AUDIT REPORT
ON
THE ACCOUNTS OF
WATER AND POWER
DEVELOPMENT AUTHORITY
AUDIT YEAR 2012-13

AUDITOR-GENERAL OF PAKISTAN

TABLE OF CONTENTS

		Page No.
ABBREVIATIONS & ACRONYMS		i
PREFACE		v
EXECUTIVE SUMMARY		1
SUMMARY TABLES & CHARTS		
	I Audit Work Statistics	6
	II Audit observations regarding financial management	6
	III Outcome Statistics	6
	IV Irregularities pointed out	7
	V Cost Benefit	7

MINISTRY OF WATER AND POWER

(A) WATER AND POWER DEVELOPMENT AUTHORITY (WAPDA)

CHAPTER 1	**WATER WING**	
	1.1 Introduction	15
	1.2 Brief comments on the status of compliance with PAC directives	16
	1.3 Audit Paras	16
CHAPTER 2	**WAPDA HYDRO ELECTRIC POWER**	
	2.1 Introduction	35
	2.2 Comments on Financial Statements	35
	2.3 Brief comments on the status of compliance with PAC directives	40
	2.4 Audit Paras	40

(B) PAKISTAN ELECTRIC POWER COMPANY (PEPCO)

CHAPTER 3	**PAKISTAN ELECTRIC POWER COMPANY (PEPCO)**	
	3.1 Introduction	59
	3.2 Audit Paras	59
CHAPTER 4	**JAMSHORO POWER GENERATION COMPANY (GENCO-I)**	
	4.1 Introduction	65
	4.2 Comments on Financial Statements	65
	4.3 Audit Paras	71

CHAPTER 5	**CENTRAL POWER GENERATION COMPANY (GENCO-II)**	
	5.1 Introduction	75
	5.2 Comments on Financial Statements	75
	5.3 Brief comments on the status of compliance with PAC directives	81
	5.4 Audit Paras	81
CHAPTER 6	**NORTHERN POWER GENERATION COMPANY (GENCO-III)**	
	6.1 Introduction	87
	6.2 Comments on Financial Statements	87
	6.3 Audit Paras	93
CHAPTER 7	**LAKHRA POWER GENERATION COMPANY (GENCO-IV)**	
	7.1 Introduction	107
	7.2 Comments on Financial Statements	107
	7.3 Audit Paras	113
CHAPTER 8	**NATIONAL TRANSMISSION AND DESPATCH COMPANY (NTDC)**	
	8.1 Introduction	117
	8.2 Brief comments on the status of compliance with PAC directives	118
	8.3 Audit Paras	118
CHAPTER 9	**FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)**	
	9.1 Introduction	137
	9.2 Comments on Financial Statements	137
	9.3 Audit Paras	143
CHAPTER 10	**GUJRANWALA ELECTRIC POWER COMPANY (GEPCO)**	
	10.1 Introduction	161
	10.2 Comments on Financial Statements	161
	10.3 Audit Paras	167
CHAPTER 11	**HYDERABAD ELECTRIC SUPPLY COMPANY (HESCO)**	
	11.1 Introduction	193
	11.2 Comments on Financial Statements	193
	11.3 Brief comments on the status of compliance with PAC directives	199
	11.4 Audit Paras	200

CHAPTER 12	**ISLAMABAD ELECTRIC SUPPLY COMPANY (IESCO)**		
	12.1	*Introduction*	219
	12.2	*Comments on Financial Statements*	219
	12.3	*Audit Paras*	225
CHAPTER 13	**LAHORE ELECTRIC SUPPLY COMPANY (LESCO)**		
	13.1	*Introduction*	241
	13.2	*Comments on Financial Statements*	241
	13.3	*Brief comments on the status of compliance with PAC directives*	248
	13.4	*Audit Paras*	248
CHAPTER 14	**MULTAN ELECTRIC POWER COMPANY (MEPCO)**		
	14.1	*Introduction*	275
	14.2	*Comments on Financial Statements*	275
	14.3	*Brief comments on the status of compliance with PAC directives*	281
	14.4	*Audit Paras*	282
CHAPTER 15	**PESHAWAR ELECTRIC SUPPLY COMPANY (PESCO)**		
	15.1	*Introduction*	305
	15.2	*Comments on Financial Statements*	305
	15.3	*Brief comments on the status of compliance with PAC directives*	311
	15.4	*Audit Paras*	311
CHAPTER 16	**QUETTA ELECTRIC SUPPLY COMPANY (QESCO)**		
	16.1	*Introduction*	339
	16.2	*Comments on Financial Statements*	339
	16.3	*Audit Paras*	344
CHAPTER 17	**SUKKUR ELECTRIC POWER COMPANY (SEPCO)**		
	17.1	*Introduction*	359
	17.2	*Comments on Financial Statements*	359
	17.3	*Audit Paras*	364
CHAPTER 18	**TRIBAL AREAS ELECTRIC SUPPLY COMPANY (TESCO)**		
	18.1	*Introduction*	379
	18.2	*Comments on Financial Statements*	379
	18.3	*Audit Paras*	385

CHAPTER 19 **PRIVATE POWER AND INFRASTURE BOARD (PPIB)**
19.1 Introduction 391
19.2 Audit Paras 392

ANNEXURE
Annexure-I 405
Audit paras, not considered significant enough to report to the parliament, included in MFDAC

ABBREVIATIONS AND ACRONYMS

ACL	Audit Command Language
ADB	Asian Development Bank
ADP	Annual Development Programme
AJ&K	Azad Jammu and Kashmir
AM(CS)	Assistant Manager (Customer Services)
AMR	Automated Meter Reading System
ATB	Anti Theft Box
BMS	Burner Management System
BOD	Board of Directors
BoQ	Bill of Quantity
BPS	Basic Pay Scale
bps	Basic Points
BTA	Business Transfer Agreement
BTU	British Thermal Unit
CCC	Central Contract Cell
CCPP	Combined Cycle Power Plant
CE (MI)	Chief Engineer Material Inspection
CIBS	Consumer Information & Billing System
CP	Commercial Procedure
CPC	Circuit Protective Conductor
CEO	Chief Executive Officer
CMTL	Central Monitoring & Testing Laboratory
COBOL	Common Business Oriented Language
COD	Commercial Operation Date
CPGCL	Central Power Generation Company Limited
CPPA	Central Power Purchasing Agency
CPs	Commercial Procedures
CRBC	Chashma Right Bank Canal
CRPEA	Contract Registrar and Power Exchange Administrator
CRRK	Chief Resident Representative Karachi
DAC	Departmental Accounts Committee
DG	Director General
DISCOs	Distribution Companies
DLP	Defects Liability Period
DoP	Development of Power
DP	Draft Para
ECC	Economic Coordination Committee
ECNEC	Executive Committee of the National Economic Council
EHV	Extra High Voltage
ELR	Energy Loss Reduction
E&M	Electrical & Mechanical
EOT	Extension of Time
EPC	Engineering Procurement and Construction
ERO	Equipment Removal Order
FARA	Fixed Amount Re-imbursement Agreement
FATA	Federally Administered Tribal Area
FBR	Federal Board of Revenue
FCC	Foreign Currency Component
FESCO	Faisalabad Electric Supply Company
FoB	Freight on Board
FIA	Federal Investigation Agency

FIDIC	Federation International Des Ingenieurs-Conseils
FIR	First Information Report
FPLC	Fuel Payment Letter of Credit
GBHP	Ghazi Brotha Hydro Power Project
GENCOs	Generation Companies
GEPCO	Gujranwala Electric Power Company
GM	General Manager
GM (CS)	General Manager (Customer Services)
GoP	Government of Pakistan
GSC	Grid System Construction
GSO	Grid System Operation
GST	General Sales Tax
GTC	Greater Thal Canal
GTPS	Gas Thermal Power Station
GWH	Gegawatt Hours
HBL	Habib Bank Limited
HESCO	Hyderabad Electric Supply Company
HPS	Hydel Power Station
HSD	High Speed Diesel
HRM	Human Resource Management
HRD	Human Resource Development
HT	High Tension
HUBCO	Hub Power Company
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IDC	Interest During Construction
IESCO	Islamabad Electric Supply Company
IPC	Interim Payment Certificate
IPSAS	International Public Sector Accounting Standards
IPPs	Independent Power Producers
IDA	International Development Association
IOT	Inter Office Transaction
JPGCL	Jamshoro Power Generation Company Limited
KCP	Kachhi Canal Project
KESC	Karachi Electric Supply Company
KIBOR	Karachi Inter Bank Offer Rates
KPK	Khyber Pukhtun Khwa
KV	Kilo Volt
KVARH	Kilo Volt Ampere Hours
KW	Kilo Watt
kWh	Kilo Watt Hours
LBOD	Left Bank Outfall Drainage
LC	Letter of Credit
LD	Liquidated Damages
LESCO	Lahore Electric Supply Company
LPGCL	Lakhra Power Generation Company Limited
LT	Low Tension
MAF	Million Acre Feet
MD	Managing Director
MDI	Maximum Demand Indicator
MDRP	Mangla Dam Raising Project
MEPCO	Multan Electric Power Company
MFDAC	Memorandum for Departmental Accounts Committee

MIS	Management Information System
MKWH	Million Kilo Watt Hour
MRN	Material Return Note
MoF	Ministry of Finance
MoU	Memorandum of Understanding
MSS	Meter Security Slip
MT	Metric Ton
M&T	Metering and Testing
MVA	Mega Volt Ampere
MW	Mega Watt
NAB	National Accountability Bureau
NAM	New Accounting Model
NDP	National Drainage Programme
NEPRA	National Electric Power Regulatory Authority
NESPAK	National Engineering Services Pakistan
NGPS	Natural Gas Power Station
NICL	National Insurance Company Limited
NIT	Notice Inviting Tender
NJHPC	Neelum Jehlum Hydro Power Company
NLC	National Logistic Cell
NoA	Notice of Award
NPCC	National Power Control Centre
NPGCL	Northern Power Generation Company Limited
NTDC	National Transmission and Despatch Company
PAC	Public Accounts Committee
PC Poles	Pre-stressed Concrete Poles
PCC	Particular Condition of Contract
PC-I	Planning Commission Proforma-I
PC-II	Planning Commission Proforma-II
PD	Project Director
PDP	Proposed Draft Para
PEC	Pakistan Engineering Council
PER	Performance Evaluation Report
P&D	Purchase & Disposal/ Planning & Development
P&E	Planning & Evaluation
PESCO	Peshawar Electric Supply Company
PEPCO	Pakistan Electric Power Company
PITC	Power Information Technology Company
PMU	Project Management Unit
PNSC	Pakistan National Shipping Corporation
PPA	Power Purchase Agreement
PHPL	Power Holding Private Limited
PPIB	Pakistan Power Infrastructure Board
PPRA	Public Procurement Regulatory Authority
PPRs	Public Procurement Rules
PSDP	Public Sector Development Programme
PSO	Pakistan State Oil
QESCO	Quetta Electric Supply Company
RBOD	Right Bank Outfall Drainage
RC	Rainee Canal
RCOs	Reconnection Orders
RD	Regulatory Duty
REP	Rural Electrification Project

RFO	Residual Furnace Oil
RPP	Rental Power Project
RPW	Residual Power Wing
RRK	Resident Representative Karachi
RSC	Rental Service Contract
SAP	System Augmentation Project
SAR	Special Audit Report
SBTA	Supplementary Business Transfer Agreement
SCARP	Salinity Control and Reclamation Project
SCO	Service Connection Order
SE	Superintending Engineer
SECP	Security and Exchange Commission of Pakistan
SEPCO	Sukkur Electric Power Company
SEPCOL	Southern Electric Power Company Limited
S&I	Surveillance & Intelligence
SO	System Operator
SOPs	Standard Operating Procedures
SPS	Small Power Station
SRO	Statutory Regulatory Order
SSGCL	Sui Southern Gas Company Limited
SSR	Special Study Report
SS & TL	Secondary System & Transmission Lines
STG	Secondary Transmission Lines and Grids
SZD	Subak Zai Dam
TBM	Tunnel Boring Machine
TESCO	Tribal Areas Electric Supply Company
TFC	Term Finance Certificate
TOD	Time of Day
TOR	Term of Reference
TOU	Time of Use
TNO	Transmission Network Operator
TPS	Thermal Power Station
WAPDA	Water and Power Development Authority
WPPO	WAPDA Power Purchase Organization
WPPF	Workers Profit Participation Fund

Preface

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, require the Auditor General of Pakistan to conduct audit of receipts and expenditure out of the Federal Consolidated Fund and Public Account and that of Government commercial undertakings and of any authority or body established by the Federation.

The report is based on audit of the accounts of WAPDA and PEPCO for the financial year 2011-12 as well as some observations pertaining to the previous audit years. The Directorate General of Audit WAPDA conducted audit of these entities during the year 2012-13 on test check basis with a view to reporting significant findings to the relevant stakeholders. The main body of Audit Report includes only the systemic issues and audit findings carrying value of Rs.1 million or more. Relatively less significant issues are listed in the Annexure-I of the Audit Report. The Audit observation listed in the Annexure-I shall be pursued with the Principal Accounting Officer at the DAC level and in all cases where the PAO does not initiate appropriate action, the Audit observations will be brought to the notice of the Public Accounts Committee through the next year's Audit Report.

Audit findings indicate the need for adherence to the regularity framework besides instituting and strengthening internal controls to avoid recurrence of similar violations and irregularities.

The observations included in this report have been finalized in the light of discussions in the meetings with management.

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].

Sd/-

Dated: 04 March 2013

(Muhammad Akhtar Buland Rana)
Auditor-General of Pakistan

EXECUTIVE SUMMARY

The Director General Audit WAPDA carries out audit of accounts of WAPDA, PEPCO and its corporate entities on behalf of the Auditor General of Pakistan as envisaged in section 28 of the Pakistan Water and Power Development Authority Act, 1958 with the objective of promoting accountability, transparency, good governance in the management and use of public resources. Audit of one hundred and fourty four (144) out of two hundred and seventy one (271) formations was conducted by utilizing fourty six thousand, nine hundred and seventy six (46,976) mandays incurring expenditure of Rs.141.70 million.

a. Scope of Audit

Total auditable expenditure and revenue budget for the financial year 2011-12, under the jurisdiction of Director General Audit WAPDA were Rs.412,096 million and Rs.795,278 million respectively. The Director General Audit WAPDA conducted audit of the above expenditure and receipts upto the amount of Rs.403,145 million (97.83%) and Rs.763,617 million (96%) respectively on test check basis in accordance with the audit mathodology as envisaged in Financial Audit Manual.

b. Recoveries at the instance of Audit

Recovery of Rs.8,081 million was pointed at the instance of Audit and recovery of Rs.2,091 million was established during the audit year 2012-13. An amount of Rs.1,098 million was effected till the compilation of Audit Report. Out of the total recoveries, an amount of Rs.910 million was not in the notice of the executive before audit.

c. Audit Methodology

Audit activity started with detailed planning, development of audit programmes, establishing resource requirements and timing. The planned activities were executed as per audit programmes and result therefore were evaluated at appropriate level before issuance to auditee organizations. High value and high risk items were selected on professional judgment basis for substantive testing. The soft data pertaining to billing, payroll and inventory maintained through COBOL based legacy system was evaluated using Computer Assisted Audit Techniques (CAATs). Desk review and preparation of Permanent Files helped auditors in understanding the systems, procedures, environment before starting field audit activity.

d. Audit Impact

The need for change in the system and procedures of the audited entities was emphasized based upon the observations raised and discuss with the management which include the following issues:

i. The corporatized entities of WAPDA (4 GENCOs, NTDC 10 DISCOs and PEPCO) are functioning under independent Boards of Directors. As per Book of Financial Powers, Boards of Directors exercise full financial and technical powers in all the matters. However, all such rules, regulations and financial powers have not been approved by Government of Pakistan. This irregularity has been highlighted in the paras of present and previous Audit Reports. During the meeting with management, it was decided to refer the issue to Ministry of Water and Power for taking up the matter with the relevant authorities.

ii. WAPDA/PEPCO has granted various allowances without the approval of Government of Pakistan. This issue has been observed in the audit paras of present and previous audit reports. As a result of continuous followup the management has taken up the case. The management has refer the case to Ministry of Water and Power for taking up the matter with Finance Division

iii. The power distribution companies could not collect Rs.225,803 million from 2.168 million defaulters. On the pointation of audit, recovery drive has been launched by various distribution companies.

iv. Procurement of material and services at various WAPDA/PEPCO formations in violation of PPRA Rules caused excess cost of the projects. Overtime, the management has now inclined towards greater transparency and competitive bidding.

v. Another issue of extension of load was continuously being highlighted in our previous and current Audit Reports. The consumer got electricity connection by declaring less load for getting the benefit of less security and capital cost. Subsequently, they extend their load. During the meeting with management it was suggested to regularize the extension of load by recovering the security and capital cost and fixing responsibility on person (s) found at fault.

e. Comments on Internal Controls and Internal Audit department

An effective internal control framework serves as a major enabling tool for management to achieve objectives of the organization. Internal controls of the department were found weak and ineffective as various control lapses were identified during audit. There was poor monitoring of collection of revenue, embezzlement of funds, misappropriation and theft of material, misuse of public funds, incorrect billing, non-implementation of commercial procedure and non-adherence to provisions of power policy. The report witnesses that internal control system is deteriorating day by day as increase in cases of unauthorized extension of load, non-implementation of EROs, violation of PPRA Rules were failure of controls.

Internal audit has been set up as a part of internal control system in WAPDA and its corporate entities. It carries out the audit of the consumers accounts to the extent of 100% kept at customer services offices of distribution companies and test audit of expenditure of PEPCO and WAPDA in addition to the physical verification of stock held at various stores. Despite having an internal audit, recurrence of frequent irregularities year after year cast a shadow of doubt on effectiveness of internal control system.

Audit emphasizes proper implementation of financial reporting mechanism and enforcement of laws and regulations in letter and spirit for improving the internal controls and internal audit of the department.

f. The key audit findings of the report;

i. 81 cases of irregular expenditure/unjustified payments and violation of rules amounting to Rs.442,866.93 million and US$ 350.09 million.[1]

---

[1]Para-1.3.4, 1.3.6, 1.3.7, 1.3.8, 1.3.14, 1.3.16, 1.3.18, 1.3.19, 2.4.3, 2.4.7, 2.4.9, 2.4.10, 2.4.11, 2.4.12, 2.4.14, 2.4.18, 2.4.21, 2.4.22, 3.2.1, 4.3.1, 5.4.2, 7.3.1, 8.3.2, 8.3.4, 8.3.10, 8.3.14, 8.3.16, 8.3.17, 8.3.21, 9.3.8, 9.3.20, 9.3.22, 9.3.23, 10.3.12, 10.3.15, 10.3.17, 10.3.21, 10.3.23, 10.3.31, 10.3.34, 10.3.36, 11.4.4, 11.4.10, 11.4.23, 12.3.6, 12.3.10, 12.3.12, 12.3.18, 12.3.21, 13.4.13, 13.4.14, 13.4.21, 13.4.23, 13.4.25, 13.4.32, 14.4.2, 14.4.4, 14.4.9, 14.4.12, 14.4.21, 14.4.2, 14.4.30, 15.4.15, 15.4.19, 15.4.33, 15.4.35, 15.4.38, 16.3.3, 17.3.12, 17.3.13, 18.3.4, 19.2.1, 19.2.2, 19.2.3, 19.2.4, 19.2.5, 19.2.6, 19.2.7, 19.2.8, 19.2.9, 19.2.10

ii. 49 cases of embezzlement of public money, theft and fictitious payments amounting to Rs.997.70 million. [2]

iii. 4 cases pertaining to financial indiscipline, difference in currency rates and non-accountal of material amounting to Rs.2,664.07 million. [3]

iv. 47 cases amounting to Rs.474,543.70 million pertaining to weaknesses of internal control systems. [4]

v. 113 cases pertaining to recoveries and overpayments amounting to Rs.112,095.92 million. [5]

vi. 1 case of non-production of record involving Rs.910.00 million.[6]

vii. 102 cases amounting to Pak Rs.55,293.76, US$ 36.17 & Euro 2.56 million pertaining to accidents, negligence etc.[7]

---

[2]Para-1.3.1, 1.3.2, 2.4.1, 6.3.1, 6.3.14, 8.3.1, 8.3.11, 8.3.13, 9.3.1, 9.3.2, 9.3.3, 9.3.4, 10.3.1, 10.3.2, 10.3.3, 10.3.4, 10.3.5, 10.3.6, 11.4.1, 11.4.2, 11.4.3, 11.4.15, 11.4.27, 11.4.28, 12.3.1, 13.4.1, 13.4.3, 13.4.4, 13.4.41, 13.4.43, 14.4.7, 14.4.8, 14.4.17, 14.4.31, 15.4.2, 15.4.3, 15.4.4, 15.4.17, 15.4.18, 15.4.44, 16.3.1, 16.3.2, 16.3.4, 16.3.12,17.3.3, 17.3.4, 17.3.9, 17.3.20, 18.3.1

[3]Para-8.3.22, 13.4.2, 16.3.15, 17.3.7

[4]Para-1.3.3, 2.4.2, 2.4.6, 6.3.15, 8.3.15, 9.3.6, 9.3.13, 9.3.16, 9.3.18, 10.3.7, 10.3.10, 10.3.24, 10.3.39, 10.3.41, 11.4.5, 11.4.9, 11.4.16, 11.4.19, 12.3.3, 12.3.8, 12.3.11, 13.4.5, 13.4.9, 13.4.30, 13.4.33, 14.4.1, 14.4.5, 14.4.22, 14.4.23, 14.4.26, 15.4.6, 15.4.9, 15.4.11, 15.4.28, 15.4.34, 15.4.36, 15.4.37, 15.4.39, 15.4.42, 16.3.5, 16.3.6, 16.3.9, 16.3.17, 17.3.5, 17.3.15, 17.3.19, 18.3.3

[5]Para-1.3.5, 1.3.9, 1.3.10, 1.3.15, 1.3.17, 1.3.20, 1.3.22, 1.3.23, 1.3.24, 1.3.25, 2.4.4, 2.4.16, 2.4.17, 2.4.19, 2.4.20, 2.4.23, 2.4.24, 2.4.25, 3.2.2, 5.4.3, 5.4.5, 7.3.3, 8.3.5, 8.3.8, 8.3.12, 8.3.18, 8.3.19, 8.3.20, 8.3.24, 9.3.10, 9.3.11, 9.3.15, 9.3.19, 9.3.21, 9.3.24, 9.3.25, 10.3.8, 10.3.14, 10.3.16, 10.3.26, 10.3.27, 10.3.29, 10.3.33, 10.3.35, 10.3.40, 10.3.30, 10.3.32, 11.4.6, 11.4.7, 11.4.8, 11.4.11, 11.4.12, 11.4.14, 11.4.13, 11.4.24, 11.4.25, 11.4.26, 11.4.29, 12.3.13, 12.3.14, 12.3.15, 12.3.16, 12.3.20, 13.4.6, 13.4.7, 13.4.10, 13.4.22, 13.4.24, 13.4.27, 13.4.28, 13.4.29, 13.4.31, 13.4.36, 13.4.39, 13.4.40, 13.4.42, 14.4.3, 14.4.6, 14.4.16, 14.4.18, 14.4.19, 14.4.28, 14.4.29, 14.4.32, 14.4.33, 14.4.34, 14.4.35, 14.4.36, 15.4.5, 15.4.7, 15.4.10, 15.4.14, 15.4.16, 15.4.20, 15.4.23, 15.4.24, 15.4.27, 15.4.30, 15.4.31, 15.4.40, 15.4.41, 16.3.14, 16.3.18, 16.3.19, 17.3.1, 17.3.2, 17.3.6, 17.3.10, 17.3.14, 17.3.17, 17.3.18, 17.3.21, 18.3.2

[6]Para-2.4.5

[7]Para-1.3.11, 1.3.12, 1.3.13, 1.3.21, 2.4.8, 2.4.15, 2.4.13, 3.2.3, 5.4.1, 5.4.4, 6.3.2, 6.3.3, 6.3.4, 6.3.5, 6.3.6, 6.3.7, 6.3.8, 6.3.9, 6.3.10, 6.3.11, 6.3.12, 6.3.13, 6.3.16, 7.3.2, 8.3.3, 8.3.6, 8.3.7, 8.3.9, 8.3.23, 9.3.5, 9.3.7, 9.3.9, 9.3.12, 9.3.14, 9.3.17, 10.3.9, 10.3.11, 10.3.13, 10.3.18, 10.3.19, 10.3.20, 10.3.22, 10.3.25, 10.3.28, 10.3.37, 10.3.38, 11.4.17, 11.4.18, 11.4.20, 11.4.21, 11.4.22, 12.3.2, 12.3.4, 12.3.5, 12.3.7, 12.3.9, 12.3.17, 12.3.19, 13.4.8, 13.4.11, 13.4.12, 13.4.15, 13.4.16, 13.4.17, 13.4.18, 13.4.19, 13.4.20, 13.4.26, 13.4.34, 13.4.35, 13.4.37, 13.4.38, 14.4.10, 14.4.11, 14.4.13, 14.4.14, 14.4.15, 14.4.20, 14.4.24, 14.4.25, 15.4.1, 15.4.8, 15.4.12, 15.4.13, 15.4.21, 15.4.22, 15.4.25, 15.4.26, 15.4.29, 15.4.32, 15.4.43, 16.3.7, 16.3.8, 16.3.10, 16.3.11, 16.3.13, 16.3.16, 16.3.20, 16.3.21, 17.3.8, 17.3.11, 17.3.16

Audit paras for the Audit year 2012-13 involving procedural violations including internal controls weaknesses and irregularities, not considered significant enough to report to the Parliament, have been included in MFDAC Report (Annex-I).

g. Recommendations

i. There is dire need for improvement in the financial situation of corporate entities under PEPCO. For this purpose, Companies need to prepare financial improvement/recovery plans.

ii. PEPCO needs to bring the existing generating capacity at par with the installed capacity of all existing thermal plants.

iii. The system needs to be improved to control widespread, occurrence of energy pilferage, theft of material and line losses.

iv. The Principal Accounting Officer needs to take steps to stop recurrence of similar irregularities year after year by investigating, fixing responsibility and taking action against responsible officers/officials and by taking remedial measures for improving systems and internal controls within the organizations.

v. For effective inventory management it is suggested that purchase material in accordance with the inventory demand, take appropriate measures to transfer surplus material lying in one DISCO to other DISCOs, if required and dispose material, lying idle in different stores for years together as per disposal procedures.

vi. Managerial capabilities may also be improved to avoid lapses pointed out in the process of operational and contract management.

vii. Management of WAPDA/PEPCO and its corporate entities need to take necessary steps to evaluate and strengthen financial management, budgetary and accounting controls.

SUMMARY TABLES AND CHARTS

Table 1 Audit Work Statistics ***(Rs.in million)***

Sr. No.	Description	No.	Expenditure Budget	Revenue Budget
1	Total entities in audit jurisdiction	18	412,095.72	795,278.06
2	Total formations in audit jurisdiction.	271	412,095.72	795,278.06
3	Total entities audited	16	403,145.18	763,616.51
4	Total formations audited	144	403,145.18	763,616.51
5	Audit & Inspection Reports	144	-	-
6	Special Audit Report	-	-	-
7	Performance Audit Reports	-	-	-
8	Other Reports	-	-	-

Note: *Cost of sale is not included in expenditure budget.*

Table 2 Audit Observations regarding Financial Management

Sr. No.	Description	Amount placed under audit observation (Figures in million)
1	Unsound asset management	Rs.997.70
2	Weak financial management	Rs.554,962.85 US$ 350.09
3	Weak internal controls relating to financial management	Rs.477,207.77
4	Others	Rs.56,203.76 US$ 36.17 Euro 2.56
	Total	**Rs.1,089,372.08 *** **US$ 386.26** **Euro 2.56**

Note: *The bifurcation has been made on the basis of nature of issues and approved template and due diligence has been exercised to include paras in relevant categories. However, certain paras relate to more than one category, have been included in the category deemed most relevant.*

***** *The total amount of audit observations pertains to the Audit Year 2012-13 as well as previous Audit Years.*

Table 3 Outcome Statistics ***(Rs.in million)***

Sr. No	Description	Expenditure on acquiring physical assets (procurement)	Civil works	Others	Receipts	Total current year	Total Last year
1	Outlays audited	72,566.13	100,786.29	19,270.34	210,,522.42	403,145.18	322,445.17
2	Amount placed under audit observation/irregularities of auditee	6,305.39	34,255.54	2,900.42	31,721.45	**75,182.80	86,015.86
3	Recoveries pointed out at the instance of audit	119.17	2,214.11	1,360.87	4,386.55	8,080.70	7,499.96
4	Recoveries accepted/established at the instance of audit	18.63	688.26	759.30	624.46	2,090.65	2,772.00
5	Recoveries realized at the instance of audit	-	-	-	-	*** 1,097.84	203.35

****** *The total amount of audit observations pertains only to the Audit Year 2012-13*

*** *Recoveries realized include previous years amount of Rs.8.44 million.*

Table 4 Table of Irregularities pointed out

Sr. No.	Description	Amount placed under audit observation (Figures in million)
1.	Violation of Rules and regulations and violation of principle of propriety and probity in public expenditure.	Rs.442,866.93 US$ 350.09
2.	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	Rs.997.70
3.	Accounting errors (misclassification, over or understatement of account balances) that are not material enough to result in the qualification of audit opinions on the financial statements.	Rs.2,664.07
4.	Weaknesses of internal control systems.	Rs.474,543.70
5.	Recoveries and overpayments, representing cases of establishment overpayment or misappropriations of public moneys.	Rs.112,095.92
6.	Non-production of record.	Rs.910.00
7.	Others, including cases of accidents, negligence etc.	Rs.55,293.76 US$ 36.17 Euro 2.56
	Total	***Rs.1,089,372.08** **US$ 386.26** **Euro 2.56**

Note:- *The bifurcation has been made on the basis of nature of issues and approved template and due diligence has been exercised to include paras in relevant categories. However, certain paras relate to more than one category, have been included in the category deemed most relevant.*

* *This column contains the figures pertaining to the Audit Year 2012-13 as well as previous Audit Years.*

Table 5 Cost-Benefit

Sr. No.	Description	Amount (Rs. in million)
1	Outlays Audited (Item 1 of Table 3)	403,145.18
2	Expenditure on Audit	141.69
3	Recoveries realized at the instance of Audit	1,097.84
	Cost-Benefit Ratio	1:7.75

MINISTRY OF WATER AND POWER

(A) WATER AND POWER DEVELOPMENT AUTHORITY (WAPDA)

CHAPTER-1

WATER WING

(15-31)

1. WATER WING

1.1 Introduction

Water and Power Development Authority (WAPDA), fully owned by the Government of Pakistan was established under WAPDA Act, 1958 (West Pakistan Act No. XXXI of 1958), as amended from time to time. The Authority consists of a Chairman and three members (Water, Power & Finance) to be appointed by the Government.

Water Wing is headed by Member Water WAPDA. It is responsible for planning, designing and execution of water resources development projects in irrigation, drainage and hydropower sectors. Major surface water projects including large dams are also operated and maintained by Water Wing, WAPDA.

Indus Basin Projects (5 Barrages, 8 inter-river Link Canals (1965-70), Mangla (1967) and Tarbela Dams (1976) have already been completed by WAPDA Water Wing, and are contributing substantially towards national economy.

Eighteen (18) million acres of land have been reclaimed from water logging and salinity in four provinces. In this major effort, more than 15,000 tubewells were installed and 12,000 km of surface drains and 13,000 km of pipe drains have been constructed in the waterlogged areas. These projects have enhanced cropping intensity from 70% to more than 110% in about 16 million acres of land.

