	1,229,448	8,461,497
3	M/s Universal Cables	ACSR Dog Conductor	42374-78/MMM/Addl-PO-13 20.06.2013	53	89,607.86	4,749,217	807,367	5,556,583
4	M/s Atlas Cables	AAC Ant Conductor	5527-30/MMM/Addl-PO-13 23.08.2013	275	35,578.60	9,784,115	1,663,300	11,447,415
Total								73,750,495

Para No. 4.2.20

IR Para No.88

Statement regarding issuance of educational purchase orders

Sr No	Supplier	Letter of Intent	Date	Description of material	Qty	Rate	Amount	17% GST	Total Amount
1	M/s M.K Engineering Works, Lhr	10653-58	11.04.2014	11 KV Outgoing panels 25 KA, 630 A	10 Nos	968,240	9,682,400	1,646,008	11,328,408
2	M/s Mutahir Metal Works (Pvt) Ltd	10647-52	11.04.2014	ACSR Conductor (Lynx)	10 km	179,750	1,797,495	305,574	2,103,069
				ACSR Conductor (Rail)	10 km	399,700	3,997,000	679,490	4,676,490
Total									18,107,967

Para No.4.2.21

IR Para No.19

Statement regarding loss due to delayed procurement of Ant conductor

Sr. No.	Supplier	P.O No.	Date	Qty in KM	Rate per KM	Amount (Rs.)	if procured on 25.11.2014 the rate would be	Diff of rate (Rs.)	Procurement at Excessive rate (Rs.)
1	M/s Universal Cables	0604314	14.07.2015	700	43200	30,240,000	39,300	3,900	2,730,000
2	Do	0604416	20.01.2016	700	43200	30,240,000	39,300	3,900	2,730,000
3	M/s Newage Cables	0604315	16.07.2015	600	43200	25,920,000	39,300	3,900	2,340,000
Total									7,800,000

Para No. 4.3.4

IR Para No.05

Detail of inactive / slow moving material in MEPCO

Sr. No.	Name of formation	Value of material in Rs.
1	Regional Store Multan	320,390,070.79
2	Regional Store Sahiwal	41,085,750.77
3	Regional Store Bahawalpur	2,142,113.37
4	Regional Store D.G Khan	7,322,973.49
5	Field Store Burewala	136,693.25
6	Field Store Khanewal	87,418.85
7	Field Store Muzaffargarh	213,272.46
8	Field Store Construction Multan	21,315,344.12
9	Field Store Bahawalnagar	966,853.74
10	Field Store Rajanpur	1,624,681.78
11	Field Store Layyah	976,151.41
	Total	396,261,324.03
	Total Rs. in million	396.26