Chashma Hydropower project having a generation capacity of 184 MW of electricity was in operation since 2001. Ghazi Barotha Hydropower Project with a generation capacity of 1,450 MW of electricity has been functioning since 2003. Mirani Dam Project, Sabakzai Dam Project and Greater Thal Canal Phase-I have been completed in June, 2007, June, 2009 and December, 2009 respectively, which are cultivating 395,500 acres. National Drainage Programme in four provinces has been completed in June, 2007.

Work is in progress on Gomal Zam Dam, Satpara Dam, Rainee Canal (Phase-I) and Kachhi Canal (Phase-I) Projects and Drainage Schemes in Sindh RBOD-I & III, Civil works of Mangla Raising Project have been completed in December 2009, whereas resettlement works are scheduled to be completed by September, 2012.

The Ground breaking Commencing Ceremony of Diamer Basha Dam was graced by the Prime Minister of Pakistan on October 18, 2011. Other dams namely Kurram Tangi Dam (83.4 MW), Akhori Dam (600 MW) and Munda Dam (740 MW) are also at Tendering and Design Stage.

Allai Khwar 121 MW, Duber Khwar 130 MW, Jinnah 96 MW and Neelum Jhelum 969 MW Hydropower Projects are under construction. Construction of Golen Gol Hydropower Project 106 MW has started since February 2011. Detailed engineering design and tender documents of Bunji 7100 MW, Phandar 80 MW, Keyal Khwar 122 MW, Lawi 69 MW, Tarbela 4th extension 1410 MW and Dasu HPP 4320 MW are in progress. Feasibility study of Palas Valley 665 MW, Spat Gah 496 MW, Thakot 2800 MW, Basha 40 MW, Harpo 34.5 MW and Patan 2800 MW is in progress.

In addition, WAPDA has initiated work on construction on 12 Small and Medium Dams, where 6 dams will be constructed in the Phase-I (2011-2015) and 6 dams will be constructed in the Phase-II (2012-16). These projects are located in all provinces of Pakistan. The ground breaking ceremonies of Winder (Balochistan), Darawat (Sindh) and Ghabir (Punjab) Dams were graced by the honourable President of Paksitan on January 01, 02 and 21, 2010 respectively.

(Source: Monthly Progress Report on Water Sector Projects June, 2012)

1.2 Brief comments on the status of compliance with PAC directives

Name of Company	Year	Name of Report	No. of Directives	Status of compliance		
				Full	Partial	Outstanding
Water Wing	2006-07	Audit Report	4	Nil	**1** (Para No. 1.7)	**3** (Para No. 1.3, 1.4 & 1.6)
	2007-08	Audit Report	6	Nil	Nil	**6** (Para No. 1.1, 1.5, 1.2, 1.6, 1.4 & 1.7)

Position of compliance on PAC directives is not satisfactory.

1.3 AUDIT PARAS

1.3.1 Loss due to embezzlement of rent in WAPDA rest house - Rs.3.06 million

According to the instructions issued by WAPDA dated Jul’ 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 the audit of Directorate General Finance (B&C) WAPDA for the year 2011-12, it was revealed that an amount of Rs.4.65 million was embezzled by the staff on account of rent of the rest house through bogus bank receipts during the financial years 2008-2010. The matter was investigated through departmental enquiry committee who imposed penalty of Rs.3.72 million (80% of total loss) on Mr. Muhammad Suleman, caretaker and remaining amount of Rs.1.25 million (20%) upon Mr. Azam Malik, deputy director (E & S) WAPDA, which was not recovered.

The matter was taken up with the management in Oct’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 24-25, 2012, it was stated that out of total loss Rs.4.65 million, an amount of Rs.1.81 million had been recovered. Remaining amount Rs.2.84 million would be recovered upon decision of FST/civil court. Recovery of Rs.1.59 million had been made and verified by Audit. Further progress was not intiamted till the finalization of this report.

Audit requires vigorous pursuance of the court case besides expeditious recovery of remaining amount.

(Draft Para No.1587)

1.3.2 Loss due to theft of vehicles - Rs.3.79 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of Directorate General Finance (B&C) and General Manager Finance Power WAPDA for the year 2011-12, it was revealed that two (02) vehicles valuing Rs.3.79 million were stolen from unauthorized premises on Jan’ 1, 2012 and Sep’ 8, 2012. FIRs were lodged with concerned police stations but administrative actions were not taken to fix the responsibility of loss and to decide its fate.

The matter was taken up with the management in Sep’ and Oct’ 2012 and reported to the Ministry in Nov’ and Dec’ 2012. In a meeting held on Dec’ 24-25, 2012, it was stated that inquiry had been finalized, responsibility fixed and recovery had been made from the concerned. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.1580 & 1584)

1.3.3 Financial mismanagement by issuing loan to NJHPCL - Rs.4.75 billion

According to the instructions issued by WAPDA dated Jul' 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 audit of Directorate General (Insurance) WAPDA Equipment Protection Scheme (WEPS) Lahore for the year 2011-12, it was found that two (02) loans of Rs.2 billion @ 12% interest per annum was given to the Chief Executive Officer, NJHPC and the interest was payable on monthly basis. But interest accrued was not paid by the borrower. In addition, WEPS borrowed Rs.2.75 billion by pledging its investments, from a bank and the amount was transferred to NJHPCL, whereas the interest cost was borne by WEPS. Non-adherence to the Authority's instructions resulted in mismanagement of funds to the stated extent.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was given nor DAC convened till finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.1648)

1.3.4 Unjustified payment of contractor claims - Rs.1.80 billion

According to the clauses 53.1 to 53.5 of the contract, "the claims of the contractor are processed and admitted".

During audit of Mangla Dam Raising Project for the year 2011-12, it was revealed that the payment of Rs.1.80 billion was made to the contractor against the claims through supplementary agreement in violation of contract clauses 53.1 to 53.5 of the contract.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in Nov' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that the payment was made under the approval of the Authority against a formal agreement with the contractor for all pending claims and disputes of Rs.11.31 billion. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.1574)

1.3.5 Non-recovery of mobilization advance from the contractor - Rs.665.68 million

According to clause 60.12(b) of CPA-II-B of contract No. KC-6B, "the repayment of the mobilization advance shall be made in eight (08) equal installments from successive interim payment certificates. The first installment shall be recovered from sixth interim payment certificate. Provided that upon happening of any of the events specified in clause-63 hereof or termination under clause-65 hereof, the mobilization advance or the whole of the balance then outstanding shall become immediately due to payable by the contractor to the employer".

During audit of Kachhi Canal Project for the year 2011-12, it was found that mobilization advance of Rs.665.68 was paid to the contractor during Dec' 2007 and Apr' 2008 as per provisions of contract. The contractor could not complete the work and the Authority discharged the contractor from the contract with the direction to re-pay the outstanding amount of mobilization advance. The contractor did not pay the amount of mobilization advance upto Jun' 30, 2012. Non-recovery of mobilization advance as per provision of contract resulted in loss to the stated extent.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Nov' 30, 2012. In a meeting held on Dec' 24-25, 2012, it was replied that outstanding amount of mobilization advance would be adjusted against the pending claims of the contractor. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.1577)

1.3.6 Unauthorized procurement of material in violation of PPRA Rules - Rs.461.68 million

According to rule 20 of PPRA Rules the procuring agency shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Tarbela Dam Project for the year 2011-12, it was found that a contract was awarded to M/s Marubeni Corporation Tokyo Japan at a cost of 512,976,667 (JPY) (Rs.461.68 million) in Apr' 2010 on a "single source" instead of open tendering in violation of PPRA Rules. Violation of PPRA Rules resulted in unauthorized procurement of material worth Rs.461.68 million.

The matter was taken up with the project management in Apr’ 2012 and reported to the Ministry in Sep’ 2012. Neither any reply was given nor DAC convened till finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.1561)

1.3.7 Un-authorized inclusion of work of rehabilitation of MNV drain embankment in contract – R-III (a/4) in violation of PPRA Rules - Rs.236.68 million

According to rule 20 of PPRA Rules, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works. Further, as per clause-F of section-V of Delegation of Financial Powers for WAPDA, variation/change orders in original contract/work order can be made upto maximum 15% of the total amount of the original contract price.

During audit of RBOD-I Project Sukkur for the year 2011-12, it was revealed that construction of new Hamal Regulator awarded to a contractor at contract cost of Rs.175.90 million. Subsequently, a variation order was placed for a new work of drain, “rehabilitation/strengthening IP and NIP side embankments of MNV drain” for Rs.236.68 million in violation of PPRA Rules as the same was in excess of the prescribed limit of 15%. It resulted into an un-authorized award of contract for Rs.236.68 million to provide an undue financial benefit to the contractor.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012, the management replied that tenders were called for but no firm participated in the bidding process. The work was carried out on emergency basis by the sitting contractor in the best interest of the public. The reply was not tenable as inclusion of new work valuing Rs.236.68 million in the already awarded contract Rs.175.90 million was the violation of the PPRA Rules as well as codel rules.

Audit requires inquiry in the matter besides fixing responsibility for providing undue benefit to contractor.

(Draft Para No. 1594)

1.3.8 Unjustified payment on account of price adjustment - Rs.452.28 million

According to schedule of base price of specified elements given in attachment-2 of contract GZD-02, “material is to be procured and price adjustment is to be made”.

During audit of Gomal Zam Dam Project for the year 2011-12, it was revealed that the payment of Rs.452.28 million was made to contractor on account of procurement of material and price adjustment in contravanention to the provisions of contract. Violation of contract provisions resulted in unjustified payment to the stated extent.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was given nor DAC convened till finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.1607)

1.3.9 Non-submission of adjustment account - Rs.112.98 million

According to rule 109, Section – III of Audit Code of office of the Auditor General of Pakistan, all transactions which are ultimately removed either by payment or recovery in cash or by book adjustment are kept under suspense heads. Audit of transactions under suspense heads is carried out by applying the ordinary procedure of audit of expenditure.

During audit of Satpara Dam Project Sakardu for the year 2011-12, it was revealed that funds amounting to Rs.112.98 million were transferred to the Deputy Commissioner, Sakardu from 2003 to 2012 for land acquisition and property compensation. The management failed to submit adjustment account to the stated extent.

The matter was taken up with the management in Aug’ 2012 and reported to the Ministry in Nov’ 2012. In a meeting held on Dec’ 24-25, 2012, the management stated that out of Rs.112 million, only an amount of Rs.28 million was adjusted through adjustment account. The reply was not tenable as neither the remaining amount of Rs.85 million was adjusted nor reported adjustment produced to Audit for verification.

Audit requires expeditious production of final adjustment account besides fixing responsibility.

(Draft Para No. 1575)

1.3.10 Unauthorized payment of allowances - Rs.46.19 million

According to office memo issued by Finance Division (Regulation Wing) vide No. 1/15/Imp-II/87 dated Jul’ 21, 1987, the autonomous organizations may revise/increase pay and allowances of their employees according to the provision in their charter in consultation with the Ministry of Finance, Government of Pakistan.

During audit of WAPDA formations for the year 2011-12, it was revealed that unauthorized payment of Rs.46.19 million was made to WAPDA employees on account of special WAPDA allowance, head-office allowance, appointment allowance, job allowance, hard area allowance and project allowance without approval of Finance Division, Government of Pakistan.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, the management replied that the case had already been referred to Ministry of Finance through Ministry of Water and Power for clarification. Further progress was not intimated till the finalization of this report.

Audit requires vigorous pursuance of the case with Ministry besides fixing responsibility.

(Draft Para No. 1646 & 1585)

1.3.11 Loss due to damaged concrete tendon beams - Rs.33.14 million

According to the instructions issued by WAPDA dated Jul' 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 audit of Gomal Zam Dam Project for the year 2011-12, it was revealed that concrete tendon beams constructed at the left bank of the dam under an EPC/Turnkey contract, were damaged during the flood in Jul' and Aug' 2010 due to design lapse. The damage to tendon beams caused mainly on account of non-stabilizing and non-treatment by the contractor/sub-contractor of weak rock surrounding the down stream protection works. An estimate amounting to Rs.33.14 million was prepared for resuming of destroyed tendon beams. Damage to concrete tendon beams resulted in loss of Rs.33.14 million.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in Sep' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that no payment had been made as yet on the reconstructed structure. Decision of the competent authority would be conveyed to Audit. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.1549)

1.3.12 Inadmissible payment of mobilization/de-mobilization to contractors - Rs.28.09 million

According to rule-10(i) of General Financial Rules Vol-I, "every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money".

During audit of Diamer Basha Dam Project for the year 2011-12, it was revealed that two contracts for excavation of four (04) chambers & drilling for overcoring and plate load tests and performance of overcoring test in Adit-4 & Adit-5 were awarded to local contractors for Rs.64.74 million and Rs.84.87 million in May 2008 and Jul' 2008 respectively. Mobilization and de-mobilization of equipment and personnel at site were provided for Rs.4 million and Rs.6 million in both contracts for the local contractors and the payments made to them accordingly. Besides, mobilization of staff and equipment from Lisbon to Islamabad and to site, Rs.15 million for overcoring testing and mobilization/de-mobilization of Rs.13.09 million for performance of STT tests by M/s LNEC of Portugal were also provided in the contracts. M/s LNEC denied to visit Pakistan due to security situation but agreed to train two personnel each of the local contractors and one WAPDA personnel at Portugal to perform field portion of overcoring tests, whereas interpretation of data was to be carried out by M/s LNEC at Portugal after receipt of samples. As M/s LNEC did not visit Pakistan to carry out above stated tests at site, the amounts mobilization/de-mobilization specifically provided for them in the contracts were not payable to the local contractors. Hence the payments of Rs.15 million and Rs.13.09 million were inadmissible.

The matter was taken up with the management in May 2012 and reported to the Ministry in Sep' 2012. In a meeting held on Dec' 24-25, 2012, it was stated that M/s LNEC did not agree to visit Pakistan as per their Government instructions, however, they trained contractors and WAPDA personnel and interpreted the data and submitted tests reports. For not visiting the Portugali personnels to Pakistan, the contract price was reduced for Rs.1 million in each contract by both contractors. The reply was not tenable as no documentary evidence was provided in support of recovery till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 1563)

1.3.13 Wasteful expenditure on unauthorized administrative expenses - Rs.15.86 million

"The Phase-I of Greater Thal Canal Project (GTC) had been completed and handed over to Irrigation and Power Department (Government of Punjab) in Oct' 2009."

During audit of Greater Thal Canal Project (GTC) for the year 2011-12, it was found that an amount of Rs.15.86 million was incurred on account of administrative expenses, despite completion of Phase-I of the project.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, the management replied that the project was not completed but temporarily abandoned due to non-approval of revised PC-I. The reply was not tenable as the completed project (Phase-I) had been handed over to Irrigation and Power Department (Government of Punjab) in Oct' 2009.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 1639)

1.3.14 Unauthorized expenditure on hiring of advisor/consultant - Rs.14.71 million

According to guidelines of Establishment Division issued vide No.11-3/2001-MSW-III dated Jan' 25, 2002 and No.10/67/2004-R.2 dated Jun' 21, 2005, the consultancies granted after the age of superannuation will be treated as re-employment and will be subject to the same rules as are applicable to re-employment after superannuation and requires approval of the Prime Minister as per Section 14 of Civil Servant Act, 1973 and Employment after Retirement Policy and Procedure spelt out in Establishment Secretary's D.O No. 7/3/89-OMG-II, dated Jan' 28, 1989.

During audit of Directorate General Finance (B&C) WAPDA for the year 2011-12, it was found that an amount of Rs.14.71 million was paid to seven (7) officers who were re-employed as advisors/consultants after their retirement, in violation of the above rules.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that according to WAPDA Act 1958, the Authority was empowered to employ such officers and servants or appoint such experts or consultants as it may consider necessary for performance of its functions on such terms and conditions as it may deem fit. No permission from the Government was required for appointing an advisor/consultant by the Authority. The reply was not tenable as no documentary evidence was provided in support of recovery till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.1583)

1.3.15 Loss due to non-recovery of value of trees damaged worth - Rs.10.55 million

According to clause 20.2 of the General Conditions of Contract, "if any loss or damage happens to the works, or any part thereof, or materials or plant for incorporation therein, during the period for which the contractor is responsible for the care thereof, from any cause whatsoever, other than the risks defined in sub-clause 20.4, the contractor shall, at his own cost, rectify such loss or damage so that the permanent works conform in every respect with the provisions of the contract to the satisfaction of the engineer. The contractor shall also be liable for any loss or damages to the works occasioned by him in the course of any operation carried out by him for the purpose of complying with his obligations under clauses 49 and 50."

During audit of Satpara Dam Project Sakardu for the year 2011-12, it was found that trees within the vicinity worth Rs.10.55 million were damaged in 2007-08 during construction of headrace channel by the contractor. The cost of damaged trees and restoration of existing irrigation channel of the vicinity was required to be recovered from the contractor but recovery was not effected resulting in loss to the stated extent.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Oct' 2012. In a meeting held on Dec' 24-25, 2012 the management directed the concerned Engineer to recover the damages in accordance with the provision of the contract. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.1570)

1.3.16 Unauthorized expenditure - Rs.8.59 million

No provision exists in PC-I for supply of water through water bouzers to affectees.

During audit of Mangla Dam Raising Project for the year 2011-12, it was revealed that an expenditure of Rs.8.59 million was incurred on account of supply of water through water bouzers to affectees in New City Mirpur for construction of their houses without any provision in PC-I. Besides, the contracts for water supply were awarded on the basis of quotations in violation of PPRA Rules and the provisions contained in WAPDA Book of Financial Powers. Violation of the provisions of PC-I and PPRA Rules resulted in unauthorized expenditure to the stated extent.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, the management agreed that the recovery would be made at the time of finalization of contractor's accounts. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.1638)

1.3.17 Non-recovery of leased money since 1960's - Rs.7.95 million

According to Director (Project Management Cell) WAPDA's letter dated Jun' 2011, "Sidhnai Barrage on River Ravi alongwith other Projects were executed and completed by WAPDA under Indus Basin Settlement Plan and General Manager (Planning and Design) WAPDA is the custodian of these Projects and its accounts".

During audit of General Manager (Planning and Design) WAPDA for the year 2011-12, it was revealed that land was acquired in 1960's to execute the Sidhnai Barrage Project. After completion of project, the land could not be properly watched by the management and it was encroached by the farmers/land grabbers. The Sidhnai Barrage land fell in the vicinity of FESCO and MEPCO, which was leased out by companies at their own, to the lessees. The leased amount to the tune of Rs.7.95 million recovered from farmers was withheld by companies and not deposited in Authority's account. Later on land at Sidhani Head Works in FESCO jurisdiction was leased out by WAPDA to the present lessees at enhanced rate of Rs.9,000 per acre. Non-recovery of Rs.7.95 million from MEPCO and FESCO resulted in loss to the Authority.

The matter was taken up with management in Jun' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that the recovery was being pursued and progress would be intimated to Audit. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.1636)

1.3.18 Unauthorized expenditure due to extension in contract - Rs.4.18 million

According to terms and conditions of Finance Division letter No. F.3(7)/R.4/98-Vol-II/07(a), dated Apr' 11, 2007 Para 2(i), the extension in the contract period of existing incumbents of M.P. Scales with the revised pay package will be considered only if their performance has been found satisfactory after evaluation by the committee constituted with the approval of the Prime Minister.

During audit of General Manager Diamer Basha Dam Project for the year 2011-12, it was found that Dr. Izhar ul Haq, retired General Manager (Technical Services) was appointed as Advisor to the Authority for a period of one year with effect from Jan' 1, 2009 to Dec' 31, 2009. The contract of the officer was continuously extended till Jun' 30, 2012 without any formal recommendations/ approval of the committee constituted by the Prime Minister of Pakistan. Extension of contract without any formal approval of the committee constituted by the Prime Minister of Pakistan resulted in unauthorized expenditure of Rs.4.18 million.

The matter was taken up with the management in May 2012 and reported to the Ministry in Sep' 2012. In a meeting held on Dec' 24-25, 2012, it was stated that according to WAPDA Act, 1958 Authority was empowered to employ such officers and servants or appoint such experts or consultants as it may consider necessary for performance of its function on such terms and conditions as it may deem fit. In the light of this provision, no permission from the Government was required for appointing an advisor / consultant. The reply was not tenable as approval of the committee constituted by the Prime Minister of Pakistan is necessary for such appointments/extension of contracts.

Audit requires approval of committee constituted by the Prime Minister of Pakistan besides fixing responsibility.

(Draft Para No. 1559)

1.3.19 Loss due to award of contract in violation of PPRA Rules - Rs.3.58 million

According to rule 38 of PPRA Rules, "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 audit of RBOD-I Project WAPDA Sukkur for the year 2011-12, it was found that a tender for supply, installation and commissioning of two (02) dewatering pumps was floated in Oct' 2011. Two bidders participated in the bidding. M/s Bell Force Engineers, Hyderabad was the lowest with bid price of Rs.17.50 million. M/s Meraj (Pvt.) Limited was the 2nd lowest bidder with bid price of Rs.24.92 million. As per bid evaluation report, the 2nd lowest bidder was non-responsive in terms of clause IB 16.4(a) of bidding document. The bid opening committee recommended to award the contract to 1st lowest bidder at price of Rs.17.46 million. But the contract was awarded to the 2nd lowest bidder at higher rate inspite of the fact that he was declared non-responsive by the evaluation committee. The contract was subsequently awarded to 2nd lowest bidder to provide undue financial benefits in violation of PPRA Rules resulting in loss of Rs.3.58 million.

The matter was taken up with the management in May 2012 and reported to the Ministry in Oct' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No. 1568)

1.3.20 Non-recovery of standard rent - Rs.2.74 million

According to clarification given by the Director Finance (Regulation), WAPDA Lahore vide letter No.FO(B&F)/4-8/Acq/Vol-8/4314-4413 dated Jan' 10, 2007, "where the accommodation is allotted by one organization to the employees of other organization, the standard rent is to be charged by the formation concerned from the formation whose employees have been allotted accommodation."

During audit of WAPDA Administrative Staff College (WASC) Islamabad for the year 2011-12, it was revealed that six (6) employees of other WAPDA formations were residing in the colony from Feb' 2010 to Jun' 2012. Standard rent amounting to Rs.2.74 million was required to be recovered from respective officers/officials but the same was not recovered.

The matter was taken up with the management in Jul' 2012 and reported to the Ministry in Oct' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that an amount of Rs.0.49 million was recovered up to Dec' 2012 and vigorous efforts were being made for recovery of remaining amount. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility and production of recovery record.

(Draft Para No.1569)

1.3.21 Loss due to fire incident - Rs.2.12 million

According to the instructions issued by WAPDA dated Jul' 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 audit of International Water Logging and Salinity Research Institute (IWASRI) WAPDA Lahore for the year 2011-12, it was found that fire incident took place at C.M.T.L building on Jan' 22, 2010 which caused damages of offices and material/equipment. The preliminary committee was constituted on Jan' 23, 2010 to ascertain the causes of fire and assess the loss and damages of WAPDA property. The committee ascertained that fire incident took place due to short circuit and assessed the loss for Rs.2.12 million. Subsequently proper inquiry committee was constituted by the Authority on Apr' 29, 2010 to determine and verify the exact loss and to fix the responsibility. Despite lapse of two years, no inquiry report was submitted by the inquiry committee to the Authority.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in May 2012. In a meeting held on Dec' 24-25, 2012, it was replied that the inquiry committee submitted report on Dec' 30, 2010 which was not agreed by the Authority and reconstituted an inquiry committee to probe into the loss. The findings of the inquiry committee would be implemented in due course of time. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious findings of inquiry committee proccedings besides fixing responsibility.

(Draft Para No.1534)

1.3.22 Loss due to non/less deduction of income tax at source - Rs.1.11 million

According to section 153 (1) (c) of Income Tax Ordinance 2001, income tax is to be deducted @ 6% from the gross amount payable to a contractor.

During audit of Mangla Dam Raising Project for the year 2011-12, it was revealed that income tax Rs.16.52 million @ 6% was to be deducted instead of Rs.15.40 million from contractor's invoice. Less deduction of income tax resulted in loss of Rs.1.11 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that income tax was deducted correctly as income tax exemption certificates were provided by the contractor in some IPCs. The reply was not tenable as income tax exemption certificates were not applicable in the period of payment under observation.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.1620)

1.3.23 Loss due to non-recovery of advance from the contractor - Rs.1.04 million

According to the instructions issued by WAPDA dated Jul' 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 audit of Mangla Dam Raising Project for the year 2011-12, it was revealed that an amount of Rs.1.04 million paid to the contractor in the year 2006-2007 as advance, was not recovered/adjusted up till Dec' 2012, whereas the contract had been cancelled and the balance work was completed by another contractor. Non-recovery of advance from the contractor resulted in loss to the stated extent.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, the management agreed that the amount would be recovered. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.1637)

1.3.24 Non-recovery of advances paid on account of land acquisition - Rs.121.90 million

As per provision of PC-I WAPDA is responsible for execution of the project and maintenance of its accounts.

During audit of Sabak Zai Dam project Zhob for the year 2011-12, it was revealed that funds amounting to Rs.121.90 million were transferred as advance to the Land Acquisition Collector, Zhob during the period from Jul' 2002 to Jun'

2010. Adjustment accounts of advances were not obtained from the concerned department and were outstanding in the project accounts upto Jun’ 2012. The management failed to submit adjustment account to the stated extent.

The matter was taken up with the project management in May 2012 and reported to the Ministry in Nov’ 2012. In a meeting held on Dec’ 24-25, 2012, it was replied that the matter had been taken up with the Senior Member Board of Revenue, Govt. of Balochistan to direct EDO (R) Zhob and Qilla Saifullah to provide audit certificate for the expenditure incurred. Further progress was not intimated till the finalization of this report.

Audit requires vigorous pursuance of case with FBR besides expeditious recovery of remaining amount.

(Draft Para No.1578)

1.3.25 Unauthorized on account payment to contractors - Rs.25 million

Authority in its meeting held on May 06, 2009 directed the project management to finalize contractor’s claims within four months positively.

During audit of Satpara Dam Project Sakardu for the year 2011-12, it was revealed that an amount of Rs.25 million was paid to two (02) contractors on account payment against contractors claims in violation of the contract provisions. Despite the lapse of three (03) years, the amount alongwith mark up was not recovered due to non-finalization of the claims of the contractors.

The matter was taken up with the management in Aug’ 2012 and reported to the Ministry in Oct’ 2012. In a meeting held on Dec’ 24-25, 2012 the management replied that “on account payment” was made to the contractors with the approval of the Authority in order to facilitate the contractor’s cash flow problems and the same would be adjusted on finalization of pending claims of the contractors. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 1567)

CHAPTER-2

WAPDA HYDRO ELECTRIC POWER

(35-56)

2. WAPDA HYDRO ELECTRIC POWER

2.1 Introduction

Pakistan Water and Power Development Authority (WAPDA), fully owned by the Government of Pakistan was established under WAPDA Act, 1958 (West Pakistan Act No. XXXI of 1958), as amended from time to time. The Authority consists of a Chairman and three members (Water, Power & Finance) to be appointed by the Government.

In the light of strategic power re-structuring plan 1992, thermal power generation, transmission and distribution were transferred to GENCOs, NTDC and DISCOs. Currently, the Power Wing is engaged in power generation from hydro power stations and for its transmission to National Transmission and Despatch Company (NTDC).

2.2 Comments on Financial Statement

2.2.1 Financial Overview

Five (5) monthly Trial Balances along with schedules were received at Director Accounts Consolidation (Power) where these were consolidated and annual financial statements, including Balance Sheet, Profit & Loss Account, Cash flow statement and statement of changes in equity were prepared. The financial results along with the financial ratios are as under:

2.2.2 Extracts of the Financial Statements[1]

Balance Sheet as at Jun' 30, 2012

(Rupees in millions)

	2011-12	%	2010-11	%	2009-10
Equity and Liabilities					
Share capital and reserves					
Government of Pakistan investment	72,522.71	3.34	70,179.97	637.03	9,522.00
Reserve	88,489.64	18.72	74,538.43	(78.42)	345,420.81
	161,012.36	**11.26**	**144,718.40**	**(59.23)**	**354,942.81**
Surplus on revaluation of fixed assets	54,282.40	100.00	-	(100.00)	14,847.49

[1] *Only balances with significant variations during the current financial year and those against which comments are being incorporated in this analysis are reproduced.*

Long term Financing	54,715.39	22.37	44,713.74	(20.14)	55,986.94
Non-current liabilities	**66,901.62**	**23.48**	**54,178.13**	**(11.76)**	**61,398.53**
Current liabilities					
Trade and other Payables	10,581.84	168.38	3,942.90	(66.79)	11,871.91
Liabilities against assets subject to ijarah	8,000.00	-	8,000.00	-	8,000.00
Current portion of long term loans	5,189.03	(5.15)	5,470.53	(10.65)	6,122.34
Short term Borrowings	1,846.58	(60.75)	4,704.58	(44.05)	8,409.16
Short term Liabilities	48,731.90	23.71	39,392.68	(15.56)	46,650.21
Mark up payable	358.47	(8.72)	392.70	18.34	331.85
	74,707.82	**20.68**	**61,903.40**	**(23.94)**	**81,385.47**
	356,904.20	**36.85**	**260,799.93**	**(49.12)**	**512,574.30**
Assets					
Non-current assets					
Operating fixed assets	186,993.72	47.73	126,574.96	13.86	111,168.66
Capital work in progress	64,860.55	7.83	60,152.02	32.00	45,569.05
	251,854.27	**34.88**	**186,726.98**	**19.13**	**156,737.70**
Long term advances and receivables	324.42	27.52	254.41	(99.03)	26,264.72
Current assets					
Stores and spares	2,626.95	8.23	2,427.24	70.42	1,424.25
Trade debts	83,038.50	30.16	63,795.08	(45.35)	116,740.05
Short-term advances and other receivables	8,309.51	192.23	2,843.52	(84.66)	18,536.74
Short-term investments	7,135.26	385.89	1,468.49	441.88	270.00
Bank balances	3,613.45	10.08	3,282.41	21.90	2,692.70
	104,723.67	**41.87**	**73,816.76**	**(47.15)**	**139,663.74**
	356,904.20	**36.85**	**260,799.93**	**(49.12)**	**512,574.30**

Profit and Loss Account
For the year ended Jun’ 30, 2012

(Rupees in millions)

	2011-12	**%**	**2010-11**	**%**	**2009-10**
Sales	39,861.05	19.10	33,469.85	15.05	29,091.61
Cost of electricity	19,172.86	47.44	13,003.58	(30.50)	18,709.28
Gross profit/(Loss)	**20,688.18**	**1.08**	**20,466.27**	**97.13**	**10,382.33**
Operating cost	7,436.79	2.61	7,247.62	520.62	1,167.80
Other income	1,462.17	73.16	844.39	(80.08)	4,239.27
Financial and other charges	4,738.82	(16.49)	5,674.88	(14.27)	6,619.18
Profit/(Loss) for the year	**9,974.75**	**18.91**	**8,388.17**	**22.73**	**6,834.61**

2.2.3 Financial Ratios

The summary of ratios calculated for three financial years are as under:

AUTHORITY			**WAPDA**	
YEAR		**2011-2012**	**2010-2011**	**2009-2010**
Profitability Ratios				
Return on Capital Employed	%	5.35	7.22	3.12
Gross Profit Margin	%	51.90	61.15	35.69
Net Profit Margin	%	25.02	25.06	23.49
Asset Turnover Ratio	Times	0.14	0.17	0.07
Return on Total Assets	%	2.79	3.22	1.33
Short Term Liquidity Ratio				
Current Ratio	Times	1.40	1.19	1.72
Working Capital Ratios				
Debtors Turnover Period	Days	760	696	1465
Creditors Turnover Period	Days	201	111	232
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	0.17	0.19	0.12
Gearing Ratio	%	21.77	25.75	14.38
Leverage Ratio	%	78.23	74.25	85.62
Interest coverage	%	3.10	2.48	2.03

2.2.4 Cash Flow Analysis

The Authority’s net inflow (surplus) of cash was Rs.331.03 million i.e. 82% less than last year (inflow of Rs.1,810.98 million: 2010-11) during the financial year resulting in closing balance of Rs.3,613.45 million (Rs.3,282.43 million: 2010-11).

Net cash flows from operating activities declined by Rs.8,582.36 million (48%) over the previous year mainly due to increase in trade debts (receivable from NTDC) during 2011-2012. Cash generated from operations decreased by Rs.7,684.84 million (31%) over the previous year causing cash flow problem for the Authority. Huge amount of Rs.6,056.32 million was spent on advances and other receivables which was increased by 192% over the previous year.

During the financial year 2011-2012, the Authority issued Rs. 70.01 million on long term advances (Rs.36.05 million: 2010-11) which is 94% higher as compared to last year.

Moreover, the net cash inflow of Rs. 11,909.76 million injected from financing activities mainly due to proceeds of interest bearing loan and borrowings. Increase in long term advances and borrowings needs to be explained.

2.2.5 Ratios Analysis

2.2.5.1 Profitability

Profitability ratios are showing declining trend, which is an alarming situation for the Authority.

i) Gross profit ratio

Ratio declined to 51.90% as compared to 61.15% for the financial year 2010-11. This reflects that the cost of electricity has increased more than the percentage increase in sales.

During the financial year 2011-12, electricity sales of the Authority increased to Rs. 39,861.05 million i.e. 19% (Rs. 33,469.85 million: 2010-11).

On the other hand cost of electricity increased by 48% (Rs. 19,172.87 million during the year 2011-12, Rs. 13,003.58 million: 2010-11). The percentage increase in cost of electricity was higher than the proportionate increase in sale value which resulted in lower ratio for the present financial year.

ii) Net profit Ratio

The ratio remained stable i.e. 25.06% to 25.02% due to increase in other income. Other income increased by 73 % as compared to last year i.e. from Rs. 844.39 million to Rs. 1,462.17 million.

An increase in operating expenses by 46% over the previous year which mainly attributed to enhancement in pay and allowances and repairs & maintenance expenses. It was further observed that the Authority approved certain allowances in respect of various categories of WAPDA employees. The detail of which is mentioned hereunder:

i) Transport subsidy

ii) Special WAPDA allowance

iii) Danger allowance

The grant of above allowances without the approval/concurrence of Ministry of Finance was not in line with the provisions of Government Rules and Regulations and amount paid on account of above allowances was irregular.

Significant increase in the cost of sales and indirect expenses needs to be explained.

iii) Return on capital employed

The return declined to 5.35% from 7.22%, showing that the Authority did not managed its resources in an efficient and effective manner.

iv) Return on total assets

The return declined to 2.79% from 3.22%, reflecting a downward trend in the ratio. The Authority earned a very small percentage of income by utilizing the assets. Moreover, the ratio was also reflecting downward trend which needs to be justified.

2.2.5.2 Short Term Liquidity

i) Current ratio

The ratio slightly increased to 1.40 from 1.19 indicating a positive trend for repayment of current liabilities.

Short term investment of Authority increased by Rs. 5,666.77 million i.e. 386%. The Authority should follow complete investment procedures issued by GoP to avoid any loss in this regard.

2.2.5.3 Working Capital Cycle

i) Debtors and Creditors turnover period increased to 760 days from 696 days reflecting weak administration of receivables and ultimately liquidity problems for the Authority which further created obstacles in way of repayment to creditors which increased to 201 days from 111 days.

A huge increase of Rs.6,638.94 million i.e. 168 % in trade and other payables was observed during the year. Such a huge increase was quit alarming showing liquidity constraint for the Authority as the trade and other receivables increased by Rs. 19,243.41 million. An increase in accounts receivable, debtors' turnover period reflected inefficient collection procedures and poor administration of trade debts, resulting in loss of revenue to the Authority.

2.2.5.4 Gearing, leverage and interest coverage ratios

These ratios showed positive trends due to increase in profit i.e. 19% mainly due to increase in other income. During the financial year 2011-12 gearing ratio was reduced to 21.77% as compared to 25.75% during the financial year 2010-11. Consequently leverage ratio increased from 74.25% to 78.23%.

Long term financing increased by 22% as the balance of loan was increased from Rs.44,713.75 million to Rs.54,715.40 million over the year. Audit is of the view that the loans should be used efficiently.

Reliance on borrowings/ (loans) and payment of huge financial charges need to be explained.

2.2.6 Recommendations:

Declining profitability ratios are alarming for Authority to review any change in its policies this year because last year all the profitability ratios were showing increasing trend.

The increase in accounts receivable and accounts payable indicates that there is a continuing cash flow shortage resulting in persistent working capital financing problems for the Authority. Authority should review its policy for recovery of debt to avoid future liquidity problems. It is also important to settle its creditors due in time.

In view of the forgoing, it is recommended that Authority should revamp its organizational structure and address operational issues.

2.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	Name of Report	No. of Directives	Status of compliance		
				Full	Partial	Outstanding
WAPDA HYDRO ELECTRIC (Power Wing)	2006-07	Audit Report	2	Nil	Nil	**2** (Para No. 3.6 & 3.7)
	2007-08	Audit Report	3	Nil	Nil	**3** (Para No. 2.13, 2.14 & 2.15)

Position of compliance on PAC directives is not satisfactory.

2.4 AUDIT PARAS

2.4.1 Loss due to theft of explosive material - Rs.2.01 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of Golen Gol Hydropower Project Chitral for the year 2011-12, it was revealed that 550 Kg explosive material worth Rs.2.01 million (approximate) was stolen in Feb’ 2012. An FIR was got registered in police station against unknown persons by the contractor. But neither any departmental inquiry was conducted to fix responsibility nor the case was pursued with the police department to recover the material/loss.

The matter was taken up with the management in Jul’ 2012 and reported to the Ministry in Sep’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter for fixing responsibility of loss.

(Draft Para No. 1552)

2.4.2 Cost overrun due to delay in implementation of project - Rs.190.38 billion

Neelum Jhelum Hydroelectric Project was to be implemented in eight years (Jul’ 2002 to Jun’ 2010) at cost Rs.84.50 billion as per provision of original PC-I.

During audit of Neelum Jhelum Hydroelectric Project for the year 2011-12, it was found that the main contract of Neelum Jhelum Hydroelectric Project was awarded to a contractor in Jul’ 2007 at a cost of Rs.90.90 billion. The project was started in Jan’ 2008 and was in-progress uptill Jun’ 2012. There was delay of five and half years in implementation of project. Due to abnormal delay in implementation of project, its cost increased to Rs.274.88 billion, as incorporated in PC-I under revision. Abnormal delay in implementation of project resulted in cost overrun to the stated extent.

The matter was taken up with the management and reported to the Ministry in Sep’ 2012. In a meeting held on Dec’ 24-25, 2012, it was replied that due to earthquake in Oct’ 2005, the design of the project was reviewed and revised. On the basis of revised design additional work items were involved and consequently resulted in delay as well as increase in project cost. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 1547)

2.4.3 Loss due to acceptance of contractor’s responsibility by WAPDA through a variation order - Rs.28.40 billion

According to Clause-46.1 of Conditions of Contract for Works of Civil Engineering Construction Part-1 General Conditions, contractor is responsible to expedite progress so as to comply with the time for completion of project. The

Contractor shall not be entitled to any additional payment for taking such steps. Further, a variation order is processed/ approved under clauses-51.1 to 52.3 of Conditions of Contract for Works of Civil Engineering Construction Part-1 General Conditions.

During audit of Neelum Jhelum Hydroelectric Project Muzaffarabad for the year 2011-12, it was revealed that the contract for construction of Neelum Jhelum Hydroelectric Project Muzaffarabad was awarded to M/s CGGC-CMEC (Consortium) in Jul' 2007 at contract price of Rs.90.21 billion with completion period of ninety three (93) months i.e. upto Oct' 2015. Due to slow progress of work, different ways were evaluated to accelerate the construction of the project. The consultants and the WAPDA's panel of experts recommended to increase the production of the Drill and Blast (D&B) operation to cover the delays in construction of Headrace Tunnel/ project. However, the contractor did not agree with this way and the management decided to use Tunnel Boring Machines to cover the delay. For this purpose variation order No.22 valuing Rs.28.40 billion was approved to procure and use the Tunnel Boring Machines. As such WAPDA took an additional responsibility of Rs.28.40 billion in the shape of variation order to complete the project timely through TBMs. Contractually, it was not the responsibility of WAPDA to bear this cost. Moreover, the variation order "TBM-VO.22" was unauthorized as it was not prepared in accordance with the provisions of clauses-51.1 to 52.3 of contract and the Authority's approved procedure for Appropriation Request. Violation of contrac clauses resulted in loss of Rs.28.40 billion.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, it was stated that variation order was in order and approved by BOD NJHPC, also incorporated in revised PC-I which was approved by CDWP. The reply was not tenable as completion of the project within the stipulated period of contract was the contractor's responsibility.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 1641)

2.4.4 Non-recovery of Neelum Jhelum surcharge - Rs.3.47 billion

According to the instructions issued by WAPDA dated Jul' 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 audit of Neelum Jhelum Hydropower Company for the year 2011-12, it was revealed that an amount of Rs.3.47 billion was not recovered from the consumers upto May 2012, on account of Neelum Jhelum Surcharge (NJS).

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, non-recovery was admitted by the management. However, the respective DISCOs were directed to recover the amount from the consumers expeditiously. Further progress was not intimated till the finalization of this report.

Audit requires expeditious recovery besides fixing responsibility for not taking appropriate steps towards timely recovery of arrears.

(Draft Para No. 1602)

2.4.5 Non-production of record award of contract - Rs.910 million

According to clauses 14-C (2&3) of the Auditor General's (Functions, Powers and Terms and conditions of Service) Ordinance, 2001, it is obligatory for all government departments to provide record to audit on demand.

During audit of Golen Gol Hydro Power Project for the year 2011-12, it was revealed that the contract Lot 3-2 E&M works was awarded to unqualified consortium in violation of PPRA Rules which caused a loss of Rs.910 million to Public exchequer as reported by Transparency International Pakistan in letter dated Mar' 2, 2012. Audit demanded the record relating to the prequalification of firms and tendering process to examine the issues raised by the TIP but the same was not produced inspite of the repeated requests. Non-production of record is violation of Auditor General's (Functions, Powers and Terms and conditions of Service) Ordinance, 2001.

The matter was taken up with the management in Mar' 2010 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that the contract had not been awarded. Interim report on the contract would be provided to Audit. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non production of record.

(Draft Para No.1608)

2.4.6 Loss due to delay in completion of project - Rs.795.07 million

The project will supply 22.0 MW of power and generate 122.00 Gwh of energy annually which will provide assistance in meeting with power demand of the country and help in reduction of load shedding. The project will generate revenue of Rs.853.04 and Rs.795.07 million annually with and without Clean Development Mechanism (CDM).

During audit of Rehabilitation of Jabban Hydropower Project for the year 2011-12, it was revealed that the contract was awarded on May 30, 2009 and scheduled to be completed upto Jan' 18, 2011. The contractor could not complete the project within the scheduled completion period and the physical progress of project was 56% upto Jun' 2012. Due to non-completion of the project, the generation of energy, 122 Gwh per annum could not be produced. The delay in completion of project resulted in revenue loss of Rs.795.07 million per annum besides severe load-shedding faced by the public due to acute shortage of electricity.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in Sep' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that the delay in the project was due to the circumstances beyond the control of the management. The reply was not tenable as no documentary evidence was provided in support of recovery till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for delay in completion of the project.

(Draft Para No.1557)

2.4.7 Unauthorized award of contract in violation of PPRA Rules - Rs.510 million

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

During audit of Neelum Jhelum Hydroelectric Project for the year 2011-12, it was revealed that there was a provision of construction of new suspension bridge over Neelum River at Nauseri at a cost of US$ 540,000 equivalent to Pak Rs.45.90 million. It was not included in the tender/contract of the project as it was to be constructed under the Earthquake Reconstruction & Rehabilitation Programme (ERRP). Due to delay in construction of this bridge by the ERRA, the project management decided to construct it by WAPDA to allow proper access to the right bank of the Neelum River during construction of project. A variation order No. 015 was prepared for this purpose to include it in the main contract of project and the work was awarded to a sub contractor of M/s CGGC-CMEC at lump sum cost of Rs.510 million without sanctioning the estimate and open competitive bidding. Violation of PPRA Rules and codel procedure resulted in unauthorized award of contract to the stated extent.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that the bridge had been included in Revised PC-1 approved by Government as the Dam could not be constructed without it. The reply was not tenable as it was a separate work which was to be sanctioned and awarded through the competitive bidding.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 1610)

2.4.8 Unauthorized conversion of appropriation request into claim resulting extra financial burden - Rs.373.12 million

According to Clause-51.1 (Variations) of Conditions of Contract for Works of Civil Engineering Construction Part-1 General Conditions, "the Engineer shall make any variation of the form, quality or quantity of the Works or any part thereof that may, in his opinion, be necessary and for that purpose, or if for any other reason it shall, in his opinion, be appropriate, he shall have the authority to instruct the Contractor to do and the Contractor shall do any of the instructions given by the Engineer".

During audit of Neelum Jhelum Hydroelectric Project Muzaffarabad (AJ&K) for the year 2011-12, it was found that an appropriation request bearing No. 002 was approved in 8^{th} BOD Meeting at cost of Rs.115 million. Later on the appropriation request was converted into claim 6-C and an amount of Rs.488.12 million was paid to contractor. The conversion of Appropriation Request into claim was unauthorized as preparation and approval of the Appropriation Request was in accordance with the clause-51.1 (Variations) which tantamount that it was not covered under clause 53.1 (notice for claims). Conversion of appropriation request into claim resulted in extra financial burden and undue favour to the tune of Rs.373.12 million to the contractor.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 1643)

2.4.9 In-admissible payment to contractors' claims - Rs.329.05 million

According to clause 2.15.4 of technical specifications (volume-3) of contracts for Duber Khwar and Allai Khwar Hydropower Projects, "the power supply necessary for the works at different sites has to be provided exclusively under the contractor's responsibility by using the existing supply system and/or constructing and operating diesel power plants considering adequate supply to guarantee the work progress without interruption due to power lack".

During audit of Allai and Duber Khwar Hydropower Projects, it was revealed that an amount of Rs.329.05 million (Rs.157.91 million + Rs.171.14 million) was paid to the contractors on account of claims upto Jun' 30, 2011 due to employer's non-provision construction of power supply system. This payment was quite contrary to the provisions of contract agreements.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in Sep' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that under the provisions of the contract, the contractors' claims including the claim regarding the provisions of own construction of power supply system were settled in a global settlement package under Memorandum of Understanding. The issue was resolved under the provisions of the contract. The reply was not tenable as the payment was not in accordance with the provision of the clause of original contracts.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.1555 & 1558)

2.4.10 Unjustified payment in violation of contract - Rs.275.60 million

Accoridng to clause 13.2.4 of contract agreement, "electric power supply for the construction period will be supplied by the Employer at one central point at each site as indicated on the site plan drawings. From this point the contractor shall arrange for the electric power and lighting as required for his offices, workshop, camps, etc. and for the construction of the works. Backup diesel power is the contractor's responsibility, and shall be installed on his judgment for the reliability of regular supply".

During audit of Neelum Jhelum Hydroelectric Project Muzaffarabad for the year 2011-12, it was revealed that the contractor was paid Rs.275.60 million on account of claim regarding compensation for generation of own electricity, which was unjustified as back up power was the responsibility of the contractor as per contract clause S.P-31, special provision Part-E 13.2.4. Violation of contract clause resulted in unjustified payment to the stated extent.

The matter was taken up with the management on May 14, 2012 and reported to the Ministry in Aug’ 2012. In a meeting held on Dec’ 24-25, 2012, it was replied that the contractor had been generating his own electricity at each site since 2008 due to the Employer's inability to arrange proper and reliable power supply as detailed in Sub-Clause13.2.4 Special Provisions of the contract. The contractor’s claim for compensation for providing electricity was legitimate. The reply was not tenable as backup diesel power was the contractor’s responsibility.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 1540)

2.4.11 Unjustified payment in violation of the contract - Rs.114.75 million

Accoridng to clause 53.5 of contract agreement, the contractor shall be entitled to have included in any interim payment certified by Engineer pursuant to clause-60 such amount in respect of any claim as the Engineer, after due consultation with the employer and the contractor, may consider due to the contractor provided that the contractor has supplied sufficient particulars to enable the engineer to determine the amount due. If such particulars are insufficient to substantiate the claim, the contractor shall be entitled to payment in respect of such part of the claim as such particulars may substantiate to the satisfaction of the engineer. The Engineer shall notify the contractor of any determination made under this sub-clause, with a copy to the Employer.

During audit of Neelum Jhelum Hydroelectric Project Muzaffarabad (AJ&K) for the year 2011-12, it was found that the contractor M/s CGGC-CMEC Consortium claimed an amount of Rs.275.60 million on account of own generation of electricity in May 2011. The claim was not paid at that time and sent to Director (E&M) for checking and verification. During physical verification carried out in Aug’ 2011, it was pointed out that various generator sets were not found at any site of work but generation of electricity through these generator sets was claimed by the contractor at site C-I, C-II and C-III for

Rs.114.75 million. In Dec’ 2011 the claim of total amount of Rs.275.60 million was paid to contractor without deducting the amount of Rs.114.75 million against the generator sets which were not existing/running at sites. Violation of contract clause resulted in unjustified payment to the stated extent.

The matter was taken up with the management on May 14, 2011and reported to the Ministry in Aug’ 2012. In a meeting held on Dec’ 24-25, 2012, it was replied that the generators were existed at sites and verified by the engineer. The reply was not tenable as the generator sets were not existing at sites.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 1536)

2.4.12 Unjustified advance payment to a contractor - Rs.84.05 million

According to clause 60-1A (e)(i) of Conditions of Particular Application Part-II (B) of the contract, “an advance payment of five percent (5%) of the contract value (erection and other work); one month before the date of commencement of erection at site in accordance with the approved programme to cover mobilization expenses, upon submission of acceptable bank guarantee (s) for the same amount (s) and currency (ies) of the advance payment to secure this advance payment.”

During audit of Neelum Jhelum Hydroelectric Project for the year 2011-12, it was revealed that five percent (5%) advance payment of Rs.84.05 million was made to the contractor on account of erection and other works in Jun’ 2012. After payment, the erection was to be started up to Jul’ 27, 2012 but no erection and other work regarding Electrical, Mechanical and Hydraulic (EMH) was carried out at site. As erection of EMH equipments was not carried out at site during Jul’–Sep’ 2012, hence 5% advance payment made in Jun’ 2012 was unjustified. Violation of contract clasue resulted in an undue favour to the contractor to the stated extent.

The matter was taken up with the management in Oct’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 24-25, 2012, it was stated that the erection of crane was started on Aug’ 26, 2012 and completed. The reply was not tenable as no documentary evidence was provided in support of recovery till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 1606)

2.4.13 Unjustified payment to consultants on account of furnished accommodations - Rs.71.48 million

According to Appendix-F (page 2 of 4) of Consultancy Services Contract, WAPDA will provide office accommodation and housing through contractor. Further, the contractor shall provide offices for the Engineer as per clause-18.3 of the Part-E 'Specifications-Special Provisions' of the Contract.

During audit of Neelum Jhelum Hydroelectric Project Muzaffarabad (AJ&K) for the year 2011-12, it was found that an amount of Rs.71.48 million was paid to Neelum-Jhelum Consultants on account of furnished accommodation for field offices at sites C-1, C-II & C-III of project. The payment was not admissible to the Consultants as it was the responsibility of the contractor to provide and maintain engineer's offices including portable field office cabins at project sites. Violation of contract clauses resulted in unjustified payment to the stated extent.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that NJC was a private entity and we made them payments as per consultancy services agreement. The reply was not tenable as office accommodation was to be provided by the contractor.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 1647)

2.4.14 Inadmissible payment on account of transportation charges - Rs.35.09 million

According to clause 11.1 of contract agreement regarding Inspection of Site, "the contractor shall be deemed to have inspected and examined the site and its surroundings and information available in connection therewith and to have satisfied himself (so far as is practicable, having regard to considerations of cost and time) before submitting his tender".

During audit of Allai Khwar Hydropower Project for the year 2011-12, it was revealed that an amount of Rs.35.09 million was paid to the contractor upto Jan' 2012 on account of difficulties of transportation. This payment was contrary to the provisions of contract agreement as the means of access to the site of work was contractor's responsibility. Violation of contract provisions resulted in inadmissible payment to contractor to the stated extent.

The matter was taken up with management in May 2012 and reported to the Ministry in Sep' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that under the provisions of the contract (clause 2.4 Vol-III) WAPDA was required to provide access to the project component. The additional cost of transportation of heavy equipment was paid to the contractor on the recommendations of the engineer in the best interest of the works. The reply was not tenable as access to the site of work was contractor's responsibility.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.1556)

2.4.15 Unjustified expenditure on operation and maintenance of vehicles - Rs.15.87 million

According to Para 11.4(b) of Hand Book for Drawing and Disbursing Officer, "the funds allotted to a Ministry/Division, its Attached, or Subordinate Offices are spent for the purpose for which they are allocated".

During audit of Neelum Jhelum Hydro Power Company Lahore for the year 2011-12, it was revealed that a car No. LEB-8235 was handed over to the protocol officer Rawal Rest House, Islamabad on Dec' 17, 2008 in the light of minutes of the 5th BOD meeting. Accordingly, the POL & maintenance charges were to be arranged by the management of Rawal Rest House. On the contrary, the POL and repair charges worth Rs.2.46 million were paid by NJHP Company instead of IESCO which was unjustified. Similarly, six (6) vehicles purchased by the Company were handed over to President Secretariat, Prime Minister Secretariat, Minister for Water and Power and Secretary WAPDA. An expenditure of Rs.13.41 million on account of POL and repair charges was incurred by company without any provision in PC-I of the project against these offices. Violation of government instructions resulted in unjustified expenditure Rs.15.87 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, it was stated that the matter was being pursued with IESCO. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.1589)

2.4.16 Excess payment due to enhancement of unit rate - Rs.11.20 million

According to Para-10 of General Financial Rules, "every public officer is expected to exercise same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money, according to canons of financial propriety."

During audit of Neelum Jhelum Hydroelectric Project Muzaffarabad (AJ&K) for the year 2011-12, it was found that the rate of blinding concrete class-F was Rs.5,206/- per m^3 in Interim Payment Certificates 42 and 43 under variation order No.10. In IPC-44 this rate was enhanced to Rs.7,825/- per m^3. Increase in rate for Rs.2,619/- per m^3 was unjustified which resulted exess paymet of Rs.11.20 million to the contractor.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that payment was made on the certification of the engineer. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 1640)

2.4.17 Less deduction of income tax - Rs.7.55 million

According to section 152(1) of Income Tax Ordinance 2001, income tax is to be deducted from payment to non-residents @ 15% or lower rate as per agreement for avoidance of double taxation. Further, clause 1.7 of special conditions of contract the payment of taxes, fees and other imposition, as may be levied under the applicable law, in respect of consultants, sub-consultants and their personnel, shall not be the responsibility of the client.

During audit of Golen Gol Hydropower Project Chitral for the year 2011-12, it was revealed that the Income tax was deducted @ 6% instead of 15% from the payments made to M/s Fichtner GMBH & Co., Leader of joint venture consultants during the period Jul' 2011 to Feb' 2012. Violation of income tax rules resulted in loss to public exchequer to the stated extent.

The matter was taken up with the management in Apr' and Dec' 2012 and reported to the Ministry in Oct' and Dec' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that the subject case would be referred to Federal Board of Revenue (FBR) Islamabad for clarification. Further progress was not intimated till the finalization of this report.

Audit requires vigorous pursuance the case with FBR besides fixing responsibility.

(Draft Para No. 1560 & 1649)

2.4.18 Unjustified payment in violation of the contract – Rs.6.52 million

Accoridng to contract clause 30.2 and 30.3 of COC read with special provision 1.2, contractor shall be entirely responsible for ensuring accessibility to the site of work including arrangements required for transport of his materials or plant or related temporary works.

During audit of Neelum Jhelum Hydroelectric Project Muzaffarabad for the year 2011-12, it was found that an amount of Rs.6.52 million was paid to contractor against construction of a temporary bridge over the Neelum river at Nauseri through a sub-contractor in contravention of the above clause. The expenditure incurred on this account was already covered under the provision of BOQ items 1.1.4.1. (LS) so contractor was not entitled for separate/additional payment. Violation of contract clause resulted in unjustified payment to the stated extent.

The matter was taken up with the management in May 14, 2012 and reported to the Ministry in Aug’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 1537)

2.4.19 Unauthorized expenditure on account of transportation & POL and security for shifting of tunnel boring machines - Rs.5.39 million

According to clause-3.7 of Variation Order No. 22R2-Appendix 8, “the contractor shall also be responsible to make complete arrangements for the transportation of the TBMs, TBMs support equipment and all other required plant, including road improvements, traffic control and bridge reinforcement and construction, necessary to specific site where the equipment, and plant is to be utilized. The Contractor shall be deemed to have included all clearing, forwarding and other incidental costs in this regard in Bill of Quantities. Further, as per clause-V22-1.2.03 of Variation Order No. 22R2, “the contractor was responsible for inland transportation of Tunnel Boring Machines (TBMs) from port of entry to project site”

During audit of Neelum Jhelum Hydroelectric Project Muzaffarabad (AJ&K) for the year 2011-12, it was found that an expenditure Rs.5.39 million was incurred on account of transportation, P.O.L and security for shifting of tunnel boring machines (TBMs) from Karachi Port to Muzaffarabad site out of project’s funds. The said expenditure was not justified as inland transportation of TBMs was the responsibility of the contractor. Violation of contract clauses resulted in unauthorized expenditure to the stated extent.

The matter was taken up with the management in Oct’ 2012 and reported to the Ministry in Dec’2012. In a meeting held on Dec’ 24-25, 2012, it was stated that the management provided additional security from Karachi to Muzaffarabad in the current vulnerable security situation in the country. The reply was not tenable as transportation of TBMs was the contractor’s responsibility.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 1609)

2.4.20 Overpayment on account of price adjustment - Rs.4.47 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of Neelum Jhelum Hydroelectric Project Muzaffarabad (AJK) for the year 2011-12, it was found that an amount of Rs.230.58 million was paid to M/s CGGC-CMEC Consortium upto IPC No. 44 on account of price adjustment under clause-70 of the contract against the actual amount of Rs.226.11 million which resulted an over payment of Rs.4.47 million

The matter was taken up the management in Oct’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery of overpayment besides fixing responsibility.

(Draft Para No. 1623)

2.4.21 Inadmissible payment to contractor due to non-certification by the engineer - Rs.4.05 million

According to Clause-60.2 of Conditions of Contract for Works of Civil Engineering Construction Part-1 General Conditions (Monthly Payments), “the Engineer shall, within 28 days of receiving such statement, deliver to the Employer Interim Payment Certificate stating the amount of payment to the Contractor which the Engineer considers due and payable in respect of such statement.”

During audit of Neelum Jhelum Hydroelectric Project Muzaffarabad (AJ&K) for the year 2011-12, it was found that an amount of Rs.4.05 million was paid to the contractor in IPC-44 under V.O No. 001/VO-017 despite the fact that the quantity of 21.50 m valuing Rs.3.99 million relating to item "underground excavation of tunnel, addition for sub-division of cross section 100.35m^2 into heading and benches (6.2 Headrace Tunnel T0-T1)" was written as zero at the backup sheet No. 91 by the engineer with the remarks, "not payable". Further, an amount of Rs.53,730/- was also paid against excavation under V.O. 020 (sheet 95 of 131) without certification of the engineer at backup sheet No. 89. Violation of contract clauses resulted into inadmissible payment to the contractor to the stated extent.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that the engineer certified amount at main page but objected on the details and engineer would be asked to clarify the position. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility inadmissible payment to contractor.

(Draft Para No. 1621)

2.4.22 Loss due to unjustified release of flood surcharge - Rs.2.24 million

"Flood surcharge was levied at the rate of 15% of Income Tax payable by the Government of Pakistan in order to meet the flood expenditure for specific period."

During audit of Neelum Jhelum Hydroelectric Project Muzaffarabad (AJ&K) for the year 2011-12, it was found that an amount of Rs.2.24 million was deducted on account of flood surcharge from the claims of Neelum-Jhelum Consultants as per instructions of GoP. Subsequently this amount was reimbursed to the consultants in violation of government instructions. Violation of government instructions resulted in loss to the stated extent.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that NJC was a private entity and the payment was made as per consultancy services agreement. The reply was not tenable as 15% flood surcharge on payable income tax was recoverable from all the taxpayers.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 1625)

2.4.23 Loss due to less deduction of income tax from employees - Rs.2.07 million

According to Income Tax Ordinance, 2001, "Income tax shall be deducted from the gross income of the employees (including all allowances)".

During audit of Neelum Jhelum Hydroelectric Project Muzaffarabad and Hydro Power Company Lahore for the year 2011-12, it was revealed that hard area allowance, project allowance, honorarium and transport subsidy were not included in the taxable income of the employees. Violation of Income Tax Ordinance, 2001 resulted in loss to the stated extent.

The matter was taken up with the management in Oct’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 24-25, 2012, the managmenet replied that deduction of income tax had been started as pointed out by Audit. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery of income tax besides fixing responsibility.

(Draft Para No. 1605)

2.4.24 Loss due to wrong deduction of with-holding tax by the bank - Rs.1.46 million

Accoridng to Income Tax Ordiance, 2001, “WAPDA is an exempt entity for with holding tax under clause (132) of part-I of second schedule to the Income Tax Ordinance, 2001”.

During audit of Neelum Jhelum Hydro Power Company Lahore for the year 2011-12, it was found that an amount of Rs.1.46 million was deducted by the National Bank of Pakistan as with holding tax on the profit gained. Other commercial banks did not deduct such tax from WAPDA and its allied formations being an exempt entity. The said amount was required to be refunded from NBP which was not done. Violation of Income Tax Ordinance, 2001 resulted in loss to the stated extent.

The matter was taken up with management in Oct’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 24-25, 2012, it was stated that the matter was being followed for refunding with-holding tax. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 1590)

2.4.25 Unauthorized payment of special WAPDA allowance - Rs.1.06 million

According to office memo issued by Finance Division (Regulation Wing) vide No. 1/15/Imp.II/87 dated Jul' 21, 1987, the autonomous organizations may revise/increase pay and allowances of their employees according to the provisions in their charter in consultation with the Ministry of Finance.

During audit of Golen Gol Project Chitral for the year 2011-12, it was revealed that an amount of Rs.1.06 million was paid to WAPDA employees on account of special WAPDA allowance, without approval of Finance Division, Government of Pakistan.

The matter was taken up with the project management during the year 2011-12 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 24-25, 2012, it was replied that the case had already been referred to Ministry of Finance through Ministry of Water and Power for clarification. Further progress was not intimated till the finalization of this report.

Audit requires vigorous pursuance of case with Ministry besides fixing responsibility.

(Draft Para No. 1651)

CHAPTER-3

(B) PAKISTAN ELECTRIC POWER COMPANY (PEPCO)

(59-61)

3. PAKISTAN ELECTRIC POWER COMPANY

3.1 Introduction

Pakistan Electric Power Company (Private) Limited (PEPCO) was incorporated in Pakistan as private limited company on May 13, 1998, under Companies Ordinance, 1984. The Company is engaged in the management of restructuring, corporatization, privatization, manpower transition programme and tariff determination process of corporate entities of WAPDA (Power Wing).

In October 2007 WAPDA was bifurcated into two distinct entities i.e. WAPDA and Pakistan Electric Power Company (PEPCO). PEPCO is responsible for the management of four (4) Generation Companies (GENCOs), a National Transmission and Dispatch Company (NTDC) and ten (10) Distribution Companies (DISCOs). These companies are working under independent Board of Directors.

3.2 Audit Paras

3.2.1 Unauthorized expenditure due to appointment of advertising agencies in violation of PPRA Rules - Rs.1,500 million

According to PPRA Rules 20 - Principal method of procurement **"**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 audit of Pakistan Electric Power Company (PEPCO) for the year 2011-12, it was revealed that a contract of Media Campaign 2011-12 was awarded to three advertising agencies (i) M/s Midas (Pvt) Ltd; (ii) M/s Interflow Communications (Pvt) and (iii) M/s Interlink Advertising (Pvt) Ltd without competition. Audit could not verify such appointments in terms of the above referred PPRA Rules due to non-production of relevant record which resulted unauthorized expenditure of Rs.1,500 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that no expense on this account had been incurred from PEPCO's budget 2010-11. However, on the directions of Ministry of Water and Power, PEPCO had facilitated the engagement of advertising agencies through an open competition basis. The reply was not tenable as the appointment of advertising agencies was made in violation of PPRA Rules.

Audit requires inquiry into the matter besides fixing responsibility for awarding contract in violation of PPRA Rules.

(Draft Para No. 547/2013)

3.2.2 Unauthorized payment on account of additional charge allowance - Rs.3.78 million

Finance Division O.M. No. F.2(9)-R-3/85, dated Mar' 18, 1987 reproduced Sl No.125 of ESTACODE and S& GA Directorate WAPDA's O.M No.D(E)/AD(E. IB)07244/45891-46051, dated Jun' 24, 1993 providies that "additional charge of a vacant post can be entrusted to another Government Servant of the same status and designation available in the Ministries/Divisions/Departments for not more than three months extendable upto six months. Immediately on the expiry of six months of the full additional charge of the particular vacant post, the post shall be treated as having abolished and its duties automatically becoming part of the normal duties of the other existing post of the same category in the Divisions/Departments concerned".

Duirng audit of PEPCO for the year 2011-12, it was found that three officers CEO, Finance Director, and Deputy G.M Finance CPPA, NTDC were entrusted additional charge of the post of Managing Director, PEPCO, Chief Financial Officer PEPCO, and General Manager Finance PEPCO respectively beyond the maximum period of six months and at higher rates which was against the provisions of rules. Hence, an amount of Rs.3.78 million paid to the officers on account of additional charge allowances beyond the permissible limit and other benefits in violation of rules was unauthorized.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that additional charge to the officers was entrusted by the competent authority in the interest of work at the time an organization was being brought down to a low profile facing uncertainty on its continuation. The reply was not tenable as additional charge allowed beyond prescribed limit of six months was not in line.

Audit requires inquiry into the matter besides fixing responsibility unauthorized expenditure.

(Draft Para No. 571/2013)

3.2.3 Unjustified payment on account of rent of camp office - Rs.2.71 million

According to clause 11.4 (b) of Chapter XI of Financial Power Delegations to Subordinate Authorities "funds allotted to a Ministry/Division, its Attached, or Subordinate Offices are spent for the purpose for which they are allocated"

During audit of Pakistan Electric Power Company (PEPCO) for the year 2011-12, it was found that Mr. Muhammad Razi Abbas Retired Additional Secretary was appointed as Chief Financial Officer PEPCO on Jul' 08, 2009 on contract basis for two years by the Ministry of Water and Power Islamabad and a camp office for the said officer was established on Oct' 03, 2009 at Islamabad. The space for Camp Office of the Chief Financial Officer PEPCO was hired by the Ministry of Water and Power and lease agreement was executed with the Overseas Pakistani Foundation. An amount of Rs.2.71 million was paid by PEPCO to the Overseas Pakistani Foundation in Oct' and Dec' 2011 which was not justified as the establishment of the Camp Office of Chief Financial Officer by the Ministry was not in the public interest.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012 the management replied that the premises for the camp office at Islamabad were acquired with the approval of Board of Director of PEPCO in its 26th meeting held on Jul' 10, 2010 and lease agreement was also executed with Overseas' Pakistani Foundation on the direction of Ministry of Water and Power on Oct' 3, 2009. The office was established to facilitate the frequent visits to Islamabad to deal with the issues relating to circular debt, payment of subsidies and release of funds from Ministry of Finance. The reply was not tenable as the establishment of the Camp Office of Chief Financial Officer by the Ministry was not in the public interest

Audit requires to investigate the matter for fixing of responsibility.

(Draft Para No. 381/2013)

CHAPTER-4

JAMSHORO POWER GENERATION COMPANY LIMITED
(GENCO-I)
(65-71)

4. JAMSHORO POWER GENERATION COMPANY LIMITED

4.1 Introduction

The Jamshoro Power Generation Company Limited, (JPGCL) is a subsidiary of WAPDA. It was incorporated in August 1998, under Companies Ordinance 1984 and started its business from March 01, 1999. The Company took over properties, rights, assets, obligations and liabilities of thermal power generation at Jamshoro, Lakhra and Kotri, owned by WAPDA through Business Transfer Agreement. However since July 2002 all the assets and liabilities relating to Lakhra Power Station were transferred back to WAPDA.

The principal activity of the Company is to generate electricity (from furnace oil, natural gas) and sell it to National Transmission and Despatch Company (NTDC). JPGCL was granted Generation License by NEPRA in July 2002.

4.2 Comments on Financial Statement

4.2.1 Financial Overview

The financial statements of the Company are required to be approved within four month from the end of financial year. The Company could not issue the approved Annual Report within the time frame stipulated in the Companies Ordinance 1984. Non-compliance with the relevant provisions of Companies Ordinance 1984 reflect the inefficiency on the part of management and needs justification.

The Company provided draft/unapproved financial statements to this Directorate. Therefore, reliability of the financial information cannot be ensured as the Company can incorporate significant adjustments into the balances appearing in the draft financial statements. The following comments analysis was prepared on the unapproved financial statement. The financial results along with the financial ratios were as under:-

4.2.2 Extracts of the Financial Statements[2]

Balance Sheet as at Jun' 30, 2012

(Rupees in millions)

	2011-12	%	2010-11	%	2009-10
Equity and Liabilities					
Accumulated Loss	(10,389.29)	57.86	(6,581.14)	40.16	(4,695.34)

[2] *Only balances with significant variations during the current financial year and those against which comments are being incorporated in this analysis are reproduced.*

Non-current liabilities	2,494.78	51.698	1,644.57	21.794	1,350.29
Current liabilities					
Trade and other payables	12,786.19	168.60	4,760.33	(74.186)	18,441.13
Accrued markup	445.71	47.00	303.21	88.673	160.70
	14,386.52	131.36	6,218.15	(68.583)	19,792.60
	14,620.55	**55.37**	**9,410.11**	**(61.710)**	**24,576.09**
Assets					
Non-current assets	3,617.64	(14.04)	4,208.32	(13.89)	4,886.86
Current assets					
Trade debts	6,483.02	197.93	2,176.01	(86.84)	16,537.58
Advances, prepayments and other receivables	2,499.68	97.19	1,267.66	64.63	770.00
Cash and bank balances	414.03	77.70	232.99	(35.66)	362.10
	11,002.91	111.52	5,201.79	(73.58)	19,689.23
	14,620.55	**55.37**	**9,410.11**	**(61.71)**	**24,576.09**

PROFIT AND LOSS ACCOUNT
For the year ended Jun' 30, 2012

	2011-12	%	2010-11	%	2009-10
Revenue					
Electricity Sale	31,661.55	(12.09)	36,015.11	(9.22)	39,672.96
Cost of Sale	(34,732.85)	(7.12)	(37,394.50)	(193.59)	39,957.35
Gross profit/(Loss)	(3,071.30)	122.66	(1,379.40)	385.02	(284.40)
Operational Cost	(696.00)	49.39	(465.89)	(0.42)	(467.84)
Finance Cost	(142.80)	0.07	(142.70)	(7.39)	(154.09)
Other income	101.96	(0.22)	102.18	99.42	51.24
Profit/ (Loss) for the year	**(3,808.14)**	**301.94**	**(1,885.81)**	**320.54**	**(855.09)**

4.2.3 Financial Ratios

The summary of ratios calculated for the three financial years is given below:

COMPANY	**JPGCL**			
YEAR		**2011-12**	**2010-11**	**2009-10**
Profitability Ratios				
Return on capital employed	%	(402.28)	(42.45)	(24.91)
Gross profit margin	%	(9.7)	(3.83)	(0.72)
Net profit margin	%	(12.03)	(5.24)	(2.16)
Asset turnover ratio	Times	135.29	11.28	10.19
Return on Total Assets	%	(26.05)	(20.04)	(3.48)
Short Term Liquidity Ratios				
Current ratio	Times	0.76	0.84	0.95
Quick ratio	times	0.71	0.71	0.90

Working Capital Ratios				
Debtors turnover period	Days	75	22	152
Creditors turnover period	Days	134	46	168
Debt, Gearing & Leverage Ratios				
Debt to equity ratios	%	(0.51)	0.75	(0.25)
Gearing ratio	%	123.29	26.56	(32.61)
Leverage ratio	%	(241.41)	35.60	214.36
Interest cover	times	26.38	12.93	4.88

4.2.4 Cash Flow Analysis

The Company generated net cash inflow (surplus) of Rs.181.03 million (outflow (deficit) of Rs.129.11 million: 2010-11) during the financial year resulting in closing balance of Rs.414.03 million (Rs.233.00 million: 2010-11).

The Company incurred net cash inflow (surplus) of Rs.275.04 million from operating activities. The main components which triggered such increase include;

i) Employee benefits decreased by Rs.1.18 million i.e. 4% over the last year,

ii) No Income Tax paid by the company this year as compared to last financial year Rs.26.88 million.

The company liquidated its short term investment amounting to Rs.2,797.16 million during the financial year 2011-12, to finance its operations. In addition to the above, the Company invested Rs.90.20 million (Rs.3.59 million 2010-11) on its fixed assets which shows 24 times increase in capital expenditure for the improvement power generation system however, the Company could not use the assets efficiently and effectively as the losses increased significantly.

4.2.5 Ratios Analysis

4.2.5.1 Profitability

Profitability ratios of the company showing the worst position ever faced by the company in terms of gross profit and net profit both ratios went to negative due to huge loss in the year.

i) Gross profit

During the financial year 2011-12, electricity sales of the company decreased to Rs. 31,661.55 million i.e. decrease of 12% (Rs.36,015.11 million: 2010-11). The decrease was mainly due to less generation of electricity i.e. 1,940 GWH, (2,949 GWH during 2010-11) decrease by 34 % of net electrical output. On the other hand cost of electricity decreased by 7.12% (Rs.34,732.86 million during the year 2011-12, Rs.37,394.51 million: 2010-11). The proportionate decrease in sales of electricity was higher than the decrease in the cost of electricity due to which the Company suffered a gross loss of Rs.3,071.30 million.

In view of the forgoing, the gross profit ratio declined significantly i.e. (9.70%) gross loss as compared to gross loss of (3.83%) for the financial year 2010-11.

The abnormal decrease in the sales resulting in significant increase in gross loss of the company needs to be explained.

ii) Net Profit Ratio

The company suffered accumulated losses of Rs.10,389.29 million, out of which Rs.3,808.14 million was incurred during the present financial year.

This indicates that the operational efficiency of the Company remained highly unsatisfactory. The operational loss was mainly due to increase in operating expenses by 49.39% over the previous year which mainly attributed to enhancement in pay and allowances and repairs & maintenance expenses. It is further observed that the Company approved certain allowances in respect of various categories of employees. The detail of which is mentioned hereunder:

i) Transport subsidy

ii) Special WAPDA allowance

iii) Generation allowance

The grant of above allowances without the approval/concurrence of Ministry of Finance was not in line with the provisions of Government Rules and Regulations and amount paid on account of above allowances was irregular.

In view of the forgoing, the Net Profit ratio declined significantly i.e. (12.03%) net loss as compared to net loss of (5.24%) for the financial year 2010-11.

The Company could not manage its expenses including generation loss due to which the cost of electricity and indirect expenses increased significantly. The expenses increased to such a huge amount that the relative revenue generated from sales and other income could not mitigate the impact.

iii) **Return on capital employed**

The return declined to (402.28%) loss from (42.45%) loss, showing that the Company could not utilize its resources in an efficient and effective manner.

iv) **Return on total assets**

The return declined to (26.05%) from (20.04%) as Company was not utilizing its assets efficiently to generate favorable returns.

The Company expended huge funds on the improvement and installation of generation plant and equipments i.e. Rs.90.20 million during the year 2011-12 and Rs.3.59 million during the year 2010-11, however, the Company could not improve its generation capacity and manage its loss. The debt to equity ratio and gearing ratio was (0.51) and 123.29, respectively, which showed that company's accumulated losses turned the equity figures into negative, indicating operational inefficiencies. Audit suggests that the Company should review its capital structure and policy of getting loan because it badly affected the liquidity position of the company and have direct impact on the profitability of the company.

The huge investment on noncurrent assets could not improve the profitability position of the Company as the return on total assets declined significantly which needs to be explained.

4.2.5.2 Short Term Liquidity

i) **Current ratio**

Despite the fact, the Company liquidated its short term investment amounting to Rs.2,797.16 million, the current ratio declined to 0.76 from 0.84 indicating short term financial difficulties in repayment of current liabilities.

The Company does not hold adequate liquid assets required to settle its short term liabilities which needs to be explained.

4.2.5.3 Working Capital Cycle

i) **Debtor's/Creditor turnover period**

The trade receivables increased significantly i.e. by Rs.4,307.02 million (198%) over the previous year. In addition to that, the debtor's turnover period increased to 75 days (22 days in 2010-11). An increase in accounts receivable and debtor's turnover period by a significant amount reflect inefficient collection procedures and poor administration of trade debts, resulting loss of revenue to the Company and ultimately worsening liquidity position.

Delay in collection from debtors had trickledown effect on the creditor's turnover period which increased to 134 days from 46 days.

The increase in accounts receivable and accounts payable indicates that there is a continuing cash flow shortage resulting in persistent working capital financing problems for the company. Poor management of debtors and creditors turnover period needs to be explained.

4.2.5.4 Gearing, leverage and interest coverage ratios

The non-current liabilities of the company increased by 52% over the previous year. The trade and other payables increased by 169% (i.e. by Rs.8,025.87 million) and the creditor's turnover period increased to 134 days (46 days during the year 2010-2011). Significant increase in the non-current and current liabilities reflects that the company is encountering the liquidity problems and the management has not taken adequate remedial action to address the issue.

The financial position of the Company deteriorated during the past few years as depicted in the summary of ratios mentioned above. The gearing position of the Company increased to 123.29% during the financial year 2011-12 as compared to 26.56% during the financial year 2010-11. High gearing reflects dependence on the loans and borrowings, ultimately worsening the liquidity position and resulting in cash flow risk for the Company. The Company is heavily relying on the external sources to finance its operations instead of funding the operations out of resources generated from its operations.

Reliance on borrowings/ (loans) and payment of huge financial charges needs to be explained.

4.2.6 Recommendations:

It is evident from the above analysis that the profitability, liquidity and solvency position of the company is deteriorating with an exceptionally high rate. In order to finance the operations, Company would heavily rely on financing from external sources which will aggravate the liquidity position. If these conditions prevail, the Company would require heavy funding from the

Government to maintain going concern status.

In view of the forgoing, it is recommended that Company should revamp its organizational structure and address operational issues, being the major cause of loss. In addition to that, the Company should also restructure its financial arrangements by funding its operations from cheap sources of finance, resulting in low interest cost.

Failure to utilize the generation capacity at optimum level caused generation loss, is required to be addressed at higher level. There is a dire need to develop a policy to address the generation loss and to ensure the inflow of funds in the form of revenue.

4.3 AUDIT PARAS

4.3.1 Unauthorized award of works in violation of PPRA Rules - Rs.47.95 million

According to Rule 12 of PPRA Rules, “Procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority’s web-site in the manner and format specified by regulation by the authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency”.

During audit of Jamshoro Power Generation Company Jamshoro for the year 2010-11, it was revealed that supply orders worth Rs.47.95 million were issued to different suppliers for repair and maintenance of power house and Residential colony Thermal Power Station (TPS) Jamshoro by calling quotations instead of open tendering in violation of PPRA Rules. This resulted in unauthorized award of works worth Rs.47.95 million to the contractors.

The matter was taken up with the management in Oct’ 2011, the management replied that works were of different nature and executed at different period during the year 2010-11. Therefore, these could not be consolidated. The reply was not tenable as the amount of each quotation was pointed out separately which was clear cut violation of PPRA Rules.

The matter was discussed in the DAC meeting held on Dec’ 19 to 26, 2011. DAC directed the management to provide record in support of reply.

Audit requires expeditious compliance of DAC directives besides fixing responsibility.

(Draft Para No. 399/2012)

CHAPTER-5

CENTRAL POWER GENERATION COMPANY LIMITED (GENCO-II)

(75-84)

5. CENTRAL POWER GENERATION COMPANY LIMITED

5.1 Introduction

Central Power Generation Company Limited (CPGCL) was incorporated in October 1998 as a public limited company under Companies Ordinance 1984 and started its business from March 01, 1999. The Company took over properties, rights, assets, obligations and liabilities of thermal power generation at TPS Guddu and TPS Quetta through Business Transfer Agreement.

The principal activity of the Company is to generate electricity (from furnace oil and natural gas) and sell it to National Transmission and Despatch Company (NTDC). CPGCL was granted Generation License by NEPRA in July, 2002. The Company has fourteen units having annual capacity of 12,264,000 MWh whereas the actual generation was 7,370,675 MWh during 2011-12.

5.2 Comments on Financial Statement

5.2.1 Financial Overview

The financial statements of the Company are required to be approved within four month from the end of financial year. The Company could not issue the approved Annual Report within the time frame stipulated in the Companies Ordinance, 1984. Non-compliance with the relevant provisions of Companies Ordinance, 1984 reflect the inefficiency on part of management and needs justification.

The Company provided draft/unapproved financial statements to this Directorate. Therefore reliability of the financial information cannot be ensured as the Company can incorporat significant adjustments into the balances appearing in the draft financial statements. The following comments analysis was prepared on the unapproved financial statement.

Monthly accounts (Trial balance and other management information schedules) from 2 accounting units were sent to Finance Director CPGCL where these accounts were consolidated and financial statements including Balance Sheet and Profit & Loss Account were prepared. The Cash flow statement was not provided therefore comments on the same are not included. The financial results along with financial ratios are as under:

5.2.2 Extracts of the Financial Statements[3]

Balance Sheet as at Jun' 30, 2012

(Rupees in millions)

	2011-12	%	2010-11	%	2009-10
Share capital and reserves					
Accumulated Loss	(9,968.40)	52	(6,549.38)	73.53	(3,774.20)
Non-current liabilities					
Long term Financing	11,737.56	42	8,269.03	1,081.99	699.58
	17,425.24	35	12,879.81	189.30	4,452.07
Current liabilities		-			
Trade and other Payables	37,668.17	111	17,846.35	(1.08)	18,041.12
Current portion of long term loans	1,435.94	10	1,304.47	11.12	1,173.92
Mark up payable	89.30	(93)	1,210.07	190.49	416.57
	39,193.41	92	20,360.90	3.71	19,631.60
	49,994.67	**66**	**30,035.75**	**26.98**	**23,653.89**
Assets					
Non-current assets					
Operating fixed assets	4,461.65	(11)	5,004.53	(14.89)	5,879.90
Capital work in progress	6,591.99	(21)	8,382.28	-	-
	11,053.64	(17)	13,386.82	127.67	5,879.90
Current assets					
Trade debts	19,348.93	410	3,794.24	(2.29)	3,883.12
Short-term advances	9,554.63	267	2,603.98	(27.09)	3,571.47
Balance with statutory authorities	1,595.92	50	1,063.85	70.29	624.71
Bank balances	751.12	17	641.66	(27.20)	881.44
	38,669.12	136	16,377.31	(7.70)	17,742.70
	49,994.17	**66**	**30,035.75**	**26.98**	**23,653.89**

Profit & Loss Account
for the year ended Jun' 30, 2012

	2011-12	%	2010-11	%	2009-10
Revenue					
Electricity sale	40,004.91	44	27,719.65	(5.19)	29,236.55

[3] *Only balances with significant variations during the current financial year and those against which comments are being incorporated in this analysis are reproduced.*

Cost of electricity	42,699.19	42	30,007.42	(1.28)	30,396.57
Gross profit/(Loss)	(2,694.29)	18	(2,287.76)	97.22	(1,160.01)
Operating cost	741.87	25	594.08	25.14	474.73
Other income	133.50	(54)	292.18	229.40	88.70
Financial and other charges	116.86	(37)	185.51	(31.52)	270.90
Profit/(Loss) for the year	**(3,419.52)**	**23**	**(2,775.18)**	**41.40**	**(1,962.60)**

5.2.3 Financial Ratios

The summary of ratios calculated for the three financial years is given below:

COMPANY		**GENCO-II**		
YEAR		**2011-2012**	**2010-2011**	**2009-2010**
Profitability Ratios				
Return on Capital Employed	%	(64.59)	(51.14)	(573.03)
Gross Profit Margin	%	(6.73)	(8.25)	(3.97)
Net Profit Margin	%	(8.55)	(10.01)	(6.71)
Asset Turnover Ratio	Times	3.70	2.87	7.27
Return on Total Assets	%	(6.84)	(9.24)	(8.30)
Short Term Liquidity Ratio		0.99	0.80	0.90
Current Ratio	Times	0.86	0.58	0.77
Working Capital Ratios				
Debtors Turnover Period	Days	177	50	49
Creditors Turnover Period	Days	322	217	217
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	23.66	31.56	4.72
Gearing Ratio	%	229.56	163.30	17.30
Leverage Ratio	%	(129.55)	(63.29)	(159.59)
Interest coverage	%	(28.26)	(13.96)	(5.71)

5.2.4 Ratios Analysis

5.2.4.1 Profitability

Profitability ratios of the company showing the worst position ever faced by the company in terms of gross profit and net profit, both ratios went to negative due to huge loss in the year.

i) Gross profit

During the financial year 2011-12, electricity sales of the company increased to Rs.40,004.91 million i.e. increase by 44% (decrease of (5.19%): 2010-11). On the other hand cost of electricity increased by 42% (Rs.42,699.20 million during the year 2011-12, Rs.30,007.42 million: 2010-11). The proportionate increase in cost of electricity was less than the increase in the sales of electricity but the Company still suffered a gross loss of Rs.2,694.29 million. The increase in fuel prices resulted in high cost of electricity.

In view of the forgoing, the Gross Loss ratio declined briefly i.e. (6.73%) as compared to of (8.25%) for the financial year 2010-11.

The increase in the cost of sales, resulted in increase in gross loss of the company which needs to be explained.

ii) Net Profit Ratio

The company suffered accumulated losses of Rs.9,968.40 million, out of which a loss of Rs.3,419.52 million was incurred during the present financial year.

This indicates that the operational efficiency of the Company remained highly unsatisfactory. The operational loss was mainly due to increase in operating expenses by 25% over the previous year which can be attributed mainly to enhancement in pay and allowances and repairs & maintenance expenses. It was further observed that the Company approved certain allowances in respect of various categories of employees. The detail of which is mentioned hereunder:

i) Transport subsidy
ii) Special WAPDA allowance
iii) Danger allowance
iv) Generation allowance

The grant of above allowances without the approval/concurrence of Ministry of Finance was not in line with the provisions of Government Rules and Regulations and amount paid on account of above allowances was irregular.

Net profit ratio remained negative i.e. (8.55%) during financial year 2011-12 which was (10.01%) in the last year.

The Company could not manage its expenses due to which the cost of electricity and indirect expenses increased significantly. The expenses increased to such a huge amount that the relative revenue generated from sales and other income could not mitigate the impact.

iii) Return on capital employed

The return declined to (64.59%) loss from (51.14%) loss, showing that the Company could not utilize its resources in an efficient and effective manner.

iv) Return on total assets

The return declined to (6.84%) from (9.24%) as company was not utilizing its assets efficiently to generate favorable return.

The debt to total asset ratio and gearing ratio was 23.66% and 229.56% respectively which showed that company was relying heavily on debt to finance its operations. Audit suggests that the Company should review its capital structure and policy of getting loan because it badly affected the liquidity position of the company and have direct impact on the profitability of the company.

The persistent negative return on the assets of the Company is aggravating its financial position which needs to be explained.

5.2.4.2 Short Term Liquidity

i) Current ratio

The current ratio increased to 0.86 from 0.58 due to increase in trade debts and advances to parties against **Rental Power Projects** (RPPs).

The Company does not hold adequate liquid assets required to settle its short term liabilities which needs to be explained.

5.2.4.3 Working Capital Cycle

i) Debtor's/ Creditors turnover period

The trade receivables increased significantly i.e. by Rs. 15,554.69 million (410%) over the previous year. In addition to that, the debtors' turnover period increased to 177 days (50 days in 2010-11 and 48 days in 2009-10). It was also noticed that trade debts were relate to the sale of electricity and there was only one customer of the Company i.e. National Transmission and Despatch Company Limited.

An increase in accounts receivable and debtor's turnover period reflected inefficient collection procedures and poor administration of trade debts, resulting loss of revenue to the Company and ultimately worsening liquidity position. Management should justify the significant increase in Trade Receivable.

Delays in collection from debtors had trickledown effect on the creditor's turnover period which increased to 322 days from 217 days during the financial year 2010-2011.

The increase in accounts receivable and accounts payable indicates that there was a continuing cash flow shortage resulting in persistent working capital financing problems for the company. Poor management of debtors and creditor's turnover period needs to be explained.

5.2.4.4 Gearing, leverage and interest coverage ratios

The non-current liabilities of the company increased by 35% over the previous year. The long term financing were increased to 42% mainly due to increase in cash development loans. The trade and other payables increased by 111% (i.e. by Rs. 19,821.81 million) and the creditors' turnover period increased to 322 days. Significant increase in the non-current and current liabilities reflects that the company is encountering the liquidity problems and the management has not taken adequate remedial action to address the issue.

The financial position of the Company deteriorated during the past few years as depicted in the summary of ratios mentioned above. The gearing position of the Company showed negative trend i.e. 229.56% during the financial year 2011-12 as compared to 163.30% during the financial year 2010-11. High gearing reflects liquidity problems resulting in cash flow risk for the Company. The Company is heavily relying on the external sources to finance its operations instead of funding the operations out of resources generated from its operations.

Reliance on borrowings/ (loans) and payment of huge financial charges needs to be explained.

5.2.5 Recommendations:

It is evident from the above analysis that the profitability, liquidity and solvency position of the company is deteriorating with an exceptionally high rate. In order to finance the operations, Company would heavily rely on financing from external sources which will aggravate the liquidity position. If these conditions prevail, the Company would require heavy funding from the Government to maintain going concern status.

In view of the forgoing, it is recommended that Company should revamp its organizational structure and address operational issues, being the major cause of losses. In addition to that, the Company should also recover the advances paid to Rental Power Projects. The funds can be used to pay off significant amount of loans and borrowings of the Company and will minimize the interest cost.

The increase in fuel price and shortage of fuel, being the major cause of losses is required to be addressed at higher level. There is a dire need to develop a policy to address the shortage of fuel and to ensure the inflow of funds in the form of revenue.

The issue of huge receivables from NTDC shall also be given due consideration by making concrete arrangements to recover funds.

5.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	Name of Report	No. of Directives	Status of compliance		
				Full	Partial	Outstanding
GENCO-II	2004-05	Audit Report	1	Nil	Nil	**1** (Para No.5.5)

Position of compliance on PAC directives is not satisfactory.

5.4 AUDIT PARAS

5.4.1 Loss due to consumption of excess Heat Rate Per KWH from NEPRA standard - Rs.7.46 billion

Heat rates of 12,189 (for units-1 to 2), 11,377 (for units 3 to 4), 9,481 (for units 5 to 10) and 8,533 (for units 11 to 13) BTU per KWH were fixed by NEPRA for the Central Power Generation Company (GENCO-II).

During audit of Central Power Generation Company (GENCO-II) for the year 2011-12, it was revealed that heat rate i.e. 13,726 (for units-1 to 2), 13,147 (for units 3 to 4), 12,689 (for units 5 to 10) and 12,054 (for units 11 to 13) BTU per KWH was used against the permissible limits fixed by NEPRA. As a result of excess heat rate, 887.437 MKWH were less generated and the company had sustained loss of Rs.7.46 billion.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meting held on Dec' 26, 2012, the management replied that after the IDC test, CPGCL would approach to NEPRA through Ministry for revision the standards (Targets) and intimate to Audit in due course. Further progress was not intimated till the finalization of this report.

Audit requires expeditious production of revised NEPRA targets besides fixing responsibility.

(Draft Para No.633/2013)

5.4.2 Unauthorized award of consultancy contract in violation of PPRA Rules - Rs.258.22 million

According to Rule-20 of PPRA Rules, "the procuring agency shall use open competitive bidding as the principle method of procurement for the procurement of goods, services and works."

During audit of Central Power Generation Company for the year 2011-12, it was revealed that a consultancy services contract for design review and construction supervision of 747 MW Combined Cycle Power Plant (CCPP) was awarded to M/s NESPAK and M/s PES at contract price of Rs.258.22 million without advertisement in print media and open competitive bidding. Violation of PPRA Rules resulted in unauthorized award of contract for Rs.258.22 million.

The matter was taken up with the management in May 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that by pursuing the clause D(i) of Public Procurement Rules Notification dated Nov' 26, 2010 "under heading of Single Source or direct selection" which states that "the method will be used only in exceptional cases where it provides clear advantage over competition in following case. For tasks of natural continuation of previous assignments and where continuity of technical services is unavoidable". Keeping in view the above clause of PPRA Rules, the consultancy agreement was signed in line. The reply was not tenable as no justification for implementation of above clause was provided.

Audit requires inquiry in the matter besides fixing responsibility for violation of PPRA Rules.

(Draft Para No.1634)

5.4.3 Non-deduction of income tax at source - Rs.140.58 million

According to clause 52.2 of contract agreement Vol-I for design, supply, testing and commissioning of 747 MW C.C.P.P, Guddu, "the Contactor shall be responsible for the payment of all Pakistani income tax, super tax and other taxes on income arising out of the Contract and the rates and prices stated in the priced schedule of prices shall be deemed to cover all such taxes". Further Income Tax Ordinance, 2001 provides that "every prescribed person making a payment in full or part including a payment by way of advance to resident person or permanent establishment in the Pakistan of a non-resident, person shall, at the time of making the payment, deduct tax from the gross amount payable".

During audit of 747 MW Combined Cycle Power Plant GENCO-II Guddu for the year 2011-12, it was found that an amount of Rs 2,343.03 million was paid to M/s Herbine Power Engineering Company during the period Jul' 2011 to Dec' 2011. Income tax @ 6% was to be deducted on this amount but the same was not deducted. Resultantly, National Exchequer sustained a loss of

Rs.140.58 million.

The matter was taken up with management in May 2012 and reported to the Ministry in Aug’ 2012. In a meeting held on Dec’ 26, 2012, the management replied that the withholding tax on foreign currency payments was not deducted from the contract price. The actual with-holding tax on local currency componenet (LCC) was being properly deducted. However, with-holding tax from foreign currency component (FCC) was excluded and the bid price was correspondingly reduced in the signed contract. This was done to avoid double taxation as the contractor M/s Harbin was taxable on FCC in its own country. The reply was not tenable as no documentary evidence was provided in support of recovery till the finalization of this report.

Audit requires to expeditious production of record in support of reply for verification.

(Draft Para No. 22/2013)

5.4.4 Loss due to operational fault in Combined Cycle Power Plant, Guddu – Rs.35.91 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 audit of GENCO–II for the year 2011-12, it was revealed that field ground fault was observed on Steam Turbine Generation G-5 during start-up of the unit on Mar’ 02, 2011 and machine was, therefore, shutdown due to heating up of rotor winding for necessary checking. Subsequently, service order worth US$ 0.38 million was placed for repair/rewinding of rotor machine. The reason for shut down was mainly due to operational fault but no inquiry committee was constituted to probe into the matter. This resulted in loss of Rs.35.91 million equivalent to US$ 0.38 million.

The matter was taken up with the management in Oct’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 26, 2012, the management replied that the inquiry committee was constituted to investigate the causes of damage of generator rotor of steam turbine on Jul’ 4, 2012, which concluded the incident was an act of equipment failure and was not due to any operational fault. The responsibility of loss could not be enforced against any operational personnel. The insurance claim for recovery of the loss had already been registered with WEPS. The reply was not tenable as no documentary evidence was provided in support of recovery till the finalization of this report.

Audit requires expeditious finalization of insurance claims besides production of findings of inquiry committee.

(Draft Para No.588/2013)

5.4.5 Unauthorized payment on account of conveyance allowance – Rs.4.13 million

Para-10 of GFR Vol-I provides that "every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person for ordinary prudence would exercise in respect of this own money and the expenditure should not be prima facie more than the occasion demands".

During audit of GENCO-II for the year 2011-12, it was revealed that an amount of Rs.4.13 million was paid to the officers/officials on account of conveyance allowance who were not entitled to draw conveyance allowance as they were availing residential facility at TPS Guddu and performed their duties within premises of residential colony. Inadmissible grant of conveyance allowance to the employees resulted in unauthorized payment of Rs.4.13 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that conveyance allowance to all PEPCO employees was allowed on Jul' 20, 2011 excluding those who were allowed transport subsidy or availing transport facility. However, a clarification was being sought from Finance Regulation Wing WAPDA/PEPCO regarding admissibility of conveyance allowance to staff whose workplace was situated in TPS colony. Further progress was not intimated till the finalization of this report.

Audit requires expedituious recovery from officials besides clarification over the facts of High Court decision be obtained from the competent authority.

(Draft Para No. 395/2013)

CHAPTER-6

NORTHERN POWER GENERATION COMPANY LIMITED (GENCO-III)

(87-103)

6. NORTHERN POWER GENERATION COMPANY LIMITED

6.1 Introduction

Northern Power Generation Company Limited (NPGCL) is a subsidiary of WAPDA. It was incorporated in October 15, 1998 under Companies Ordinance 1984 and started its business from March 01, 1999. The Company took over properties, rights, assets, obligations and liabilities of thermal power generation at Muzaffargarh, Faisalabad, Multan, Shahdara owned by WAPDA through Business Transfer Agreement.

The principal activity of the Company is to generate electricity (from furnace oil, natural gas and high speed diesel and sells it to National Transmission and Dispatch Company (NTDC). NPGCL was granted Generation License by NEPRA in July, 2002. The Company has 30 units having *installed capacity of 2,459 MW and **de-rated capacity of 2,071 MW. Profile of NPGCL is tabulated below for better understanding of its operations:

6.2 Comments on Financial Statement

6.2.1 Financial Overview

The financial statements of the Company are required to be approved within four months of the closing of financial year. The Company could not issue/approve the financial statements within the time frame stipulated in the Companies Ordinance, 1984. Non-compliance with the relevant provisions of Companies Ordinance, 1984 reflect the inefficiency on part of management and needs justification.

The Company provided draft/unapproved financial statements. Therefore, reliability of the financial information cannot be ensured as the Company can incorporate significant adjustments into the balances appearing in the draft financial statements. The following comments/analysis prepared on the unapproved financial statements. The financial results along with the financial ratios are as under:

6.2.2 Extracts of the Financial Statements[4]
Balance Sheet as at Jun' 30, 2012

(Rupees in million)

	2011-12	%	2010-11	%	2009-10
Equity and Liabilities					
Accumulated Loss	-13,236.10	41	-93,823.94	573	-1,393.52
Non-current liabilities	22,110.70	-11.8	25,071.35	16.3	3,513.64
Trade and other payables	54,529.66	15	47,409.38	2.16	46,408.98
Current liabilities	565,701.44	15	49,173.25	1.33	48,528.02
	83,343.60	**0.7**	**82,761.60**	**-4.42**	**86,592.06**
Assets					
Non-current assets	24,802.62	3.04	46,769.20	15.16	40,614.10
Stores and spares	2,224.98	5.4	2,115.08	-27.86	2,931.70
Fuel Stock	2,984.36	-13	3,433.02	268.76	931.08
Trade Debtor	20,022.88	12	17,799.59	-39.71	29,530.53
Loans and Advances	3,420.19	-55	7,685.95	-21.73	9,820.23
Tax Return and due from Govt.	5,424.43	36	3,990.30	84.63	2,161.27
Other receivable	484.05	43	337.35	14376	138.39
Cash and bank balances	422.45	-33	630.67	35.71	464.73
Current assets	34,983.70	-2	35,992.97	-21.72	45,977.94
	83,343.60	**0.7**	**82,761.60**	**-4.42**	**86,592.06**

Profit and Loss Account
For the year ended Jun' 30, 2012

	2011-12	%	2010-11	%	2009-10
Sales	75,796.29	14.5	66,213.84	23.71	86,791.16
Cost of Sales	80,431.58	12	71,572.35	19.48	88,885.56
Gross profit/(Loss)	**-4,635.29**	**-13.5**	**-5,358.51**	**155.85**	**2,094.39**
Operating Cost	-743.37	-30.5	-1,069.32	264.42	-293.43
Loss before Interest and Tax	-5,378.66	-16.3	-6,427.83	169.19	2,387.82
Other income	720.14	744	85.28	80.47	436.74
Loss before Tax	-4,658.25	-26.6	-6342.54	147.53	1,951.08
Financial and other charges	1125.72	-133.6	954.58	195.76	996.86
Profit/(Loss) for the year	**-3,854.81**	**-51.7**	**-7988.76**	**136.21**	**3,382.03**

[4] *Only balances with significant variations during the current financial year and those against which comments are being incorporated in this analysis are reproduced.*

6.2.3 Financial Ratios

The summary of ratios calculated for the three financial years is given below:

COMPANY		**GENCO-III**		
YEAR		**2011-12**	**2010-11**	**2009-10**
Profitability Ratios				
Return on Capital Employed	%	-10.32	-12.52	-4.94
Gross Profit Margin	%	-6.12	-8.09	-2.41
Net Profit Margin	%	-5.09	-12.07	-3.90
Asset Turnover Ratio	times	2.83	1.97	2.28
Return on Total Assets	%	-4.63	-9.65	-3.91
Short Term Liquidity Ratio				
Current Ratio	times	0.62	0.73	0.95
Working Capital Ratios				
Debtors Turnover Period	days	96	98	124
Creditors Turnover Period	days	247	242	191
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	21.27	27.31	23.06
Gearing Ratio	%	36.66	36.92	31.70
Leverage Ratio	%	9.66	14.61	27.69
Interest coverage	times	14.47	-6.64	-1.96

6.2.4 Cash Flow Analysis

The Company generated net cash outflow (deficit) of Rs.208.21 million (inflow (surplus) of Rs.165.93 million: 2010-11) during the financial year resulting in closing balance of Rs. 422.45 million (Rs.630.67 million: 2010-11).

The Company incurred net cash inflow (surplus) of Rs.6,999.69 million from operating activities. The main components which triggered such decreased outflow included,

i) Finance cost less paid by Rs. 322.28 million over the past year,

ii) Taxes abnormally less paid by the Company Rs.0.68 million.

The Company obtained long-term loans amounting to Rs.550.25 million during the financial year 2011-12. In addition to the above, a nominal amount of Rs.16.29 million was invested on fixed assets (Rs.512.25 million : 2010-11) for the improvement of the power generation system. However, the Company could not utilize the assets efficiently and effectively as the return on assets did not improve.

The Company utilized its accumulated cash reserves to manage its operational requirements resulting in significant decline of 33% in cash reserves which needs to be justified.

6.2.5 Ratios Analysis

6.2.5.1 Profitability

Profitability ratios of the company reflect the poor position as the gross profit and net profit both ratios remained negative, adding towards accumulated loss to the Company.

i) Gross profit

During the financial year 2011-12, electricity sales of the company increased by 14% and the cost of electricity increased by 12%. The proportionate increase in cost of electricity was lower than the percentage increase in the sales of electricity, however the margin was not adequate to absorb the proportionate increase in cost due to which the Company sustained a gross loss of Rs. 4,635.29 million. The Gross Profit ratio improved slightly i.e. (6.12%) gross loss as compared to gross loss of (8.09%) for the financial year 2010-11.

The management is required to justify persistent loss sustained by the Company.

ii) Net Profit Ratio

The Company suffered accumulated loss of Rs. 13,236.10 million, out of which Rs. 3,854.81 million was incurred during the present financial year.

This indicated that the operational efficiency of the Company remained highly unsatisfactory. The operational loss was mainly due to operating expenses which were slightly reduced by 30% over the previous year mainly attributed to diminution in pay and allowances, advertising expenses and repair & maintenance expenses. It was further observed that the Company approved certain allowances in respect of various categories of employees. The detail of which is mentioned hereunder:

i) Transport subsidy
ii) Special WAPDA allowance
iii) Danger allowance

The grant of above allowances without the approval/concurrence of Ministry of Finance was not in line with the provisions of Government Rules and Regulations and amount paid on account of above allowances was irregular.

The Net Profit ratio improved slightly i.e. (5.09%), net loss as compared to net loss of (12.07%) for the financial year 2010-11.

The Company could not manage its expenses due to which the cost of electricity and indirect expenses increased significantly. The expenses increased to such a huge amount that the relative revenue generated from sales, including other income could not mitigate the impact.

The management is required to justify persistent increase in expenses resulting in losses to the Company.

iii) Return on capital employed

The return declined to (10.32%) loss from (12.52%) loss, showing that the Company could not utilize its resources in an efficient and effective manner.

iv) Return on total assets

The return on total assets remained negative i.e. (4.63%) as company was not utilizing its assets efficiently to generate favorable return. The Company invested Rs. 2,630.85 million on the non-current assets during the financial year.

The debt to total asset ratio and gearing ratios were 21.27% and 36.66% respectively, which showed that Company was relying on debt to finance its operations. Audit suggested that the Company should review its capital structure and policy of getting loan because it badly affected the liquidity position of the company and had direct impact on the profitability of the company.

The huge investment on non-current assets could not improve the profitability position of the Company as the return on total assets remained negative which needs to be explained.

6.2.5.2 Short Term Liquidity

i) Current ratio

The current ratio declined to 0.62 from 0.73 indicating short term financial difficulties in repayment of current liabilities.

The Company was not holding adequate liquid assets required to settle its short term liabilities which need to be explained.

6.2.5.3 Working Capital Cycle

i) Debtor/Creditor turnover period

The trade receivables increased significantly i.e. by Rs. 20,022.88 million

(12%) over the previous year. In addition to that the debtor turnover period remained unchanged i.e. 96 days (98 days in 2010-11).

An increase in accounts receivable and abnormal debtor turnover period reflected inefficient collection procedures and poor administration of trade debts, resulting in loss of revenue to the Company and ultimately worsening liquidity position.

On the other hand, despite increase in accounts payable the creditor turnover period increased to 247 days from 242 days.

The increase in accounts receivable and accounts payable indicates that there was a continous cash flow shortage resulting in persistent working capital financing problems for the Company. Poor management of debtor and creditor turnover period and an increase in the amount of trade receivables and payables needs to be explained.

6.2.5.4 Gearing, leverage and interest coverage ratios

The ratios reflect distorted results due to huge amount of accumulated losses.

The non-current liabilities of the company decreased by 11.80 % over the previous year. The trade and other payables increased by 15 % and the creditor turnover period increased to 247 days. Significant increase in current liabilities reflected that the company was encountering the liquidity problems and the management did not take adequate remedial actions to address the issue.

The financial position of the Company deteriorated during the past few years as depicted in the summary of ratios mentioned above. The gearing position of the Company remained unchanged i.e. 36.66 % during the financial year 2011-12 as compared to 36.92 % during the financial year 2010-11. High gearing reflect liquidity problems resulting in cash flow risk for the Company. The Company was heavily relying on the external sources to finance its operations instead of funding the operations out of resources generated from its operations.

Reliance on borrowings/ (loans) and payment of huge financial charges need to be explained.

6.2.6 Recommendations:

It is evident from the above analysis that the profitability, liquidity and solvency position of the company was deteriorating with an exceptionally high rate. In order to finance the operations, Company would heavily rely on financing from external sources which will aggravate the liquidity position. If these conditions prevail, the Company would require heavy funding from the Government to maintain its going concern status.

In view of the forgoing, it is recommended that Company should revamp its organizational structure and address operational issues, being the major cause of losses. In addition to that the Company should also restructure its financial arrangements by funding its operations from cheap sources of finance, resulting in low interest cost.

The issue of huge receivables from CPPA also warrant due consideration by making concrete arrangements to recover outstanding amount.

6.3 AUDIT PARAS

6.3.1 Loss due to theft of electrical material - Rs.2.21 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 audit of GENCO-III for the year 2011-12, it was found that material worth Rs.2.21 million was found short due to theft. FIRs for the stolen material worth Rs.1.96 million were not lodged with Police. Legal and departmental actions regarding the loss of Rs.2.21 million to fix responsibility and to make good the loss sustained by the company was not forthcoming from the record.

The matter was taken up with the management in Aug’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 26, 2012, the management replied that a series of letters were written to police authorities for lodging FIRs but these were not entertained by the concerned. An inquiry committee was constituted on Dec’ 5, 2012 in order to thrash out the facts / fix responsibility against the delinquents. Further progress was not intimated till the finalization of this report.

Audit requires expeditious finalization of inquiry proceedings besides fixing responsibility.

(Draft Para No. 398/2013)

6.3.2 Loss due to forced PAD markup paid to local banks syndicate - Rs.3.68 billion

According to clause 4.4 of the LC agreement with syndicate of local banks, "if the amount required to be paid under LC is not paid by the customer to the LC issuing bank, the customer shall pay in rupee equivalent of such payment to LC facility providers alongwith cost of fund calculated at the rate of 4% per annum above KIBOR on due date on all amounts outstanding on said date".

During audit of GENCO-III for the year 2011-12, it was revealed that a letter of credit facility agreement for Rs.19.15 billion (Euro 70.2 million + US$ 148.42 million) was made with syndicate of local banks on Sep' 15, 2008. The project could not be commissioned and an amount of Rs.3.68 billion for the period Jan' 2009 to Jun' 2011 was paid to domestic banks syndicate on account of forced PAD markup. Had the foreign credit facility been effected in time as per loan agreement, the expenditure Rs.3.68 billion incurred on forced PAD markup could had been avoided. Non-effectiveness of foreign credit facility agreement in time resulted in loss of Rs.3.68 billion in shape of forced PAD markup.

The matter was taken up with management in Mar' 2012 and reported to the Ministry in Aug' 2012. In a meeting held on Dec' 26, 2012. The management replied that the para was based on the payment of forced PAD markup to local banks syndicate for the period Jan' 2009 to Jun' 2011. The reply was not tenable as the company sustained loss in shape of forced PAD markup due to non- effectiveness of foreign credit facility agreement.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.21/2013)

6.3.3 Loss due to excess auxiliary consumption - Rs.2.55 billion

NEPRA vide its letter No. NEPRA/TRT/46. NPGCL-2005/3918-2 dated May 2, 2006 determined that "technical parameters regarding heat rate thermal efficiency of auxiliary consumption for Power Houses under CPGCL (GENCO-III)".

During audit of GENCO-III for the year 2011-12, it was revealed that auxiliary consumption of six (06) power houses of the Company remained from 8.86% to 27%, which was against the standards fixed by NEPRA (i.e from 7% to 10%). This excessive auxiliary consumption (by 1.86% to 17%) of 126.86 million units at power houses resulted in loss of Rs.2.55 billion to the Company.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Dec' 2012.In a meeting held on Dec' 26, 2012, the management replied that the increase in auxiliary consumption was due to the aging factor, de-rated capacity of the plants, maximum furnace oil firing instead of gas and less utilization of plant due to no demand by NPCC, Islamabad. The auxiliary consumption was higher when the unit was operating at minimum load and it was lower when operated at maximum load. The reply was not tenable as the auxiliary consumption was beyond the permissible limit fixed by NEPRA.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 396/2013)

6.3.4 Loss due to excess consumption of furnace oil - Rs.1.26 billion

According to Section 31(4) of the Regulation of Generation, Transmission and Distribution of Electric Power Act (XL of 1997), "NEPRA has determined heat rates of 14,114 BTU per KWH (for units 1 to 4 of NGPS, Multan) under Northern Power Generation Company Ltd. (GENCO-III), Muzaffargarh vide letter No. NEPRA/R/TRE/46/NGPCL-2005/3921, dated May 2, 2006".

During audit of GENCO-III for the year 2011-12, it was revealed that 19,320.34 BTU per KWH (for units 1 to 4 of NGPS, Multan) was used against the permissible limits fixed by NEPRA. As a result of excess heat rate, 21,713.09 metric ton furnace oil was excess consumed which resulted in loss of Rs.1.26 billion to the Company.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Dec' 2012. in a meeting held on Dec' 26, 2012, the management replied that Steam Power Plant was installed at NGPS Piranghaib, Multan during 1963 was basically designed to run on Natural Gas. With the passage of time / due to short supply of gas burners system was modified to accommodate the use of furnace oil. The equipment installed at NGPS Multan had already completed its useful life, so that designed heat rate could never be maintained after a long period of nearly 55 years. The reply was not tenable as the targets fixed by NEPRA were to be adhered to.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.589/2013)

6.3.5 Loss due to unjustified payment of interest on long term debts - Rs.456.17 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of GENCO-III for the year 2011-12, it was revealed that an amount of Rs.456.17 million was paid to rental power plants on account of interest charges on long term debts. Extra payments to the rental power plants on account of interest charges could be avoided by making payments of debts on due dates. Non-adherence to above instructions resulted in loss of Rs.456.17 million on account of interest charges on long term debts.

The matter was taken up with management of the company in Aug’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec 26, 2012, the management replied that in compliance with Apex courts decision, this office had already sent the tentative details of outstanding dues including interest, etc. to National Accountability Bureau (NAB) for recovery from Seller. Further progress towards recovery was not intimated till finalization of this report.

Audit requires expeditious recovery from rental power plants besides fixing responsibility.

(Draft Para No. 495/2013)

6.3.6 Unjustified payment on account of price adjustment - Rs.414.34 million

According to clause 47.1 particular conditions of the contract, “the contract price shall be adjusted for the prices of the civil work for any increase or decrease in the cost of material, labour and overhead charges”. Furthermore, Sub Clause-26.1 of general conditions of the contract provides that “no adjustment shall be allowed if the increase in cost because of default or negligence of the contractor. The escalation for each component to be according to the scheduled completion of that item provided that extension is granted pursuant to. For each claim the contractor shall submit invoice from each source of supply.”

During audit of GENCO-III for the year 2011-12, it was revealed that the payment of Rs.414.34 million was made to the contractor upto Jun’ 2012 on account of escalation/ price adjustment in the contract for construction of 425 MW Combined Cycle Power Plant (CCPP) at Nandipur. The requisite invoices for each source of supply and consumption statement of material duly certified by the Engineer/Consultant were not appended with the contractor's claim, which resulted in unjustified payment of Rs.414.34 million to the contractor.

The matter was taken up with the management in Nov' 2011 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that since the rates of construction material and labour were not stable in the country, so the contractor was entitled for price adjustment (variation in price) as per contract agreement. There was no provision in the contract agreement for providing evidence regarding source of supply by the contractor. The payment was made to the contractor in accordance with the contract agreement and keeping in view the canons of financial propriety. The reply was not tenable as no documentary evidence in support of reply was submitted.

Audit requires expeditious production of record besides fixing responsibility.

(Draft Para No. 1644)

6.3.7 Loss due to payment of commitment fee against non-utilization of loans and interest for delayed payment - Rs.133.27 million

According to clause 8.1.1 of COFACE Facility Agreement and clause 9.1.1 of SINOSURE Facility Agreement, "commitment fee will be paid at the rate of (0.10%) and (0.6%) per annum respectively by the lender on the un-utilized amount".

During audit of Northern Power Generation Company (GENCO-III) for the year 2011-12, it was revealed that credit facilities agreements with COFACE and SINOSURE were executed on Oct' 03, 2008 and Mar' 19, 2009 amounting to Euro 68.97 million and US $ 150.15 million respectively for the supply of gas turbines and construction of 425 MW Combined Cycle Power Plant at Nandipur. The company could not utilize the amount of loans made available by COFACE and SINOSURE. Resultantly, an amount of Rs.132.70 million was charged to project on account of commitment fee and interest of Rs.0.57 million was also paid for delayed payments. Thus, company sustained a loss of Rs.133.27 million due to non-utilization of loans.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in Jul' 2012. In a meeting held on Dec' 26, 2012, the management replied that Honorable Supreme Court of Pakistan constituted a commission who concluded on Apr' 9, 2012:

i. There is negligence on the part of the Executive authorities of the Ministry of Law, Justice and Parliamentary Affairs, Government of Pakistan which has caused the delay in completion of the project.
ii. Approximate loss of more than Rs.113 billion has been caused to the National Exchequer.
iii. The Ministry of Law, Justice and Parliamentary Affairs, Government of Pakistan is responsible for causing delay in completion of the documents.

Audit requires expeditious implementation of decision of Supreme Court of Pakistan besides fixing the responsibility for this negligence.

(Draft Para No. 17/2013)

6.3.8 Blockage of funds due to procurement of ID fans and parts - Rs.69.46 million

According to Para 5 of Memorandum dated Jan' 17, 1978 on irregularities of purchases of stores and equipments, 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 the items for indefinite period..

During audit of GENCO-III for the year 2011-12, it was revealed that electrical material valuing Rs.69.46 million was purchased on Jun' 21, 2010 and received on Feb' 10, 2011. Some parts were installed while remaining major portion left un-utilized since its receipt. As per procurement evaluation report, replacement of old parts with the new one would add 100 MW load to the national grid and cost effect of the enhanced load would be Rs.24 million daily. Non-implementation of rules resulted in blockage of funds of the Company of Rs.69.46 million during 2011-12

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management not submitted convincing reply. Audit observed that two (02) purchase orders were issued for the supply of ID fans against Unit No. 5 & 6 by PEPCO and GENCO on Jun' 21, 2010 for Rs.69.46 million and on Sep' 28, 2011 for US$0.20 million respectively, which was not justified.

Audit requires inquiry in the matter besides fixing responsibility for non-utilization of new parts.

(Draft Para No. 640/2013)

6.3.9 Unauthorized expenditure on account of establishment charges - Rs.36.42 million

PC-I provides that "Thermal Power Project of 450-500 MW combined cycle power plant at Chichoki Malian was required to be completed and commissioned within 24 months after award of contract".

During audit of GENCO-III for the year 2011-12, it was revealed that the contract for construction of 525 MW combined cycle power plant at Chichoki Malian was awarded to M/s Dongfang Electric Corporation Limited (DEC) on Apr' 2008 with the scheduled completion period upto Mar' 31, 2010. The project was neither completed nor commissioned uptill Jun' 2012. In absence of any activity at the project, the payment Rs.36.42 million charged to the project upto Jun' 2012 on account of establishment charges resulted in unauthorized due to improper planning and poor management.

The matter was taken up with the management in Apr' 2012 and reported to the Ministry in Aug' 2012. In a meeting on Dec' 26, 2012, the management replied that the Honorable Supreme Court of Pakistan constituted a commission who concluded on Apr' 9, 2012:

i. There is negligence on the part of the Executive authorities of the Ministry of Law, Justice and Parliamentary Affairs, Government of Pakistan which has caused the delay in completion of the project.
ii. Approximate loss of more than Rs.113 billion has been caused to the National Exchequer.
iii. The Ministry of Law, Justice and Parliamentary Affairs, Government of Pakistan is responsible for causing delay in completion of the documents.

Audit requires expeditious implementation of decision of Supreme Court of Pakistan besides fixing responsibility.

(Draft Para No.20/2013)

6.3.10 Loss due to payment of compensation on delayed payment - Rs.13.94 million

Clause 33.6 General Condition of Contract read with preamble to condition of contract provides that "the Employer shall pay 8 % compensation per annum for local currency to the contractor in the event of the failure of the Employer to make payment within 30 days after receipt of certificate of payment from the Engineer".

During audit of GENCO-III for the year 2011-12, it was revealed that a contract was signed between Northern Power Generation Company and

M/s Dongfang Electric Corporation Limited (DECL) for installation of 425 MW Combined Cycle Power Plant (CCPP) at Nandipur. An amount of Rs.13.94 million was paid to the contractor as compensation on delayed payments, which resulted in loss to the Company.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 1632)

6.3.11 Non-utilization of funds - US$ 10.73 million

According to clause "C" of article of agreement No. 391-MUZ-FARA -004-00 that, "the NPGCL must complete the repair and rehabilitation of the Muzaffargardh Thermal Power Plant Rehabilitation Project by November 30, 2011 or such later date as USAID may agree to in writing. If such activity has not been completed prior to the expiration of the above period, USAID, at any time, may terminate this agreement by giving written notice to the NPGCL".

During audit of GENCO-III for the year 2011-12, it was found that an amount of US$ 15.19 million under USAID was allocated for rehabilitation/capacity enhancement programme of TPS Muzaffargarh. The supply, installation, commissioning of 36 items were included in Fixed Amount Reimbursement Agreement (FARA) under USAID. The expiry of such USAID was Nov' 30, 2011 but even after the extension of FARA upto Nov' 30, 2012, only 29% of such funds amounting to US$ 4.46 could be utilized. This resulted in non-utilization of USAID funds of US$ 10.73 million.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-utilization of USAID even within extended period.

(Draft Para No. 641/2013)

6.3.12 Un-necessary purchase of material - Rs.8.65 million

According to Para 5 of Memorandum dated Jan' 17, 1978 on irregularities of purchases of stores and equipments, "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 the items for indefinite period".

During audit of GENCO-III for the year 2011-12, it was revealed that material for Rs.8.65 million were procured on Feb' 19, 1995 for GTPS, Faisalabad and taken on stock on Jan' 4, 2008. The material was drawn in Nov' 2011 and was returned to store during the same month. This showed that the material was not required which resulted in un-necessary purchase of material worth Rs.8.65 million.

The matter was reported to the management of the company in Aug' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management explained that all the compressor blades were according to the purchase order specifications. The units remained almost stand by in the last two years. Keeping in view the present scenario, it was decided that the said blades be drawn and utilized as and when required in the interest of Company's work. The reply was not tenable as justification for retention of material since 1995 not given.

Audit requires expeditious disposal of material besides fixing responsibility.

(Draft Para No. 397/2013)

6.3.13 Unauthorized expenditure - Rs.8.58 million

According to PC-I approved in Jun' 2007, "the Combined Cycle Power Plant Nandipur was scheduled to be completed and commissioned in Oct' 2010".

During audit of GENCO-III for the year 2011-12, it was found that the generation activities of the project were not started till Jun' 2012, whereas the operation and maintenance staff of different cadres had been posted at project for more than one year. The payment of Rs.8.58 million on account of pay and allowances of staff so posted was unauthorized expenditure.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility upon the person (s) at fault.

(Draft Para No. 1633)

6.3.14 Loss on account of damage of brick lining of spillway channel - Rs.3.11 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GENCO-III for the year 2011-12, it was revealed that damages were occurred due to inadequate planning at 425 MW Combined Cycle Power Project Nandipur during execution of brick lining works on spillway. The inquiry committee constituted in this matter, worked out the preliminary damages for Rs.3.11 million and concluded that the loss was occurred due to inadequacy in design and repetitive revisions in the drawings by the CDO (Water). Improper project planning resulted in loss of Rs.3.11 million.

The matter was taken up with project management in Mar' 2012 and reported to the Ministry in May 2012. In a meeting held on Dec' 26, 2012, the management replied that it was proved by the inquiry committee in its report that loss of Rs.3.11 million instead of Rs.18.93 million was occurred due to design failure of CDO (Water) WAPDA Lahore. Further progress was not intimated till the finalization of this report.

Audit requires expeditious recovery besides fixing responsibility for inadequate design and repetitive revisions in drawings.

(Draft Para No. 18/2013)

6.3.15 Loss due to improper planning of Power Projects - Rs.2.35 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GENCO-III for the year 2011-12, it was revealed that a tender for 3x200 MW Diesel Engine Combined Cycle Power Plants at Chichoke Malian, Nandipur and Faisalabad was called for in Sept' 2006 to meet with the projected power supply deficits on fast track basis. M/s PES was engaged to prepare tender documents and tender evaluation reports for these projects and amount of Rs.2.35 million was paid on account of consultancy charges. Later on WAPDA abandoned the projects of diesel engine Plants, which resulted in loss for Rs.2.35 million on account of engagement of consultants for diesel engine.

The matter was brought to the notice of management in Nov' 2011 and reported to the Ministry in Aug' 2012. In a meeting held on Dec' 26, 2012, the management replied that WAPDA had proposed to abandon the project of diesel engine plants and to install combined plants as the Residual Furnace Oil (RFO) based tariff for combined cycle plant was approximately 8.84 Cents/KWH, which was quite cheaper than the diesel engine based plants. The reply was not tenable as the proper planning was not made to ascertain the feasibility of the projects.

Audit requires inquiry in the matter besides fixing the responsibility of loss due to improper planning.

(Draft Para No. 19/2013)

6.3.16 Unauthorized procurement of material-US$ 0.20 million

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

During audit of GENCO-III for the year 2011-12, it was revealed that a purchase order was issued to M/s Shanaghi Electric E&A Industrial Development Company LTD., China for the purchase of I.D. Fan parts amounting to US$ 0.20 million during Sep' 2011. The material was purchased from only single bidder without proper competition. This resulted in unauthorized procurement of material of US$ 0.20 million in violation of PPRA Rules.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that the purchases were made as per PPRA Rule 42-c(i). The purchase of air inlets from the same supplier was beneficial, considering the fear of non-performance of whole equipment. The reply was not tenable as procurement of material was made against the PPRA Rules.

Audit requires inquiry in the matter besides fixing responsibility for violation of PPRA Rules.

(Draft Para No. 638/2013)

CHAPTER-7

LAKHRA POWER GENERATION COMPANY LIMITED (GENCO-IV)

(107-114)

7. LAKHRA POWER GENERATION COMPANY LIMITED

7.1 Introduction

Lakhra Power Generation Company Limited (LPGCL) was incorporated in February 2002 as a public limited company under Companies Ordinance 1984 and started its business from July 2002. The Company took over properties, rights, assets, obligations and liabilities of thermal power generation at Lakhra owned by WAPDA through Business Transfer Agreement.

The principal activity of the Company is to generate electricity (from Coal) and sell it to National Transmission and Despatch Company (NTDC). LPGCL was granted Generation License by NEPRA in February 2005 for fifteen years. The Company has three units having installed capacity of 150 MW and net dependable capacity made available was 31.2 MW.

7.2 Comments on Financial Statements[5]

7.2.1 Financial Overview

Financial statements of LPGCL, were not finalized and approved up-till December 31, 2012. However, Draft/unapproved financial statements were produced by the Company management on December 21, 2012. The following comments/analysis was prepared on the unapproved financial statements. As per Company Ordinance, 1984, the financial statements are required to be finalized within four months of the closing of financial year. This reflects inefficiency on the part of the management and needs justification. The financial results along with the financial ratios are as under;

7.2.2 Extracts of the Financial Statements[6]

Balance Sheet as at Jun' 30, 2012

(Rs. in million)

Equity and Liabilities	**2011-12**	**%**	**2010-11**	**%**	**2009-10**
Share capital and reserves					
Accumulated Loss	(5,255.90)	27.18	(4,132.56)	24.05	(3,331.25)
Non-current liabilities					

[5] *The analysis is performed on the un audited financial statements provided by the Company.*
[6] *Only balances with significant variations during the current financial year and those against which comments are being incorporated in this analysis are reproduced.*

Long term loans	1,831.60	(41.15)	3,112.14	(29.15)	4,392.67
Employee retirement benefits	600.86	23.49	486.56	17.20	415.14
	2,432.46	(32.41)	3,598.69	(25.15)	4,807.81
Current liabilities					
Trade and other payables	7,708.29	38.70	3,827.69	60.21	2,064.35
Current portion of long term loans	4,587.20	101.38	3,307.20	88.76	2,027.77
	12,295.50	72.33	7,134.90	74.36	4,092.12
	13,506.25	27.00	**10,635.22**	10.68	**9,609.03**
Assets					
Non-current assets	4,971.78	(8.76)	5,449.01	(22.82)	7,059.91
Current assets					
Trade debts	4,146.92	366.06	889.79	100	-
Cash and bank balances	57.20	64.51	34.77	24.10	28.02
	8,534.47	64.56	5,186.21	103.45	2,549.12
	13,506.25	**27.00**	**10,635.22**	**10.68**	**9,609.03**

Profit and Loss Account
For the year ended Jun' 30, 2012

(Rs. in million)

Revenue	**2011-12**	**%**	**2010-11**	**%**	**2009-10**
Electricity sale	14,045.21	225.13	4,319.82	803.50	478.12
Cost of electricity	14,361.08	222.18	4,457.50	420.68	856.10
Gross profit/(Loss)	(315.87)	129.43	(137.67)	(63.58)	(377.98)
Operating cost	219.55	27.13	172.70	39.28	124.00
Other income	363.17	(25.90)	490.11	32.85	368.91
Financial and other charges	951.09	(3.05)	981.05	(5.15)	1,034.26
Profit/(Loss) for the year	**(1,123.34)**	**40.19**	**(801.31)**	**(31.35)**	**(1,167.32)**

7.2.3 Financial Ratios

The summary of ratios calculated for the three financial years is given below:

COMPANY		**(LPGCL)**		
YEAR		**2011-2012**	**2010-2011**	**2009-2010**
Profitability Ratios				
Return on capital employed	%	(28.24)	6.00	(1.18)
Gross profit margin	%	(2.25)	(3.19)	(79.05)
Net profit margin	%	(8.00)	(18.55)	(244.15)
Asset turnover ratio	times	11.60	1.23	0.09

Return on total assets	%	(0.08)	(0.08)	(0.12)
Short Term Liquidity Ratio				
Current ratio	times	0.69	0.73	0.62
Working Capital Ratios				
Debtors turnover period	Days	108	75	0.00
Creditors turnover period	Days	196	313	880.14
Debt, Gearing & Leverage Ratios				
Debt to total asset	%	47.52	60.36	66.82
Gearing ratio	%	300.32	103.26	86.10
Leverage ratio	%	(200.32)	(3.26)	13.90
Interest cover	times	(0.18)	0.18	(0.06)

7.2.4 Cash Flow Analysis

The Company generated net cash inflow (surplus) of Rs.22.43 million (inflow (surplus) of Rs.6.75 million: 2010-11) during the financial year resulting in closing balance of Rs.57.20 million (Rs.34.77 million: 2010-11).

The Company incurred net cash out flow (deficit) of Rs.536.52 million from operating activities. The main components which triggered such increase include,

i) Finance cost abnormally increased by Rs.934.17 million over the past year,

ii) Taxes paid by the Company increased by Rs.21.12 million.

The Company obtained long-term loans amounting to Rs.550.25 million during the financial year 2011-12. In addition to the above, nominal amount of Rs.0.76 million was invested on fixed assets (Rs.1.22 million: 2010-11) for the improvement of the power generation system. However, the Company could not utilize the assets efficiently and effectively as the return on assets did not improve.

The retention of financing in the form of cash reserves increased by 22%, which indicated idle cash resources that company was not utilizing to upgrade its idle generation units which needed to be justified.

7.2.5 Ratios Analysis

7.2.5.1 Profitability

Profitability ratios of the company reflected the poor position as the gross profit and net profit both ratios remained negative, adding towards accumulated losses of the Company.

i) Gross profit

During the financial year 2011-12, electricity sales of the company increased by 225% and the cost of electricity increased by 222%. The proportionate increase in cost of electricity was lower than the percentage increase in the sales of electricity however the margin was not adequate to absorb the proportionate increase in cost due to which the Company sustained a gross loss of Rs.315.87 million. The Gross Profit ratio improved slightly i.e. (2.25%) gross loss as compared to gross loss of (3.19%) for the financial year 2010-11.

The management needs to justify persistent losses sustained by the Company.

ii) Net Profit Ratio

The Company suffered accumulated loss of Rs.5,255.90 million, out of which Rs.1,123.34 million was incurred during the financial year.

This indicated that the operational efficiency of the Company remained highly unsatisfactory. The operational loss was mainly due to increase in operating expenses by 27% over the previous year which was mainly attributed to enhancement in pay and allowances, advertising expenses and repair & maintenance expenses. It was further observed that the Company approved certain allowances in respect of various categories of employees. The detail of which is mentioned hereunder:

i) Transport subsidy
ii) Special WAPDA allowance
iii) Danger allowance

The grant of above allowances without the approval/concurrence of Ministry of Finance was not in line with the provisions of Government Rules and Regulations and amount paid on account of above allowances was irregular.

The Net Profit ratio improved slightly i.e. (8.00%) net loss as compared to net loss of (18.55%) for the financial year 2010-11.

The company could not manage its expenses due to which the cost of electricity and indirect expenses increased significantly. The expenses increased to such a huge amount that the relative revenue generated from sales, including other income could not mitigate the impact.

The management needs to justify persistent increase in expenses resulting in loss to the Company.

iii) Return on capital employed

The return declined to (28.24%) loss from 6.00% profit, showing that the Company could not utilize its resources in an efficient and effective manner.

iv) Return on total assets

The return on total assets remained negative i.e. (0.08%) as company was not utilizing its assets efficiently to generate favourable return.

The debt to total asset ratio and gearing ratio was 47.52% and 300% respectively, which showed that Company was relying heavily on debt to finance its operations. Audit suggested that the Company should review its capital structure and policy of getting loan because it badly affected the liquidity position of the company and had direct impact on the profitability of the company.

7.2.5.2 Short Term Liquidity

i) Current ratio

The current ratio declined to 0.69 from 0.73 indicating short term financial difficulties in repayment of current liabilities.

The Company was not holding adequate liquid assets required to settle its short term liabilities which need to be explained.

7.2.5.3 Working Capital Cycle

i) Debtor / Creditor turnover period

The trade receivables increased significantly i.e. by Rs.3,257.13 million (366%) over the previous year. In addition to that, the debtor turnover period increased to 108 days (75 days in 2010-11).

An increase in accounts receivable, debtor turnover period reflected inefficient collection procedures and poor administration of trade debts, resulting in loss of revenue to the Company and ultimately worsening liquidity position.

On the other hand, despite increase in accounts payable the creditor turnover period decreased to 196 days from 313 days which was still very high.

The increase in accounts receivable and accounts payable indicated that there was a continuing cash flow shortage resulting in persistent working capital financing problems for the Company. Poor management of debtor and creditor turnover period needs to be explained.

7.2.5.4 Gearing, leverage and interest coverage ratios

The non-current liabilities of the company decreased by 32.41% over the previous year. The trade and other payables increased by 38.70% and the creditor turnover period decreased to 196 days. Significant increase in current liabilities reflected that the company was encountering the liquidity problems and the management did not take adequate remedial actions to address the issue.

The financial position of the Company deteriorated during the past few years as depicted in the summary of ratios mentioned above. The gearing position of the Company showed negative trend i.e. 300% during the financial year 2011-12 as compared to 103.26% during the financial year 2010-11. High gearing reflect liquidity problems resulting in cash flow risk for the Company.

The Company was heavily relying on the external sources to finance its operations instead of funding the operations out of resources generated from its operations.

Reliance on borrowings/ (loans) and payment of huge financial charges need to be explained.

7.2.6 Recommendations:

It is evident from the above analysis that the profitability, liquidity and solvency position of the company is deteriorating with an exceptionally high rate. In order to finance the operations, Company would heavily rely on financing from external sources which will aggravate the liquidity position. If these conditions will prevail, the Company would require heavy funding from the Government to maintain going concern status.

In view of the forgoing, it is recommended that Company should revamp its organizational structure and address operational issues, being the major cause of losses. In addition to that, the Company should also restructure its financial arrangements by funding its operations from cheap sources of finance, resulting in low interest cost.

The issue of huge receivables from CPPA also require due consideration by making concrete arrangements to recover outstanding amount.

7.3 AUDIT PARAS

7.3.1 Loss due to consumption of excess heat rate from NEPRA standard - Rs.175.43 million

Heat rate of 16300 in BTU/KWH was fixed by NEPRA vide its decision bearing No. NEPRA/TRF-167/LPGCL-2011/5907 dated July 25, 2011.

During audit of GENCO-IV for the year 2011-12, it was revealed that 18836 BTU per KWH was used against the permissible limit fixed by NEPRA (i.e.16300 BTU per KWH). Resultantly, 14.93 MKWH were less generated and the company sustained loss of Rs.175.43 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that due to the litigation neither the plant could be handed over to the lessee nor could any rehabilitation/major overhauling work carried out. This caused increase in heat rate. Further progress was not intimated till the finalization of this report.

Audit requires vigourous pursuance of the case in the Supreme Court of Pakistan.

(Draft Para No. 552/2013)

7.3.2 Un-necessary procurement of material - Rs.27.35 million

According to Para 5 of Memorandum dated Jan' 17, 1978 on irregularities of purchases of stores and equipments, "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 the items for indefinite period".

During audit of GENCO-IV for the year 2011-12, it was revealed that material worth Rs.27.35 million was procured during the year 2003-2006 but its issuance was either nil or quite nominal even after elapse of nine (9) years. Unnecessary procurement of material resulted in blockage of company funds to the tune of Rs.27.35 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that material was procured for the rehabilitation of plant which could not be utilized because of non-availability of allied material. Meanwhile, the company was leased out and it was included in the agreement that the lessee to pay the amount of material procured for rehabilitation. The lease agreement could not be implemented because the matter was subjudice in the Supreme Court of Pakistan. The final action on the issue would be taken after the adjudication of the matter in the Supreme Court of Pakistan. Further progress was not intimated till the finalization of this report.

Audit requires vigourous pursuance of the case in the Supreme Court of Pakistan.

(Draft Para No. 444/2013)

7.3.3 Loss due to non-recovery of standard rent - Rs.1.30 million

According to para "d" of the Director Finance (Regulation), WAPDA Lahore clarification No. FO(B&F)/4-8/Acq/Vol-8/4314-4413 dated Jan' 10, 2007, "where the accommodation is allotted by one organization to the employees of other organization, the standard rent is to be charged by the formation concerned from the formation whose employees have been allotted accommodation.".

During audit of GENCO-IV for the year 2011-12, it was found that vacant accommodations in colony were occupied by the unauthorized personals without paying any standard rent. This resulted in loss of Rs.1.30 million due to non-recovery of standard rent.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that the colony was occupied by the flood affectees during the super flood in 2010 and heavy rains of 2011. The colony had been got vacated from all the occupants, as per verbal directives of Federal/Provincial Government, no rent was due from the occupants. The present status of thirty six (36) officers/officials pointed out by Audit would however be informed to Audit in fifteen (15) days. Further progress was not intimated towards recovery of standard rent from the unauthorized occupants till the finalization of this report.

Audit emphasizes expeditious recovery of standard rent from unauthorized occupants.

(Draft Para No. 445/2013)

CHAPTER-8

NATIONAL TRANSMISSION AND DESPATCH COMPANY LIMITED (NTDC)

(117-134)

8. NATIONAL TRANSMISSION AND DESPATCH COMPANY LIMITED

8.1 Introduction

National Transmission and Despatch Company Ltd. (NTDC) was incorporated as a corporate entity in 1998 under Company's Ordinance, 1984. The principle activity of NTDC is to purchase electricity from Hydel Power Stations, Thermal Power Stations, IPPs and to sell it to all DISCOs/KESC. NTDC is also responsible to construct, operate and maintain 220 KV and 500 KV transmission system comprising transmission lines and grid stations. This transmission system links all power plants including those of IPPs, thermal generation companies, nuclear power and hydro electric.

NEPRA granted transmission license to NTDC for thirty (30) years period in December 2002 for undertaking its obligations. NTDC was restructured into following four main tiers:

1. **Central Power Purchasing Agency (CPPA)**
2. **Transmission Network Operator (TNO)**
3. **System Operator (SO)**
4. **Contract Registrar And Power Exchange Administrator(CRPEA)**

1. Central Power Purchasing Agency (CPPA)

Under Pakistan power sector programme, establishment of an independent entity 'CPPA' has been approved by Prime Minister Secretariat. It will be acting as an 'Agent' of Distribution Companies and Bulk Power Consumers (BPCs) for procurement of power on their behalf from Generation Companies and deliver via NTDC network.

CPPA is responsible to purchase power from all power plants on behalf of NTDC and manage to deliver the power to DISCOs.

2. Transmission Network Operator (TNO)

TNO is responsible for the operation and maintenance of transmission system including planning, design and capacity expansion of the transmission system and setting of new generation facilities.

3. System Operator (SO)

System Operator is responsible for the safe and reliable operation of the network and to despatch the generation facilities according to load demand and provide balancing services for the network.

4. Contract Registrar and Power Exchange Administrator (CRPEA)

CRPEA is responsible for recording and notification of contracts and other matters relating to bilateral trading between the generation licensees and bulk power consumers and generation licensees and distribution companies for their future capacity needs.

In addition to the core functional responsibilities, NTDC is providing services to the distribution companies in the areas of design and construction of 132 KV transmission lines and grid stations, maintenance support for the telecommunication system and protection.

Non-completion/finalization of Financial Statements

As per company ordinance, 1984, the Company is required to finalize the financial statements within four months from the close of financial year. The Company could not finalize the financial statements uptill January 03, 2013. The matter was taken up with the management since November 07, 2012. It was replied that the finalization of financial statement for the year ended Jun' 30, 2012 was under process and would be submitted after completion of audit and approval of board of directors. This directorate is, therefore, unable to offer comments on the financial position of the Company.

8.2 Brief comments on the status of compliance with PAC directives

Name of Company	Year	Name of Report	No. of Directives	Status of compliance		
				Full	Partial	Outstanding
NTDC	2004-05	Audit Report	1	Nil	Nil	1 (Para No. 8.5)

Position of compliance on PAC directives is not satisfactory.

8.3 AUDIT PARAS

8.3.1 Loss due to theft of electrical material / vehicle - Rs.4.86 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 audit of NTDC for the year 2011-12, it was revealed that electrical material of various types and a vehicle worth Rs.4.86 million was stolen. In some cases FIRs were lodged but administrative action was not taken / finalized to fix the responsibility of loss and to decide its fate. In case of theft of vehicle, the recovery of Rs.0.210 million was imposed on concerned SDO by inquiry committee on Dec' 02, 2011 but no recovery was affected. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs.4.86 million.

The matter was taken up with the management from Jul' to Oct' 2012 and reported to the Ministry in Sep' to Nov' 2012. In a meeting held on Dec' 26, 2012, the management replied that FIRs had been lodged. In one case, police apprehended thieves and the case was subjudice. It was also replied that in case of theft of vehicle, the recovery was imposed and Rs.0.03 million had been recovered @ Rs.5,000 per month. As for the remaining cases of theft, FIRs was lodged and constitution of departmental inquiries was under process. Further progress was not intimated till the finalization of this report.

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

(Draft Para No.68, 271 & 177/2013)

8.3.2 Unauthorized award of works in the absence of technical sanctioned estimates - Rs.18.38 billion

According to Para 4.1 (Page No. 47-48) of Chapter-3 (Audit of Works account) of Audit Manual of Internal Audit WAPDA, "to obtain administrative approval and technical sanction from the competent authorities, it is necessary that an estimate is prepared for the work to be executed after keeping in view the design and the specification thereof. The estimate will be prepared by the officer who is charged with the execution of the work. The estimate should contain sufficient details to enable the officer competent to give administrative approval and technical sanction to judge whether the cost given is correct. The estimate will ordinarily contain report on (a) history, (b) design, (c) scope, (d) rates, (e) cost and the head to which it charged (f) method, (g) establishment, (h) land, (i) time and expenditure. After the estimate has been checked by the technical advisor of Divisional/Project office it will be submitted to the competent authority for giving administrative approval. Thereafter, technical sanction will be obtained from the competent authority". Further, Note.1 under Sr. No. 2.1.2 of Section-II of the Book of Financial Powers Revised 2007 of NTDC provides that "where consultants have been engaged for a work, technical sanction shall be accorded by competent authority in consultation with the consultants. In case of a disagreement between the consultants and the competent authority, technical sanction by next higher authority shall be required".

During audit of EHV-II NTDC Hyderabad for the year 2011-12, it was revealed that the works valuing Rs.18.38 billion for construction of transmission lines and grid stations were awarded to various contractors during the financial years 2008-09 and 2009-2010. Neither estimates were prepared nor technical sanctions were accorded by the competent authority prior to tendering process and award of works. In the absence of sanctioned estimates, the specifications of items of works, quantities, rates and total cost of tenders/contracts could not be compared to check their authenticity and above/below percentage of the estimated cost. Violation of rules resulted in unauthorized award of works for Rs.18.38 billion.

The matter was taken up with project management in Jul’ 2012 and reported to the Ministry in Oct’ 2012. In a meeting held on Dec’ 26, 2012, the management replied that as per NTDC Book of Financial Power Revised 2007 Section-II Note-I, no administrative approval was required where PC-I proforma already stood approved with sufficient details of components of the work included in the project. The PC-I proforma of all the projects for the year 2008-2009 and 2009-2010 were already approved by the competent authority with estimated cost, etc. The reply was not tenable as the works were awarded without technically sanctioned estimates.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No 145/2013)

8.3.3 Loss due to payment of interest on delayed payments to IPPs - Rs.8.50 billion

According to Power Purchase Agreement Section 9.6 (a) (i), “the Power Purchaser shall pay the Company the amount shown on an invoice in accordance with Section 9.5 (a) or Section 9.5(b), less deductions for any disputed amounts or portions of amounts shown in the invoice, on or before the thirtieth (30^{th}) Day following the day this invoice is received by the Power Purchaser (“Due Date”). Late payments by either Party of amounts due and payable under this Agreement shall bear interest at a rate per annum equal to the delayed Payment Rate i.e. “KIBOR plus four and one-half percent (4.5%) per annum, compounded semi-annually, calculated for the actual number of days for which the relevant amount remains unpaid on the basis of a three hundred and sixty five (365) day year”.

During audit of Central Power Purchase Agency (CPPA) NTDC for the year 2011-12, it was revealed that an amount of Rs.8.50 billion was paid to twelve (12) Independence Power Producers (IPPs) under Power Policy 2002 from Jan' 2009 to Feb' 2012 on account of interest on delayed payments of energy and capacity. Poor financial control and mismanagement on the part of CPPA resulted in loss of Rs.8.50 billion due to payment of interest.

The matter was taken up with management in Nov' 2011 and reported to the Ministry in Sep' 2012. In a meeting held on Dec' 26, 2012, the management replied that Rs.426.24 billion was receivable from different private/Federal/Provincial Government offices which resulted non-payment to IPPs. The reply was not tenable as non-receipt of a huge amount of Rs.426.24 billion from Private/Federal/Provincial Government offices was mismanagement on the part of DISCOs.

Audit requires inquiry in the matter besides fixing responsibility for loss due to payment of interest charges.

(Draft Para No. 27/2013)

8.3.4 Unjustified payment to IPPs on account of forced outage due to fuel shortage - Rs.2.79 billion

Section 9.1(a) of PPAs of the IPPs describes that "Subject to Section 2.2 and Section 9.6(c), from and after the COD, the Power Purchaser shall pay the Company the Capacity payments, in accordance with procedures specified in Section 9.6, for the Available Capacity for each Month (or part-Month), such payments being calculated in accordance with Section 9.1 and provisions of Schedule-1". Further, ECC's decision of May 23, 2007 provides "the present policy of not guaranteeing payment obligations of fuel supplier should continue. However, the nation wide shortage of fuel to be recognized as Pakistan Political Force Majeure Event in the Security Package". According to para 11.3.a of Power Policy 2002, "the Government of Pakistan gives no guarantee about availability or supply of fuel, and allows the bidders to make their own choice of fuel and arrangements for its supply. The bidders will be required to specify a fuel price, which will be the basis of their power tariff bid. For purposes of bid evaluation, the fuel price will be escalated on the basis of the index specified in the RFP".

During audit of CPPA NTDC for the year 2011-12, it was found that a settlement agreement was made with the various IPPs which acknowledged that an additional 152 hours of Forced Outage Allowance (the "Additional Forced outage hours") would be allowed to the IPPs for the period from Sep' 15 to Dec' 31, 2011.

In pursuance of the above settlement agreement, the CPPA had paid capacity payment for total 5,093 forced outages hours due to fuel shortage worth Rs.2.79 billion to seven (07) IPPs from Sep' 15 to Dec' 31, 2011. The settlement agreement was contrary to the provisions of original PPAs and it was made merely to give the financial benefit to IPPs. Thus, the payment Rs.2.79 billion made under settlement agreement was not admissible. Non-adherence to provision of PPA, Power Policy, 2002 and ECC decision resulted in unjustified payment of Rs.2.79 billion.

The matter was reported to the management in Sep' 2012 and reported to the Ministry on Nov' 29, 2012. In a meeting held on Dec' 26, 2012 the management replied that an agreement was made and executed among the parties which was valid upto December 31, 2011. CPPA processed the Capacity Invoices of above mentioned IPPs accordingly. The reply was not tenable as the settlement agreement was not in line with Power Policy, 2002 and ECC decision of May 23, 2007.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.262/2013)

8.3.5 Non-recovery of liquidated damages - Rs.1.92 billion

According to clauses of Section V to VIII General Condition of contract, "the contractor shall pay liquidated damages @ 0.05% per day of the total contract price or part thereof. The maximum amount of liquidated damages shall be 10% of the contract price".

During audit of EHV-I&II Construction Projects NTDC for the year 2011-12, it was revealed that contracts were awarded to the contractors for different works comprising procurement of material, construction of transmission lines, the contractor could not supply the material/complete the works within the stipulated completion period of contract. Hence, Liquidated damages amounting to Rs.1.92 billion were required to be recovered from them. Non-adherence to contractual provisions resulted in non-recovery of liquidated damages of Rs.1.92 billion.

The matter was taken up with management in Jan' & Nov' 2011 and Jul' & Nov' 2012 and reported to the Ministry from Aug' to Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that in one case LD 1.50 million had been recovered and efforts were being made to recover the outstanding amount while in remaining cases, if EOT was not approved, amount of LD would be deducted. Further progress was not submitted till finalization of this report.

Audit requires expeditious recovery of liquidated damages from the contractors besides fixing responsibility.

(Draft Para No. 24, 25, 144 & 575/2013)

8.3.6 Loss on account of forced outage due to shortage of fuel - Rs.452.81 million

Clause-5.14(a) of the Power Purchase Agreement(PPA) provides that, "on or before the effective date, the Company shall provide reasonable evidence to the Power Purchaser that the Company has, or has procured from a reliable supplier and transporter through one or more commercially reasonable fuel supply agreements, supplies of fuel and the capacity to process, transport, store and handle such fuel for use as fuel at the Complex in such quantities and at such rates to allow to the Company to generate Net Electrical Output at the Contract Capacity during the term as is contemplated in this agreement"

During audit of Central Power Purchase Agency (CPPA) NTDC for the year 2011-12, it was revealed that M/s Atlas Power Limited (APL) delivered Net Electric Output (NEO) less than the dispatched instructions of NPCC during Mar' 2011 because various engines remained shutdown due to shortage of fuel for the production of electricity. The event declared by the Company (seller) as forced outage which was against the provision of PPA. Non-adherence to contractual clause resulted in loss of Rs.452.81 million.

The matter was taken up with management in Oct' 2011 and reported to the Ministry in Aug' 2012. In a meeting held on Dec' 26, 2012, the management replied that the payment was made against the forced outage allowance available in provisions of the PPA with M/s APL and hence the said payment was not the loss to NTDC. The reply was not tenable as M/s APL was not produced energy as per demand of NPCC therefore, the payment of forced outage allowance was not admissible.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.23/2013)

8.3.7 Loss due to less demand than the declared available capacity by IPPS - Rs.405.04 million

According to clause-3.1(b) of the Power Purchaser Agreement (PPA), "Subject to and in accordance with the terms of this Agreement (including the Technical Limits), the Power Purchaser shall: i) from and after the Commercial

Operations Date, pay for the Declared Available Capacity, the consideration described in Article IX and determined in accordance with the provisions described in Schedule-1; ii) from and after the Commercial Operations Date take delivery of and pay for the Dispatched and Delivered Net Electrical Output, the consideration described Article IX and determined in accordance with the provisions described in Schedule-1".

During audit of NTDC CPPA for the year 2011-12, it was revealed that full delivery of declared available capacity was not received from IPPs in accordance with the above provisions of power purchase agreements, but the payment was made for total declared available capacity. Due to non-utilizing the declared available capacity, the CPPA sustained a loss of Rs.405.04 million from Jul' to Dec' 2011. Non-implementation of clauses of power purchase agreement resulted in loss of Rs.405.04 million.

The matter was reported to the management in Sep' 2012 and reported to the Ministry in Nov' 2012. In a meeting held on Dec' 26, 2012, the management replied that the utilization of the available capacity with IPPs was prerogative of NPCC. The reply was not tenable as no justification for less demand of declared available capacity was provided.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.261/2013)

8.3.8 Non-recovery of liquidated damages from contractor - Rs.307.99 million

According to Schedule-B (12, 13 & 14) of the contract agreement, "the work was to be completed within eighteen (18) months and liquidated damages were to be charged @ 0.05% of the contract price per day for delayed completion but not exceeding 10% of the contract price".

During audit of NPCC, NTDC Islamabad for the year 2011-12, it was revealed that a work of "Load Dispatch System Up-Gradation" was awarded to the consortium of AREVA T&D SAS-France on Mar' 31,2010 for Rs.3,499.91 million which was required to be completed on Sep' 30, 2011. The due date was extended to Feb' 28, 2012 due to adjustment in scope of work but the contractor could not complete the work within the extended period of completion and work was still in progress. Non-observance of contractual clauses resulted in non-recovery of liquidated damages amounting to Rs.307.99 million.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Nov’ 2012. In a meeting held on Dec’ 26, 2012, the management replied that the work was still in progress and any liquidated damages due, would be deducted from his final invoice. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery of liquidated damages from the contractor besides fixing responsibility.

(Draft Para No. 202/2013)

8.3.9 Loss due to forced outage by NPCC - Rs.189.93 million

According to Article-III Clause-3.1(b) of the Power Purchase Agreement (PPA), “Subject to and in accordance with the terms of this Agreement (including the Technical Limits), the Power Purchaser shall: i) from and after the Commercial Operations Date, pay to the Company for the Declared Available Capacity, the consideration described in Article IX and determined in accordance with the provisions described in Schedule-1; ii) from and after the Commercial Operation Date take delivery of and pay for the Dispatched and Delivered Net Electrical Output, the consideration described in Article IX and determined in accordance with the provisions described in Schedule-1”.

During audit of CPPA NTDC for the year 2011-12, it was found that the HUB Power Company Ltd. Narowal was unable to deliver 89,553,254 KW electricity due to NPCC outage. NPCC outage was not covered under any clause of the PPA. On one hand due to acute shortage of electricity in all DISCOs and on the other hand electricity was not demanded from the IPP according to their declared available capacity. Non-adherence to provisions of power purchase agreement resulted in loss of Rs.189.93 million due to NPCC outage from May 2011 to Jun’ 2012.

The matter was taken up with the management during Aug’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.1591)

8.3.10 Unauthorized award of work to consultant in violation of PPRA Rules - Rs.140.72 million

According to rule-20 of PPRA Rules Principal method of procurement, “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 audit of NTDC (EHV-II) Project Multan for the year 2011-12, it was found that three (03) consultancy agreements were signed with M/s Barqaab during 2009-10 for providing consultancy services for construction of 550 / 220 KV grid stations and allied transmission lines, double circuit bundle from D.G Khan to Loralai (Lot-I, II & III) without competitive bidding. Violation of PPRA Rules resulted in unauthorized award of works of Rs.140.72 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that at present only two (2) consultants namely M/s NESPAK & M/s Barqaab were on ground to provide consultancy services to whom invited for proposals/bids as per procedure and being lowest under approval of BOD consultancy work was awarded to M/s Barqaab. All the formalities were fulfilled in view of PPRA Rules. The reply was not tenable as no documentary evidence was provided till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for not uploading on PPRA website.

(Draft Para No.574/2013)

8.3.11 Loss due to damage of 160 MVA transformer - Rs.40 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GSO NTDC Islamabad for the year 2011-12, it was revealed that a reclaimed (Fuji Japan make) 160 MVA 220/132 KV Auto Transformer T-4 after having repaired from M/s PTESU was installed at 220KV Grid Station NTDC, Shahibagh Peshawar on Mar' 29, 2010 despite serious concerns of Chief Engineer about its reliability and shabby condition. After its energizing, the said transformer was damaged during its warranty. The management neither get the transformer repaired from M/s PTESU nor lodged any insurance claim. Poor management resulted in loss of Rs.40 million due to damage of transformer.

The matter was taken up with the management in Jul' 2012 and reported to the Ministry in Oct' 2012. In a meeting held on Dec' 26, 2012, the management replied that the matter had been taken up with Manager PTESU Lahore for free repair of damaged power transformer besides lodging insurance claim. The reply was not tenable as the transformer was damaged due to tertiary winding and needed full repair.

Audit requires inquiry in the matter besides fixing responsibility for substandard repair of transformer.

(Draft Para No. 176/2013)

8.3.12 Loss due to non-recovery of standard rent - Rs.35.82 million

According to para "d" of the Director Finance (Regulation), WAPDA Lahore clarification No. FO(B&F)/4-8/Acq/Vol-8/4314-4413 dated Jan' 10, 2007, "where the accommodation is allotted by one organization to the employees of other organization, the standard rent is to be charged by the formation concerned from the formation whose employees have been allotted accommodation."

During audit of GSO NTDC Hyderabad for the year 2011-12, it was found that sixty nine (69) employees of other WAPDA formations and labourers of Frontier Works Organization (FWO) resided in the NTDC colony from Nov' 1992 to Dec' 2011 and Jan' 2011 to Jun' 2012 respectively. Standard rent amounting to Rs.35.82 million was required to be recovered from concerned employees and FWO but the same was not recovered despite lapse of considerable time. Non-adherence to Authority's instructions resulted in loss due to non-recovery of standard rent of Rs.35.82 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Oct' 2012. In a meeting held on Dec' 26, 2012, the management replied that an amount of Rs.0.61 million had been recovered and recovery of the remaining amount from non-NTDC employees was under process. As regards the recovery of standard rent from FWO concerned, the matter had also been taken up with FWO for the payment of standard rent as well as a realistic monthly rent from XEN Civil/Assessment Committee. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery of standard rent besides fixing responsibility for handing over the accommodation to FWO without any agreement.

(Draft Para No.147 & 149/2013)

8.3.13 Loss due to missing parts of transformer and other equipment - Rs.33.66 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GSO NTDC Lahore for the year 2011-12, it was revealed that spare parts worth Rs.33.66 million were found missing during handing / taking over of 500/220/132 KV Grid Station Nokhar to NTDC WAPDA by M/s Siemens in Aug' 2011 but no administrative action was taken. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs.33.66 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Nov' 2012. Neither relevant reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-receiving of material at the time of completion of work.

(Draft Para No.272/2013)

8.3.14 Unjustified expenditure due to revision of BOQ items - Rs.22.63 million

According to Section-VII General Conditions of Contract clause 36.1, (c) "if the final quantity of the work done differs from the quantity in the bill of quantities for the particular item by more than 25% provided the change exceeds 1% of the initial contract price, the Project Manager shall adjust the rate to allow for the change", (d) "the Project Manager shall not adjust rate from changes in quantities if thereby the initial contract price is exceeded by more than 15% except with the prior approval of the employer".

During audit of EHV-I NTDC for the year 2011-12, it was revealed that a contract for construction of civil works, erection, testing and commissioning of extension works at 220 KV Mangla sub-station was awarded to a contractor at contract price Rs.29.99 million. Due to increase/ decrease in quantities of BOQ items of contract, the cost of BOQ items was revised upto Rs.52.62 million (75.46% of the original contract price) by the Chief Engineer and the payment made to the contractor accordingly. Non-adherence to conditions of contract resulted in unjustified expenditure of Rs.22.63 million.

The matter was taken up with management in Nov' 2011 and reported to the Ministry in Sep' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 30/2013)

8.3.15 Loss due to non-finalization of inquiries - Rs.11.21 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 know the cause of the loss and fix the responsibility of the amount involved".

During audit of NTDC for the year 2011-12, it was found that five (5) inquiry committees were constituted from Dec' 2004 to Jan' 2012 for conducting inquiry of shortage of material of Rs.11.21 million but the same were pending with Manager (L&IR) NTDC WAPDA House Lahore despite lapsing a period from one to eight years. Non-finalization of inquires resulted in loss of Rs.11.21 million.

The matter was reported to the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-finalization of inquires over eight (8) years.

(Draft Para No.554/2013)

8.3.16 Unauthorized award of works in violation of PPRA Rules - Rs.9.36 million

According to section 12(2) of PPRA Rules, "all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu" and as per Section 50, "any unauthorized breach of these rules shall amount to mis-procurement."

During audit of GSO NTDC Hyderabad & Islamabad for the year 2011-12, it was revealed that work orders valuing Rs.9.36 million (Rs.3.91 million + Rs.5.45 million) for electrification / purchase of electrical consumable items and rehabilitation / restoration of 500 KV Tarbela-Peshawar Circuit Transmission Line were issued/alloted during March and April 2012 without observing codal formatilies. Non-observance of PPRA Rules resulted in unauthorized award of works amounting to Rs.9.36 million.

The matter was taken up with the management in Jul' & Aug' 2012 and reported to the Ministry in Oct' 2012. In a meeting held on Dec' 26, 2012, the management replied that the works were awarded in emergent situation for restoration of power supply/purchase of material as per NTDC Book of Financial Powers-Revised 2007 vide clause 4.4.2(II) Section IV. The PPRA Rules were not applicable on such nature of works. Negotiations were made with the contractors in each and every case. The reply was not tenable as the works were awarded unauthorizedly in violation of PPRA Rules.

Audit requires inquiry in the matter besides fixing responsibility for violation of PPRA Rules.

(Draft Para No.148 & 175/2013)

8.3.17 Overpayment to the contractor due to incorrect measurements - Rs.8.44 million

According to BOQ item – 19, "Welding of Nuts with Bolts by electric arc welding" 10,000 Nos. nuts with bolts were to be welded @ Rs.100/- each for 207 towers at total BOQ amount Rs.1.00 million (10,000 x Rs.100) of contract for construction of 220 KV Double Circuit twin bundle two transmission lines F/F Kassowal Grid Station.

During audit of EHV-I Construction Project NTDC for the year 2011-12, it was revealed that a quantity of 94,443 nuts with bolts were measured in running invoice on May 01, 2011 for BOQ Item against admissible quantity of 10,000 provided in the estimates for 207 towers. Incorrect measurement of actual work done against BOQ item resulted in over payment of Rs.8.44 million to the contractor.

The matter was taken up with management in Nov' 2011 and reported to the Ministry in Aug' 2012. In a meeting held on Dec' 26, 2012, the management replied that the overall expenditure of the work was within the contract price. The reply was not tenable as a quantity of 94,443 nuts with bolts was measured against the admissible quantity of 10,000 nuts with bolts.

Audit emphasizes to constitute a joint committee including internal audit and give fact finding report besides fixing responsibility for preparation unrealistic estimate.

(Draft Para No. 26/2013)

8.3.18 Less deduction of income tax from the contractors - Rs.5.83 million

According to Section-153(1)(C) of the Income Tax Ordinance, 2001, "Every person making a payment in full or part including a payment by way of advance) to a resident person or permanent establishment in Pakistan of a non-resident person, on the execution of a contract shall, at the time of making the payment, deduct tax from the gross amount payable at the rate specified in Division-III of Part-III of the first schedule”.

During audit of (EHV-II) NTDC Hyderabad for the year 2011-12, it was found that income tax was deducted from eight (08) contractors’ bills after subtracting retention money from the gross amount of bill in contravention of Income Tax Ordinance, 2001. This resulted in less deduction of income tax from the contractors to the tune of Rs.5.83 million which needed to be recovered.

The matter was taken up with the management in Jul’ 2012 and reported to the Ministry in Nov’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery of income tax besides fixing responsibility.

(Draft Para No.201/2013)

8.3.19 Excess payment of price escalation to contractor - Rs.4.97 million

Clause 23 A Note 1 & 2, 23B Note 1 & 2 Special Provision Annex J of Contract provides that “the increase or decrease in the contract price shall be computed on the basis of quantities actually measured and certified for payment”.

During audit of EHV-I NTDC for the year 2011-12, it was found that an amount of Rs.10.16 million (IBRD Loan-7565 PAK) was paid for price escalation against the contractual provisions. No month wise statement of cement and steel, actually utilized and measured in the work done, was prepared in support of contractor’s claim. As per design/specifications of various towers, the month wise consumption of cement, steel, labour and POL was worked out to be Rs.5.19 million instead of Rs.10.16 million which paid to contractor. Non-adherence to contractual provisions resulted in excess payment of price escalation of Rs.4.97 million to the contractor.

The matter was taken up with management in Nov’ 2011 and reported to the Ministry in Oct’ 2012. In a meeting held on Dec’ 26, 2012, the management replied that M/s Barqaab Consulting Services (Pvt) Limited had verified the escalation claims of the contractor and the payment was made in accordance with the relevant clauses of the contract agreement. The reply was not tenable as the price escalation was made against the provisions of contract agreement.

Audit requires expeditious adjustment of excess payment besides fixing responsibility.

(Draft Para No. 29/2013,)

8.3.20 Non-recovery of liquidated damages due to irregular grant of extension of time - Rs.2.63 million

According to contract clause 46.1 Section-7 General Conditions of Contract read with clause GCC 46.1 Section-08 Particular Conditions of Contract, "liquidated damages @ 0.05% for each day the completion date is later than the intended completion date of whole contract amount subject to 5% maximum of the final contract price as worked out is to be recovered form the contractor". Further, SOP issued by the Company Secretary, NTDC vide No. CS/NTDC/1279-83, dated Oct' 13, 2010 provides that, "extension of time involved in contracts beyond 365 days falls within the competency of BOD NTDC".

During audit of EHV-I NTDC for the year 2011-12, it was revealed that a contract was awarded to a contractor in Nov' 2008 with completion period 150 days (upto Mar' 4, 2009), but the contract was completed on Nov' 30, 2010. Hence, there was delay of 635 days in completion of contract. The Chief Engineer, NTDC (EHV-I) Project, Lahore granted extension of time 635 days in this contract without approval of the BOD NTDC whereas the Chief Engineer was competent to grant extension of time for 15 days. Non-adherence to Company's instructions resulted in non-recovery of liquidated damages of Rs.2.63 million from contractor.

The matter was taken up with management in Nov' 2011 and reported to the Ministry in Sep' 2012. In a meeting held on Dec' 26, 2012, the management replied that as per Clause 26 of GCC, the Project Manager was empowered to grant extension of time. The reply was not tenable because extension beyond 365 days was to be accorded by the BOD, which was not done as such LD charges was to be recovered from the concerned.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 28/2013)

8.3.21 Loss due to unjustified refund of liquidated damages - Rs.2.45 million

According to WAPDA Purchase Procedure, Delivery Clause-14(3), "extension in delivery period shall not be allowed as a matter of routine as and when demanded by the contractor/supplier. Only in exceptional cases when the delay occurs due to delay in inspection".

During audit of NTDC for the year 2011-12, it was revealed that the delivery period for supply of towers was extended upto 180 days for approval of prototype on the basis of frequent power interruption due to severe load shedding of electricity and natural gas. Liquidated damages amounting to Rs.2.45 million was refunded to M/s Alamdar Engineering Lahore during Feb' 2012. Non-adherence of rules resulted in loss of Rs.2.45 million due to unjustified refund of liquidated damages.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that an educational order was awarded to M/s Alamdar Engineering with the delivery schedule as 180 days from the date of purchase order. However, being an educational order approval of prototype was necessary before mass production. Hence, the supplier started production after the approval of prototype. Thus, the delivery schedule was amended on the request of supplier by the competent authority i.e. MD NTDC. The reply was not tenable because liquidated damages charges were deducted from the bills of supplier due to late supply of material. Later on favoritism was shown to the supplier and extension was granted to refund the liquidated damages.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.586/2013)

8.3.22 Loss due to difference of currency exchange rate - Rs.2.40 million

Payment clause Section-6 provides that "Preambles to conditions of contract the period of payment by employer to contractor was within (30) days after receipt of certificate payment of Engineer".

During the audit of EHV-I NTDC Lahore for the year 2011-12, it was revealed that an amount of Rs.2.40 was paid to M/s Siemens against supplementary claims on account of difference of currency exchange rate. It reflected that the contractor's claims were not processed well in time and funds were also not arranged timely by the Director Finance NTDC, Lahore. Violation of provision of contractual clause resulted in loss of Rs.2.40 million to Company in the shape of payment of difference of currency exchange rate.

The matter was taken up with the management in Jun' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility upon the person(s) at fault for not processing the contractor's claims in time.

(Draft Para No.576/2013)

8.3.23 Non-recovery of liquidated damaged due to delay in achieving the Commercial Operation Date by IPPs - US$ 25.06 million

Section 9.4(d) of Power Purchase Agreement provides that "if the company is in breach of its obligation under section 4.1(b) to achieve the Commercial Operation Date then for each month (prorated daily) thereafter until the Commercial Operation Date is actually achieved, the company shall pay the power purchaser as liquidated damages an amount equal to two and a half dollars (US$2.5) per KW of Contract Capacity per month (prorated daily) until the Commercial Operation Date is achieved".

During audit of Central Power Purchase Agency (CPPA) NTDC for the year 2011-12, it was revealed that there was an abnormal delay in achieving the required Commercial Operation Dates in various IPPs. The liquidated damages amounting to US$ 25.06 million were required to be recovered from the four IPPs for the delayed period. Non-adherence to the contract clauses resulted in non-recovery of L.D. charges of US$.25.06 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither relevant reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery of liquidated damages from the IPPs, besides fixing responsibility.

(Draft Para No.573/2013)

8.3.24 Loss due to less deduction of income tax at source - Rs.1.67 million

According to section 149 salary (1) of Income Tax Ordinance 2001, "every employer paying salary to an employee shall, at the time of payment, deduct tax from the amount paid".

During audit of General Manager WPPO NTDC for the year 2011-12, it was revealed that income tax amounting to Rs.1.67 million was less deducted from the employees of WAPDA during 2006-07 and 2007-08. Non-adherence to the rules resulted in loss of Rs.1.67 million due to less deduction of income tax from employees.

The matter was taken up with the management in Jul' 2008 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that the actual amount of income tax deductable from employees would be worked out to effect recovery. Further progress towards recovery was not intimated till finalization of this report.

Audit emphasizes expeditious recovery of income tax besides fixing responsibility.

(Draft Para No. 572/2013)

CHAPTER-9

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED (FESCO)

(137-157)

9. FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED

9.1 Introduction

Faisalabad Electric Supply Company Limited (FESCO) started its operations as a Public Limited Company registered under Companies Ordinance 1984 in May, 1998. The Company distributes the electricity to power consumers at tariff notified by NEPRA. The Company purchases electricity from National Transmission and Despatch Company (NTDC) and sells it to about 3.149 million consumers within its service territory. Geographical service area of FESCO comprises Faisalabad, Jhang, Bhakkar, Sargodha, Mianwali, Toba Tek Singh, Khushab and Chiniot Districts.

FESCO receives supply from NTDC on 220 KV Grid Stations Nishatabad, Jaranwala Road, Sammundri Road, Dawood Khel and Lude Wala at Sargodha and 500 KV Grid Station Gatti at Faisalabad. Additionally FESCO received electricity from private producers namely M/s Koh-i-Noor Energy, M/s Sitara Energy, M/s Nishat Energy, M/s Ramzan Sugar Mills, M/s Galaxy Testile Mills and M/s Shakarganj Energy Limited.

The jurisdiction of FESCO include four Operation Circles, one Grid System Construction Circle, one Project Construction Circle and one Grid System Operation Circle.

9.2 Comments on Financial Statements

9.2.1 Financial Overview

Monthly accounts (Trial balance and other management information schedules) from 78 accounting units were sent to Finance Director FESCO where these accounts were consolidated and financial statements including Balance Sheet, Profit & Loss Account and Cash flow statement were prepared. The financial results along with the financial ratios are as under:

9.2.2 Extracts of the Financial Statements[7]

Balance Sheet as at Jun' 30, 2012

(Rupees in millions)

	2011-12	%	2010-11	%	2009-10
Equity and Liabilities					
Accumulated Loss	(22,876.47)	196	(7,730.36)	0.62	(7,683.01)
Non-current liabilities	47,458.78	11	42,910.45	8.56	39,527.55

[7] *Only balances with significant variations during the current financial year and those against which comments are being incorporated in this analysis are reproduced.*

Trade and other Payables	52,578.92	92	27,452.74	(21.03)	34,762.66
Current portion of long term loans	143.11	962	13.48	-	-
Mark up payable	362.09	100	-	-	-
Current liabilities	53,084.12	93	27,466.22	(20.99)	34,762.66
	87,515.65	**21**	**72,498.57**	**(5.18)**	**76,462.51**

Assets

Non-current assets	43,775.30	11	39,512.96	7.01	36,933.86
Stores and spares	1,163.98	20	973.50	24.34	782.92
Trade debts	12,116.35	34	9,034.28	14.51	7,889.28
Short-term advances	195.59	128	85.74	(25.12)	114.50
Balance with statutory authorities	7,307.25	78	4,107.63	40.69	2,919.60
Other receivables	18,113.41	58	11,484.51	(46.45)	21,446.29
Current portion of long-term advances	43.59	8	40.36	9.23	36.95
Interest accrued	29.95	3	29.07	(11.37)	32.80
Bank balances	4,770.23	19	4,024.52	(36.18)	6,306.31
Current assets	43,740.35	33	32,985.62	(16.55)	39,528.65
	87,515.65	**21**	**72,498.57**	**(5.18)**	**76,462.51**

Profit and Loss Account
For the year ended Jun' 30, 2012

Electricity sale	87,358.10	14	76,865.16	2.93	74,676.05
Cost of electricity	95,291.61	32	72,054.67	5.56	68,256.56
Gross profit/(Loss)	(7,933.51)	(265)	4,810.49	(25.06)	6,419.49
Operating Cost	10,096.41	27	7,951.49	16.54	6,823.25
Loss before Interest and Tax	(17,169.64)	623	(2,375.84)	(898.01)	297.72
Other income	2,035.24	(16)	2,418.68	31.85	1,834.42
Loss before Tax	(15,134.41)	(35429)	42.84	(97.99)	2,132.14
Financial and other charges	14.74	(30)	21.04	(89.23)	195.35
Profit/(Loss) for the year	**(15,149.15)**		**(50.39)**	**(102.65)**	**1,904.12**

9.2.3 Financial Ratios:

The summary of ratios calculated for the three financial years is given below:

COMPANY		**FESCO**		
YEAR		**2011-2012**	**2010-2011**	**2009-2010**
Profitability Ratios				
Return on Capital Employed	%	(61.98)	0.12	6.18
Gross Profit Margin	%	(9.08)	6.26	8.60
Net Profit Margin	%	(17.34)	(0.07)	2.55
Asset Turnover Ratio	times	2.54	1.71	1.79

Return on Total Assets	%	(17.31)	(0.07)	2.49
Short Term Liquidity Ratio				
Current Ratio	times	0.82	1.20	1.14
Working Capital Ratios				
Debtors Turnover Period	days	51	43	39
Creditors Turnover Period	days	201	139	186
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	1.92	6.39	15.64
Gearing Ratio	%	52.49	34.42	34.66
Leverage Ratio	%	(53.35)	5.78	6.30
Interest coverage	%	(1,026)	2.04	10.91

9.2.4 Cash Flow Analysis

The Company generated net cash inflow (surplus) of Rs. 745.71 million (outflow (deficit) of Rs. 2,281.78 million: 2010-11) during the financial year resulting in closing balance of Rs. 4,770.23 million (Rs. 4,024.52 million: 2010-11).

The Company incurred net cash out flow (deficit) of Rs. 610.13 million from operating activities. The main components which triggered such increase include:

i) Employee benefits increased by Rs. 232.36 million i.e. 40% over the past year,
ii) Taxes paid by the Company increased by Rs. 1,939.41 million i.e. 154%.

The Company liquidated its short-term investment amounting to Rs. 3,206 million during the financial year 2011-12, to finance its operations. In addition to the above, Rs. 5,694.62 million were invested on fixed assets (Rs. 3,872.34 million: 2010-11) for the improvement of the power distribution system. However, it could not efficiently and effectively utilize the assets as the return on assets declined significantly.

Moreover, the net cash inflow of Rs. 3,846.86 million injected from financing activities as the Company borrowed Rs. 311.68 million (Rs. 693.39 million: 2010-11) from financial institutions/ donors agencies, Rs. 3,009.98 million raised through deferred credit (amount received from consumers and Govt. towards the cost of extension of distribution network and of providing service connection) and Rs. 525.20 million raised through security deposits received from consumers.

The retention of 36% of financing in the form of cash reserves dropped to 19%, which indicated cash flow problems for the Company. The Company utilized its accumulated cash reserves to manage its operational requirements resulting in significant decline of 17% in cash reserves which need to be justified.

9.2.5 Ratios Analysis

9.2.5.1 Profitability

Profitability ratios of the company showed the worst position ever in terms of gross profit and net profit, both ratios became negative due to huge loss in the year.

i) Gross profit

During the financial year 2011-12, electricity sales of the company increased to Rs.87,358.10 million i.e. increase of Rs.10,492.94 million, 14% (Rs.76,865.16 million: 2010-11). On the other hand, cost of electricity increased by 32% (Rs.95,291.61 million during the year 2011-12 (Rs.72,054.67 million: 2010-11). The proportionate increase in cost of electricity was higher than the increase in the sales of electricity due to which the Company suffered a gross loss of Rs.7,933.51 million. The line losses of 76 sub divisions of the Company ranged from 10% to 24.16%, resulting in high cost of electricity.

In view of the forgoing, the gross profit ratio declined significantly i.e. (9.08%) gross loss as compared to gross profit of 6.26 for the financial year 2010-11.

The abnormal increase in the cost of sales, resulting in significant increase in gross loss of the Company which needs to be explained.

ii) Net Profit Ratio

The Company suffered accumulated loss of Rs.22,876.47 million, out of which Rs. 15,149.15 million was incurred during the present financial year.

This indicated that the operational efficiency of the Company remained highly unsatisfactory. The operational loss was mainly due to increase in operating expenses by 27% over the previous year which could mainly be attributed to enhancement in pay and allowances and repairs & maintenance expenses. It was further observed that the Company approved certain allowances in respect of various categories of employees. The detail is mentioned hereunder:

i) Transport subsidy
ii) Special WAPDA allowance
iii) Danger allowance

The grant of above allowances without the approval/concurrence of Ministry of Finance was not in line with the provisions of Government Rules and Regulations and amount paid on account of above allowances was irregular.

In view of the forgoing, the Net Profit ratio declined significantly i.e. (17.34%) net loss as compared to net loss of (0.07%) for the financial year 2010-11.

The Company could not manage its expenses including line losses due to which the cost of electricity and indirect expenses increased significantly. The expenses increased to such a huge amount that the relative revenue generated from sales and other income could not mitigate the impact.

ii) Return on capital employed

The return declined to (61.98%) loss from 0.12% profit, showing that the Company could not utilize its resources in an efficient and effective manner.

iii) Return on total assets

The return declined to (17.31%) from (0.07%) as company was not utilizing its assets efficiently to generate favourable return.

The Company invested Rs. 5,694.62 million on the non-current assets during the financial year. The investment was financed through the consumer security deposits and Government Grants realized during the present financial year. In addition to the above, the Company held cash reserves of Rs.4,770.23 million. The debt to total asset ratio and gearing ratio was 1.92 and 52.50 respectively which showed that company is relying heavily on debt to finance its operations. Audit suggested that the Company may review its capital structure and policy of getting loan because it badly affected the liquidity position of the company and have direct impact on the profitability of the company.

The huge investment on non-current assets could not improve the profitability position of the Company as the return on total assets declined significantly which needs to be explained.

9.2.5.2 Short Term Liquidity

i) Current ratio

Despite the fact, the Company liquidated its short term investment amounting to Rs.3,206 million, the current ratio declined to 0.82 from 1.20 indicating short term financial difficulties in repayment of current liabilities.

The Company did not hold adequate liquid assets required to settle its short term liabilities which needs to be explained.

9.2.5.3 Working Capital Cycle

ii) Debtor / Creditor turnover period

The trade receivables increased significantly i.e. by Rs.3,082.07 million (34%) over the previous year. In addition to that, the debtors' turnover period increased to 51 days (43 days in 2010-11 and 39 days in 2009-10). Moreover, the Company has written off an amount of Rs.567.29 million as bad debts during the present financial year.

An increase in accounts receivable, debtor's turnover period and writing off a significant amount of debtors as bad debts reflected inefficient collection procedures and poor administration of trade debts, resulting loss of revenue to the Company and ultimately worsening liquidity position.

Delays in collection from debtors have trickledown effect on the creditor's turnover period which increased to 201 days from 139 days.

The increase in accounts receivable and accounts payable indicated continuing cash flow shortage resulted in persistent working capital financing problems for the Company. Poor management of debtors and creditors' turnover period and writing off significant amount as bad debts are needed to be explained.

9.2.5.4 Gearing, leverage and interest coverage ratios

The non-current liabilities of the Company increased by 11% over the previous year. The trade and other payables increased by 92% (i.e. by Rs. 25,126.18 million) and the creditors' turnover period increased to 201 days. Significant increase in the non-current and current liabilities reflects that the Company encountered the liquidity problems and the management has not taken adequate remedial action to address the issue.

The financial position of the Company deteriorated during the past few years as depicted in the summary of ratios mentioned above. The gearing position of the Company showed negative trend i.e. 52.49% during the financial year 2011-12 as compared to 34.42% during the financial year

2010-11. High gearing reflect liquidity problems resulted in cash flow risk for the Company. The Company heavily relied on the external sources to finance its operations instead of funding the operations out of resources generated from its operations.

Reliance on borrowings / loans and payment of huge financial charges are needed to be explained.

9.2.6 Recommendations:

It is evident from the above analysis that the profitability, liquidity and solvency position of the Company deteriorated with an exceptionally high rate. In order to finance the operations, Company would heavily rely on financing from external sources which would aggravate the liquidity position. If these conditions will prevail, the Company would require heavy funding from the Government to maintain going concern status.

In view of the forgoing, it is recommended that Company may revamp its organizational structure and address operational issues, being the major cause of losses. In addition to that, the Company may also restructure its financial arrangements by funding its operations from cheap sources of finance, resulting in low interest cost.

The line losses, being the major cause of losses is required to be addressed at higher level. There is a dire need to develop a policy to address the heavy line losses and to ensure the inflow of funds in the form of revenue.

The issue of huge receivables from Government and private consumers shall also be given due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

9.3 AUDIT PARAS

9.3.1 Embezzlement of cash - Rs.6.86 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of FESCO for the year 2011-12, it was found that an amount of Rs.6.87 million was embezzled by overcastting the cash book, excess postings than passed vouchers and payments without vouchers from Jul’ 2006 to Jun’ 2011. The matter was investigated through departmental inquiry committee who recommended recovery from the responsible besides administrative action against the responsible(s). Neither the amount was recovered nor any action taken against the responsible(s). Non-implementation of rules for safeguarding the assets of the Company resulted in embezzlement of cash of Rs.6.86 million.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 17, 2012, the management replied that inquiry in both cases had been finalized. Recovery and disciplinary action were under process. Further progress was not intimated till the finalization of this report.

Audit emphasized expeditious recovery involved in embezzlement, besides fixing responsibility.

(Draft Para No. 349 & 533/2013)

9.3.2 Misappropriation of electrical material - Rs.5.16 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of FESCO for the year 2011-12, it was revealed that electrical material worth Rs.5.29 million drawn from store/dismantled from site was misappropriated by line staff. The action to recover the amount was not taken which showed weak and inefficient supervisory control of the management. Non-adherence to the rules resulted in misappropriation of material amounting to Rs.5.29 million.

The matter was taken up with the management in Sep’ to Nov’ 2012 and reported to the Ministry from Oct’ to Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report. However, record amounting to Rs.0.06 million had been produced and verified. The amount of para was reduced to Rs.5.16 million. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 162, 532 & 600/2013)

9.3.3 Loss due to theft of electrical material - Rs.17.59 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of FESCO for the year 2011-12, it was found that electrical material comprising transformers, conductor and allied material worth Rs.19.07 million involving in one hundred and forty four (144) cases was stolen. In some cases, FIRs were lodged with the concerned police stations but administrative action was not taken to fix the responsibility of loss and to decide its fate. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs.19.07 million.

The matter was taken up with the management from Jul' to Nov' 2012 and reported to the Ministry from Oct' to Dec' 2012. In a meeting held on Dec' 17, 2012, the management replied that the FIRs had been lodged and progress would be intimated to Audit. Recovery of Rs.1.48 million was verified and the amount of para was reduced to Rs.17.59 million.

Audit requires inquiry in the matter besides fixing responsibility and submit the inquiry report through Principal Accounting Officer.

(Draft Para No. 107, 163, 167, 254, 366, 476 & 481/2013)

9.3.4 Loss due to shortage of material - Rs.16.53 million

According to instructions issued by WAPDA dated Jul' 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 audit of FESCO for the year 2011-12, it was revealed that material worth Rs.16.53 million relating to the period from Sep' 1984 to Apr' 2012 pended for disposal was found short in Regional Store FESCO Faisalabad as depicted from inquiry reports. Violation of Authority's instructions resulted in loss of Rs.16.53 million due to shortage of material.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 560/2013)

9.3.5 Loss due to defective power purchase agreement with private producer - Rs.933.10 million

According to Section-4 of the Public Procurement Rules, "Procuring agencies, while engaging in procurements, shall ensure that the procurement 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 audit of FESCO for the year 2011-12, it was revealed that a power purchase agreement was made with M/s Sitara Chemical Industries Faisalabad for supply of electricity from its generating unit. The supplier was also a consumer of Company. The rates of purchase of electricity from supplier were considerably high as compared to the rates charged to the consumer. The average rates of purchase of electricity was Rs.18.72 as compared to the average sale rate of company to consumers of Rs.10.87 per unit. Poor contractual management resulted in recurring loss of Rs.933.10 million to the Company by given undue favour.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report. Audit was of the view that due to defective agreement, the Company sustained a loss by not making purchase of surplus energy beyond the demand of energy by itself i.e. M/s Sitara Chemical Industries.

Audit requires inquiry in the matter besides fixing responsibility for defective PPA.

(Draft Para No. 474/2013)

9.3.6 Huge receivables amount from energy defaulters - Rs.244.13 million

According to the Office letter No.320-30/GM (C&M)/P/CE(O)/Stat/130 dated 14.06.2012 circulated by General Manager C&M PEPCO, "special efforts are required during the remaining days of June, 2012. Running defaulters/ disconnected defaulters need physical checking for effective recovery."

During audit of FESCO for the year 2011-12, it was found that an amount of Rs.244.13 million was receivable from 17,568 energy defaulters (Government & Private) for a period exceeding from six months i.e. from Dec' 31, 2011 upto more than three years. In this respect, no efforts were made by the management to accelerate the recovery from defaulters. Owing to the increasing trend of receivables, PEPCO was facing financial difficulties in discharging its obligations towards Power Sector Companies (PSC) and Independent Power Producers (IPPs). Non-recovery from energy defaulters resulted in blockage of Rs.244.13 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry on Jan' 1, 2013. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 648/2013)

9.3.7 Undue favour to the consumers on account of non-regularization of unauthorized extension of load - Rs.141.59 million

According to abridged condition-6 of supply of power, "in case of non-removal/non-regularization of un-authorized extended load, the supply to the consumer shall be disconnected".

During audit of FESCO for the year 2011-12, it was revealed that one hundred and thirty six (136) industrial consumers had extended the load of the energy connections without the approval of competent authority. In violation of the abridged condition, the field formations neither disconnected the energy connections nor regularized the un-authorized extended load. Resultantly, an amount of Rs.143.38 million remained un-recovered from consumers on account of cost of equipment, security deposit and rehabilitation charges.

The matter was taken up with the management from Aug' to Nov' 2012 and reported to the Ministry from Oct' to Dec' 2012. In a meeting held on Dec' 17, 2012, the management replied that un-authorized extension of load in some cases had been removed by the consumers and in other cases regularized. As for the remaining cases, notices had been issued to the consumers to either remove the un-authorized extension of load or get it regularized within one month. In two cases the amount of security at prevailing rates was recoverable to the extent of incremental load and not the entire load. Record of Rs.1.78 million had been produced and verified. Hence, the amount of para was reduced to Rs.141.59 million.

Audit requires expeditious remaining recovery besides fixing responsibility for this lapse.

(Draft Para No. 103, 108, 253, 303, 469 & 530/2013)

9.3.8 Loss due to unjustified award of contract to companies at higher rates and non-return of copper – Rs.99.47 million

According to instructions issued by WAPDA dated Jul' 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 audit of FESCO for the year 2011-12, it was revealed that one thousand, nine hundred and eighty two (1,982) transformers of different capacities were repaired from M/s Swat Industries Lahore and Transformer Reclamation Workshop Shalimar in the presence of own workshop in FESCO at higher rates and paid transportation charges of Rs.50.26 million. Moreover, seventy thousand, three hundred and six (70,306) kilograms dismantled copper amounting to Rs.49.21 million was also not returned to FESCO store. Non-adherence to Authority's instructions resulted in loss of Rs.99.47 million due to payment at higher rates, transport charges and non-return of copper to the Company.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility against person(s) at fault and returning of dismantled copper.

(Draft Para No. 531/2013)

9.3.9 Non-disposal of dismantled material - Rs.77.62 million

Chapter-XI section-1 and clause 1.4 of the WAPDA Disposal Procedure provides that "unserviceable vehicles and material/equipments are to be disposed off timely".

During audit of FESCO for the year 2011-12, it was found that dismantled material pertaining to the period from Dec' 2007 to Jan' 2011 was lying in the store. The material was kept in the open space and exposed to the environmental effects. Non-adherence to rules resulted in non-disposal of dismantled material amounting to Rs.77.62 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 639/2013)

9.3.10 Loss due to non-recovery from M/s Galaxy Textile Mills on account of energy charges - Rs.70.25 million

Section 1.3 of commercial procedure provides that "the Revenue Officer and Assistant Manager are responsible for, i) Implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company; ii) Efficient application of billing and collection procedures".

During audit of FESCO for the year 2011-12, it was revealed that energy charges amounting to Rs.70.25 million were outstanding against M/s Galaxy Textile Mills since Apr' 2008 to date. Non-adherence to rules resulted in loss of Rs.70.25 million due to non-recovery of energy charges.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 17, 2012, the management replied that payment of electricity bill of the consumer was allowed to be paid by quarterly installment by the Chief Executive Officer FESCO on Feb' 24, 2012. Uptill now, an amount of Rs.15 million had been paid by the consumer from the arrears and remaining recovery was under process. The reply was not tenable because FESCO was purchasing energy from M/s Galaxy but recovery was not made at source from the firm.

Audit requires inquiry in the matter besides fixing responsibility at higher level and provide policy for installments.

(Draft Para No. 475/2013)

9.3.11 Non-removal of electrical equipment and non-recovery of outstanding energy charges - Rs.39.11 million

According to Para-3 of authority's circular dated Apr' 15, 1998 lays down that "disconnections will be effected through removal of meters, transformers, span or any other equipment to ensure that no possibility of loop hole is left for unauthorized use of energy during the period of disconnection". The equipment after having been removed from site was required to be returned to store.

During audit of FESCO for the year 2011-12, it was revealed that an amount of Rs.39.11 million was outstanding on account of energy charges against one thousand, six hundred and twenty (1,620) private and government consumers. Resultantly, Equipment Removal Orders (EROs) were issued but neither the transformers and other allied equipment were removed nor the arrears of energy charges recovered.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry on Dec' 31, 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides ensuring the removal of equipment from sites.

(Draft Para No. 645/2013)

9.3.12 Loss due to supply of substandard galvanized steel wire - Rs.31.61 million

Clause-8 of the purchase order provides that "the supplier shall furnish a warranty certificate, certifying that the goods supplied conform exactly to the specifications laid down in the contract and are brand new and that in the event of the material being found defective or not conforming to the specifications / particulars governing supply at the time of delivery and for a period of twelve months from the date of completion of supply / delivery, he shall be held responsible for all losses and the acceptable goods shall be substituted with the acceptable goods at his expenses and cost".

During audit of Construction Circle FESCO for the year 2011-12, it was revealed that galvanized steel (GS) wire was allocated for execution of different works which was not according to the specifications. The GS wire was too hard for nozzling and broke on several occasions during the execution of works. The management could not get the wire replaced from contractor at his expenses and cost. Non-adherence to clause of purchase order resulted in loss of Rs.31.61 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Oct' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 160/2013)

9.3.13 Non-replacement of transformers damaged under warranty period - Rs.30.88 million

According to purchase orders, "the material damaged/become defective during warranty period is to be substituted with new ones or get repaired at the cost and expense of the suppliers".

During audit of FESCO for the year 2011-12, it was revealed that fifty six (56) transformers of different capacities worth Rs.30.88 million damaged / became defective within the warranty period were not sent to manufacturer for replacement. Non-adherence to the purchase order clause resulted in blockade of company's funds to the tune of Rs.30.88 million.

The matter was taken up with the management from Aug' to Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 106, 468 & 478/2013)

9.3.14 Improper utilization of ADB loan - Rs.17.38 million

According to Para-10 (i) Chapter-2 of General Financial Rules, "every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money".

During audit of FESCO for the year 2011-12, it was revealed that a 90-ton low bed trailer with prime mover worth Rs.17.38 million was procured (under ADB Loan No.2438-PAK) from M/s Automobile Corporation of Pakistan, Karachi. After purchase, the trailer was allocated to Project Director G.S.C, FESCO in Mar' 2012 where it was standing idle since its purchase. An amount of Rs.1.78 million was spent on transportation of power transformers through private source. Poor planning and financial management resulted in improper utilization of resources amounting to Rs.17.38 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for un-necessary procurement of trailer.

(Draft Para No.470/2013)

9.3.15 Non-recovery of LD charges from the suppliers - Rs.16.97 million

According to Special Conditions-8 of the of purchase orders, i) "the liquidated damages shall be 0.5% per week or part thereof, of the cost of undelivered goods and not of the total contract value, ii) the maximum amount of liquidated damages shall be 10% of the contract price".

During audit of FESCO for the year 2011-12, it was revealed that four (4) contracts for supply of electrical equipment amounting to Rs.269.45 million were made with suppliers. The suppliers could not supply the electrical material within stipulated period. Liquidated damages worth Rs.16.97 million either was not recovered or less recovered from the suppliers which resulted in a loss of Rs.16.97 million.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 17, 2012, the management replied that liquidated damages would be deducted from the final payment of three (03) suppliers while in fourth case, liquidated damages was adjusted from the final payment. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 483/2013)

9.3.16 Loss due to purchase of power at higher rates – Rs.13.05 million

According to Section-4 of the PPRA Rules, "Procuring agencies, while engaging in procurements, shall ensure that the procurement 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 audit of FESCO for the year 2011-12, it was revealed that energy from M/s Ramzan Sugar Mills was purchased @ Rs.8.69 per kwh whereas the energy procured from M/s Shakarganj Sugar Mills and M/s Galaxy Textile Mills was @ Rs.9.08 & Rs.9.10 per kwh respectively. Difference in energy rates was not understood, as the above said Small Power Producers (SPPs) were generating the power from same source. Non-adherence to instructions resulted in loss of Rs.13.05 million due to purchase of energy at higher rates.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 17, 2012, the management replied that it was obvious that the energy purchase prices of all the three CPP/NCPP Power Plants were different. It was, therefore, not possible to purchase the energy from different power houses on different fuel with different incentive (i.e. Financial cost in case of M/s Galaxy Textile Mills was as per NCPP policy) on the lowest rate applicable from M/s Ramzan Sugar Mills. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility against the person(s) at fault.

(Draft Para No. 472/2013)

9.3.17 Non-disposal of idle transmission line - Rs.11.17 million

According to Chapter-XI section-1 and clause 1.4 of the WAPDA Disposal Procedure, "unserviceable vehicles and material/equipments are to be disposed off timely".

During audit of FESCO for the year 2011-12, it was revealed that Awanabad Feeder of Sillanwali Sub Division emanating from 66 KV Brana Grid was idle due to shifting of area from 66 KV Brana Grid to newly constructed 132 KV Grid during May 2011. The idle line should have been removed and disposed off to avoid its theft. Non-adherence to Authority's instructions resulted in non-disposal of idle transmission lines of Rs.11.17 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 471/2013)

9.3.18 Loss due to default in realization of revenue – Rs.5.66 million

Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing provides that "Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company; ii) efficient application of billing and collection procedures".

During audit of FESCO for the year 2011-12, it was found that twenty three (23) consumer connections of different categories were disconnected due to non-payment of energy charges amounting to Rs.5.85 million. Recovery could not be effected despite lapse of 25 to 146 months. Non-adherence to commercial operating procedure resulted in non-recovery of energy charges amounting to Rs.5.85 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 17, 2012, the management replied that in five (05) cases, recovery of Rs.0.19 million had been made and recovery in remaining cases was under active pursuance. Recovery of Rs.0.19 million was verified and amount of para was reduced to Rs.5.66 million.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 480/2013)

9.3.19 Non-recovery of detection charges from consumers - Rs.5.05 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, "Revenue Officer and Assistant Manager are responsible for i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company; ii) efficient application of billing and collection procedures".

During audit of Operation Circle-I FESCO for the year 2011-12, it was found that thirty four (34) consumers were charged detection bills for 0.50

million energy units amounting to Rs.5.05 million which were not recovered from the consumers. Non-implementation of detection bills resulted in non-recovery of Rs.5.05 million from the consumers.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Nov' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery from consumers besides fixing responsibility.

(Draft Para No.255/2013)

9.3.20 Loss due to award of contract in violation of PPRA Rules - Rs.4.84 million

According to Rule 38 of PPRA Rules, "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 audit of FESCO for the year 2011-12, it was revealed that a contract for procurement of electrical material was awarded to the 2nd lowest bidder M/S SGWI (Pvt) Ltd Lahore at contract price Rs.18.90 million by ignoring the 1st lowest bidder M/s AYK (Pvt) Ltd Gujranwala which offered bid price Rs.14.06 million after declaring it non-responsive. Violation of PPRA Rules resulted in loss of Rs.4.84 million due to award of contract at higher rates.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Dec' 12, 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-award of work to the lowest bidder.

(Draft Para No. 559/2013)

9.3.21 Non-encashment of performance bonds - Rs.4.81 million

Clause 13-A (i) of the Purchase Orders provides that "the contracting officer will have the right to forfeit the security bond/guarantee (performance bond) if the supplier fails to supply the goods within time specified in the Purchase Order."

During audit of FESCO for the year 2011-12, it was revealed that three (03) purchase orders were placed on M/s Pre-Cast Building Systems during Feb' and Mar' 2012 for supply of store material. The supplier could not supply the material within the stipulated period. Neither the contracts were cancelled at the risk and cost of the suppliers nor surety / performance bonds worth Rs.4.81 million were encashed. Poor management resulted in non-forfeiture of performance security of Rs.4.81 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 473/2013)

9.3.22 Unjustified award of contract in violation PPRA Rules - Rs.3.58 million

Rule-21 of Public Procurement Regularity Authority Rules provides that "the Procurement agencies shall engage in open competitive bidding".

During audit of FESCO for the year 2011-12, it was revealed that a contract for the purchase of grid station equipment costing Rs.3.58 million was awarded to M/s Alamdar Engineering Lahore. As per evaluation report, only single bidder participated in the bid without open competition. Non-adherence to PPRA Rules resulted in irregular award of contract and unjustified procurement of Rs.3.58 million.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for unjustified award of contract.

(Draft Para No. 529/2013)

9.3.23 Unauthorized procurement of material in violation of PPRA Rules - Euro 0.30 million (Rs.3.58 million)

According to rules 42 (C) (iv) of PPRA Rules, "repeat order shall be given upto fifteen (15) percent of the original procurement".

During audit of FESCO for the year 2011-12, it was found that electrical material (18 set of 132 KV SF-6 Gas Circuit breaker 110 volt) worth Euro 0.30 million was purchased through variation order during Oct' 2010. This variation / repeat order was issued by enhancing the quantities by 30% of the original purchase orders. The quantities of the repeat orders exceeded the limit mentioned in the PPRA Rules. Violation to provisions of PPRA Rules resulted in unauthorized expenditure of Euro 0.30 million (Rs.3.58 million) to the Company.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No. 558/2013)

9.3.24 Loss due to non-recovery of supply charges against temporary connections - Rs.1.84 million

According to special condition of supply under tariff-E of Schedule of Electricity Tariff FESCO, "the supply shall not be given by the Company without obtaining security equal to the anticipated supply and other miscellaneous charges for the period of temporary supply".

During audit of FESCO for the year 2011-12, it was found that an amount of Rs.1.84 million was outstanding against the temporary connections. In contravention to special conditions, the Company did not obtain security equal to the anticipated supply charges. Resultantly nothing had to adjust against the outstanding dues. The recovery of dues was impossible as the consumers had left the sites without paying energy cost. Non-adherence to the conditions of schedule of tariff resulted in loss of Rs.1.84 million due to non-recovery of supply charges against temporary connection.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.477/2013)

9.3.25 Loss due to non-recovery of sharing cost from consumers - Rs.1.52 million

According to G.M (CS) Circular No.1476-98/GMCS/DGC/D(R&CP)/58006 dated September 09, 2003, "the transformer sharing cost will be recovered from the consumer applying load above 10 kw up to 15 kw where distribution network exists and load is available on the existing transformer."

During audit of FESCO for the year 2011-12, it was revealed that the load of thirty one (31) consumers was sanctioned ranging from 7.46 KW to 8 KW to avoid the inclusion of sharing cost of transformers in estimates but they were utilizing the load ranging from 10 KW to 21 KW. Sharing cost of transformers amounting to Rs.1.52 million was required to be charged to the consumers but was not done. Violation of commercial operating procedure resulted in loss of Rs.1.52 million due to non-recovery of sharing cost of transformers.

The matter was taken up with the management in Oct’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 17, 2012, the management replied that in all cases, notices had been issued for effecting recovery from the consumers. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 479/2013)

CHAPTER-10

GUJRANWALA ELECTRIC POWER COMPANY LIMITED (GEPCO)

(161-190)

10. GUJRANWALA ELECTRIC POWER COMPANY LIMITED

10.1 Introduction

Gujranwala Electric Power Company Limited (GEPCO) started its operation as a Public Limited Company registered under Companies Ordinance-1984 in May 1998. The company had obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The Company purchases electricity from NTDC and sells it to the consumers in Gujranwala, Gujrat, Mandi Bahaudin, Narowal, Hafizabad and Sialkot Districts.

The jurisdiction of GEPCO includes four Operation Circles, one Grid System Construction Circle, one Project Construction Circle and one Grid System Operation Circle.

10.2 Comments on Financial Statements

10.2.1 Financial Overview

Monthly accounts (Trial Balance and other management information schedules) from 56 accounting units were sent to Finance Director GEPCO where these accounts were consolidated and Financial Statements including Balance Sheet, Profit and Loss Account and Cash Flow Statements were prepared. The financial results along-with the financial ratios were as under:

10.2.2 Extracts of the Financial Statements[8]

Balance Sheet as at Jun' 30, 2012

(Rupees in million)

	2011-12	%	2010-11	%	2009-10
Equity and Liabilities					
Accumulated Loss	-13,358.99	93.00	-6919.83	21.49	-5,695.79
Non-current liabilities	21,605.53	20.00	17,975.71	10.06	16,331.91
Creditors, accrued and other liabilities	33,785.80	75.00	19,302.57	-8.8	21,165.47
Current portion of long term loans	189.29	-93.00	2746.19	48.46	1849.83
Current liabilities	34,217.10	54.00	22,149.69	-3.83	23,031.99
	45,482.28	**26.00**	**36,224.20**	**-1.26**	**36,686.75**

[8] *Only balances with significant variations during the current financial year and those against which comments are being incorporated in this analysis are reproduced.*

Assets

Non-current assets	24,802.62	15.00	21,602.75	11.18	19,430.33
Stores and spares	833.20	-39.00	1,363.47	1.83	1,338.91
Trade debts	13,715.52	55.00	8,872.09	26.37	7,021.00
Advances, prepayments and other receivables	3,088.00	43.00	2,160.43	-68.78	6,919.70
Short term investment	1,700.00	23.00	1,381.00	64.40	840.00
Cash and bank balances	1,215.57	59.00	763.66	-29.14	1,077.64
Current assets	20,552.28	41.00	14,540.65	-15.45	17,197.25
	45,482.28	**26.00**	**36,224.20**	**-1.26**	**36,686.75**

Profit and Loss Account
For the year ended Jun' 30, 2012

(Rupees in million)

	2011-12	**%**	**2010-11**	**%**	**2009-10**
Electricity sale	68,526.01	14.00	59,976.21	4.29	57,507.07
Cost of electricity	69,526.79	23.00	56,395.68	12.45	50,152.18
Gross profit/(Loss)	-1,000.78	-128.00	3,580.54	-51.32	7,354.89
Operating Cost	7,176.45	14.00	6,304.68	29.37	4,873.45
Loss before Interest and Tax	-7,670.69	233.00	-2,300.23	-180.56	2855.173
Other income	1,453.16	20.00	1,214.70	10.11	1,103.14
Loss before Tax	-6,217.53	473.00	-1085.53	-127.42	3,958.31
Financial and other charges	196.90	42.00	138.52	-58.66	335.068
Profit/(Loss) for the year	**-6,439.15**	**426.00**	**-1224.04**	**-129.52**	**4,146.01**

10.2.3 Financial Ratios:

The summary of ratios calculated for the three financial years is given below:

COMPANY		**GEPCO**		
YEAR		**2011-2012**	**2010-2011**	**2009-2010**
Profitability Ratios				
Return on Capital Employed	%	-133.54	-12.91	44.90
Gross Profit Margin	%	-1.46	5.97	12.79
Net Profit Margin	%	-9.40	-2.04	7.21
Asset Turnover Ratio	times	6.08	4.26	4.21
Return on Total Assets	%	-14.16	-3.38	11.30
Short Term Liquidity Ratio				
Current Ratio	times	0.60	0.66	0.75

Working Capital Ratios				
Debtors Turnover Period	days	73	54	45
Creditors Turnover Period	days	177	125	154
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	4.24	10.99	9.69
Gearing Ratio	%	37.32	14.70	19.33
Leverage Ratio	%	-222.10	-46.40	-30.36
Interest coverage	times	-31.58	-7.84	11.81

10.2.4 Cash Flow Analysis

The Company generated net cash inflow (surplus) of Rs.451.91 million, outflow (deficit) of Rs.313.98 million: 2010-11) during the financial year resulting in closing balance of Rs.1,215.57 million (Rs.763.66 million: 2010-11).

The Company incurred net cash inflow (surplus) of Rs.1,749.79 million from operating activities. The main component which triggered such increase include:

i) Increase in receipt against deposit works during 2011-2012.

In addition to the above, Rs. 4,061.68 million were invested on fixed assets (Rs. 2,698 million: 2010-11) for the improvement of the power distribution system. However, the Company could not utilize the assets efficiently and effectively as the return on assets declined significantly.

Moreover the net cash inflow of Rs.904.72 million injected from financing activities as the Company borrowed Rs.573.86 million (Rs.423.50 million: 2010-11) from financial institutions / donors agencies .

The retention of 59% of financing in the form of cash reserves indicated that the Company’s cash reserves were not utilized to manage the operational requirements and to pay off long term loans which needs to be explained.

10.2.5 Ratios Analysis

10.2.5.1 Profitability

Profitability ratios of the Company showing the worst position ever faced by the Company in terms of gross profit and net profit both ratios which remained negative due to huge loss during the year.

i) Gross profit

During the financial year 2011-12, Electricity sales of the company increased by 14% (4.29% during the year 2010-2011). The increase was mainly due to increase in tariff by NEPRA and in number of consumers. On the other hand, cost of electricity increased by 23% (12.45% during: 2010-11). The proportionate increase in cost of electricity was higher than the increase in the sales of electricity due to which the Company suffered a gross loss of Rs.1,000.78 million. The line losses of 76 sub divisions of the Company ranged from 10% to 24.06%, resulting in high cost of electricity.

In view of the forgoing, the Gross Profit ratio declined significantly i.e. (1.46%) gross loss as compared to gross profit of 5.97 for the financial year 2010-11.

The abnormal increase in the cost of sales, resulting in significant increase in gross loss of the company needs to be explained.

ii) Net Profit Ratio

The Company suffered accumulated losses of Rs.13,359.00 million, out of which Rs.6,439.15 million was incurred during the present financial year.

This indicated that the operational efficiency of the Company remained highly unsatisfactory. The operational loss was mainly due to increase in operating expenses by 13% over the previous year which mainly attributed to enhancement in pay and allowances and repairs & maintenance expenses. It was further observed that the Company approved certain allowances in respect of various categories of employees. The detail of which is mentioned hereunder:

i) Transport subsidy
ii) Special WAPDA allowance
iii) Danger allowance

The grant of above allowances without the approval/concurrence of Ministry of Finance was not in line with the provisions of Government Rules and Regulations and amount paid on account of above allowances was irregular.

In view of the forgoing, the Net Profit ratio declined significantly i.e. (9.40%) net loss as compared to net loss of (2.04%) for the financial year

2010-11.

The Company could not manage its expenses including line losses due to which the cost of electricity and indirect expenses increased significantly. The expenses increased to such a huge amount that the relative revenue generated from sales and other income could not offset the impact.

iii) Return on capital employed

The return declined to (133.54%) loss from (12.91%) loss, showing that the Company could not utilize its resources in an efficient and effective manner.

iv) Return on total assets

The return declined to (14.16%) from (3.38%) as Company was not utilizing its assets efficiently to generate favorable return.

The Company invested Rs.24,802.62 million on the non-current assets during the financial year. In addition to the above, the Company held cash reserves of Rs.1,215.57 million. The debt to total asset ratio and gearing ratio was 4.24 and 37.32 respectively which showed that debt was the major component of the total capital employed. Audit suggested that the Company should review its capital structure and policy of getting loan because it badly affected the liquidity position of the company and had direct impact on the profitability of the company.

The huge investment on non-current assets could not improve the profitability position of the Company as the return on total assets declined significantly which needs to be explained.

10.2.5.2 Short Term Liquidity

i) Current ratio

Despite the fact, the Company liquidated its short term investment amounting to Rs.1,700.00 million, the current ratio declined to 0.60 from 0.66 indicating short term financial difficulties in repayment of current liabilities.

The Company did not hold adequate liquid assets required to settle its short term liabilities which was required to be explained.

10.2.5.3 Working Capital Cycle

i) Debtor's/ Creditors turnover period

The trade receivables increased significantly i.e. by Rs.4,843.43 million, 55% over the previous year. In addition to that, the debtors' turnover period increased to 73 days (54 days in 2010-11 and 45 days in 2009-10). Moreover, the company had written off an amount of Rs.30.10 million as bad debts during the present financial year.

An increase in accounts receivable, debtor's turnover period and writing off a significant amount of debtors as bad debts reflected inefficient collection procedures and poor administration of trade debts, resulting loss of revenue to the Company and ultimately worsening liquidity position.

Delays in collection from debtors had trickledown effect on the creditor's turnover period which increased to177days from 125 days.

The increase in accounts receivable and accounts payable indicated that there was a continuing cash flow shortage resulting in persistent working capital financing problems for the Company. Poor management of debtors and creditor's turnover period and writing off significant amount as bad debts needs to be explained.

10.2.5.4 Gearing, leverage and interest coverage ratios

The non-current liabilities of the company increased by 20% over the previous year. The trade and other payables increased by 75% and the creditors' turnover period increased to 177 days. Significant increase in the non-current and current liabilities reflected that the Company was encountering the liquidity problems and the management had not taken adequate remedial action to address the issue.

The financial position of the Company deteriorated during the past few years as depicted in the summary of ratios mentioned above. The gearing position of the Company showed negative trend i.e. 37.32% during the financial year 2011-12 as compared to 14.70% during the financial year 2010-11. A significant portion of the capital employed was debt, which could affect the liquidity position of the Company.

Despite having significant cash reserves, the Company opted to borrow funds through loans and other financing arrangements resulting in high interest cost to the Company which needs to be explained.

10.2.6 Recommendations:

The above analysis showed that the profitability, liquidity and solvency position of the company deteriorated with an exceptionally high rate. In order to finance the operations, Company would heavily rely on financing from external sources which would aggravate the liquidity position. If these conditions prevailed, the Company would require heavy funding from the Government to maintain going concern status.

In view of the forgoing that the Company should revamp its organizational structure and address operational issues, being the major cause of losses. In addition to that, the Company should also restructure its financial arrangements by funding its operations from cheap sources of finance, resulting in low interest cost.

The line losses, being the major cause of losses is required to be addressed at higher level. There is a dire need to develop a policy to address the heavy line losses and to ensure the inflow of funds in the form of revenue.

The issue of huge receivables from Government and private consumers requires also due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

10.3 AUDIT PARAS

10.3.1 Loss due to theft of energy - Rs.180.42 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of GEPCO for the year 2011-12, it was revealed that six thousand and fourteen (6,014) consumers were found guilty of stealing of energy through direct hooking and holes in meters, etc. but no legal and administrative action was taken against them. Non-adherence to rules and poor management resulted in loss of Rs.180.42 million due to theft of energy.

The matter was taken up with the management in Oct’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility upon person(s) at fault.

(Draft Para No. 367/2013)

10.3.2 Loss due to shortage of material – Rs.59.23 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GEPCO for the year 2011-12, it was revealed that electrical material worth Rs.59.23 million comprising transformers, copper and miscellaneous types of conductor / cables were found short. Neither the recovery of short material was made nor the departmental action concluded. Non-adherence to Authority's instructions resulted in loss of Rs.59.23 million due to shortage of material.

The matter was taken up with the management from Aug' to Nov' 2012 and reported to the Ministry from Sep' to Dec' 2012. In a meeting held on Dec' 18, 2012, the management replied that some amount had been recovered and remaining amount would be recovered from the concerned officials. Progress would be intimated in due course of time. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides production of record and fixing responsibility.

(Draft Para No. 69, 211, 569 & 610/2012)

10.3.3 Loss due to theft of electrical material - Rs.45.88 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GEPCO for the year 2011-12, it was found that in two hundred and forty four (244) cases, electrical material comprising of transformers, conductors and accessories worth Rs.45.88 million were stolen by unknown persons. FIRs in some cases were lodged with concerned police stations, however, administrative action in most of the cases was not taken to fix the responsibility of loss and to decide its fate. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs.45.88 million due to theft of material.

The matter was taken up with the management from Aug' to Nov' 2012 and reported to the Ministry from Sep' to Dec' 2012. In a meeting held on Dec' 18, 2012, the management replied that the matter had been taken up with the local police authorities and final report would be submitted. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility and submit the inquiry report through Principal Accounting Officer.

(Draft Para No.78, 118, 223, 240, 369, 439, 507 & 545/2013)

10.3.4 Misappropriation of material - Rs.4.05 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GEPCO for the year 2011-12, it was revealed that electrical material worth Rs.4.05 million was drawn from store against misappropriated material by line staff as recorded on the face of store requisitions. Despite lapse of one year, the matter was neither investigated nor loss made good from the responsible(s). Non-adherence to the rules resulted in misappropriation of material amounting to Rs.4.05 million.

The matter was taken up with the management from Sep' to Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 18, 2012, the management replied that action against officials/officers was under process and results thereof would be informed. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 348, 501, 543 & 567/2013)

10.3.5 Loss due to shortage of material - Rs.3.76 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GEPCO for the year 2011-12, it was revealed that Additional Manager (transformer reclamation workshop) and field committee of M&T pointed out shortage of copper and transformers oil during inspection of damaged transformers. Weak inventory management resulted in non-recovery of

Rs.3.76 million due to shortage of transformers material.

The matter was taken up with management in Oct' and Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 18, 2012, the management replied that the departmental action had been initiated against the responsible. In case recovery imposed, the same would be made from the responsible. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.462 &608/2013)

10.3.6 Loss due to misappropriation of public money - Rs.2.89 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GEPCO for the year 2011-12, it was revealed that as per investigation report dated Nov' 21, 2012, adjustment accounts of Rs.1.87 million were not produced to internal audit which reflected that original record/vouchers were misappropriated by concerned staff. As per investigation report of Dec' 28, 2011, EPF advance of Rs.1.02 million was misappropriated by the staff of Daska Division. Non-recovery from employees resulted in loss of Rs.2.89 million due to misappropriation of public money.

The matter was taken up with management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 605/2013)

10.3.7 Huge receivables amount from energy defaulters - Rs.1.91 billion

According to the Office letter No.320-30/GM (C&M)/P/CE(O)/Stat/130 dated Jun' 14, 2012 circulated by General Manager C&M PEPCO, "special efforts are required during the remaining days of Jun' 2012. Running defaulters/ disconnected defaulters need physical checking for effective recovery."

During audit of GEPCO for the year 2011-12, it was revealed that an amount of Rs.1.91 billion was receivable from sixteen thousand two hundred and fifty four (16,254) energy defaulters (Government & Private) for a period exceeding from six months i.e. from Dec' 31, 2011 upto more than three years. In this respect, no efforts were made by the management to accelerate the recovery from defaulters. Owing to the increasing trend of receivables, PEPCO was facing financial difficulties in discharging its obligations towards Power Sector Companies (PSC) and Independent Power Producers (IPPs). Non-recovery from energy defaulters resulted in blockage of Rs.1.91 billion due to non-recovery of cost of electricity from defaulters.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Jan' 2013. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery from energy defaulters besides fixing responsibility.

(Draft Para No. 647/2013)

10.3.8 Non-removal of electrical equipment - Rs.1.87 billion

According to Para-3 of Authority's circular dated Apr' 15, 1998 lays down that disconnections will be effected through removal of meters, transformers, span or any other equipment to ensure that no possibility of loop hole is left for unauthorized use of energy during the period of disconnection. The equipment after having been removed from site are required to be returned to store.

During audit of GEPCO for the year 2011-12, it was revealed that one thousand nine hundred and twenty nine (1,929) industrial and tube well consumers defaulted the payment of energy charges. Resultantly, Equipment Removal Orders (EROs) were issued. EROs were partially executed and only meters or connections from pole were removed. Partial implementation of EROs resulted in non-removal of the transformers and allied material from the sites amounting to Rs.1.87 billion.

The matter was taken up with the management from Aug' to Nov' 2012 and reported to the Ministry from Sep' to Dec' 2012. In a meeting held on Dec' 18, 2012, the management replied that the process of removing material from site was in progress. Progress achieved in the matter would be intimated to Audit in due course of time. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides implementations of EROs in letter and spirit.

(Draft Para No. 49, 51, 388, 505, 542 & 568/2013)

10.3.9 Non-furnishing of contracts documents to NAB - Rs.1.38 billion

According to Section 33-B of National Accountability Ordinance XVIII of 1999 (as modified up to Apr'-2008), All Ministries, Divisions and attached Departments of the Federal Government, all departments of Provincial and local

Governments, statutory corporations or authorities established by the Federal Government or Provincial Government and holders of public office shall furnish to NAB a copy of any contract, entered into by such Ministries, Divisions and attached Departments of the Federal Government, all departments of provincial Government or local Government, statutory corporations or authorities established by the Federal Government or Provincial Government or such holder of public office on its behalf, as the case may be, of the minimum monetary value of fifty (50) million rupees or more, within such time as is reasonably practicable from the date of signing such contract.

During audit of GEPCO for the year 2011-12, it was revealed that the management did not furnish the copies of contracts entered into with various firms for procurements of material of Rs.1.38 billion to NAB during Jul' 2011 to Jun' 2012. Non-adherence to Govt. of Pakistan instructions resulted in award of non-transparent contracts worth Rs.1.38 billion.

The matter was taken up with management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 613/2013)

10.3.10 Abnormal energy line losses beyond the target fixed by NEPRA - Rs.739.89 million

According to NEPRA determined, "the targets of energy losses 10.50% for the financial year 2011-12 for GEPCO".

During audit of GEPCO for the year 2011-12, it was revealed that in eighty four (84) feeders, 781.79 million units were received whereas 625.71 million energy units were billed resultantly 156.08 million units (19.96%) were lost against the permissible limit of 82.09 million units (10.50%). Non-adherence of NEPRA targets resulted in loss of Rs.739.89 million due to abnormal energy line losses.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for abnormal energy line losses.

(Draft Para No. 581/2013)

10.3.11 Undue favour to the consumers on account of non-regularization of unauthorized extension of load - Rs.635.30 million

According to abridged condition-6 of supply of power, “in case of non-removal/non-regularization of un-authorized extended load, the supply to the consumer shall be disconnected”.

During audit of GEPCO for the year 2011-12, it was revealed that three thousand six hundred and twenty four (3,624) industrial consumers had extended the load of the energy connections without the approval of competent authority. In violation of the abridged condition, the field formations neither disconnected the energy connections nor regularized the un-authorized extended load. Resultantly, an amount of Rs.635.30 million remained un-recovered from consumers on account of cost of equipment, security deposit and rehabilitation charges.

The matter was taken up with the management from Aug’ to Nov’ 2012 and reported to the Ministry from Sep’ to Dec’ 2012. In a meeting held on Dec’ 18, 2012 the management replied that notices had been issued to the consumers to either remove un-authorized extension of load or get it regularized. Progress of recovery would be intimated to Audit. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility for this lapse.

(Draft Para No. 81, 84, 132, 370, 503, 582 & 611/2013)

10.3.12 Non-charging of detection charges on slowness of meters - Rs.286 million

According to section 1.3 of commercial procedure, “the Revenue Officer and Assistant Manager are responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company; ii) efficient application of billing and collection procedures”.

During audit of GEPCO for the year 2011-12, it was revealed that surveillance team checked meters of 130 industrial consumers and declared discrepancies i.e slowness of 33.33% to 66.66% as per performa’s but detection charges were neither debited nor recovered for Rs.286 million from the consumers. Non-implementation of Authority’s instructions resulted in non-recovery of detection charges loss of Rs.286 million.

The matter was taken up with management in Nov’ 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 617/2013)

10.3.13 Unnecessary purchase of material against ADB loan - Rs.146.54 million

According to tentative implementation schedule for Distribution Enhancement Project of PC-I of ADB Loan No.2438 (Annex-II), "the installation, erection, testing and commissioning will be completed up to Jan' 2010".

During audit of GEPCO for the year 2011-12, it was revealed that ADB Loan No. 2438 was closed on Jun' 30, 2012 and date of physical completion was shown as Sep' 2012. The material purchased from Feb' 2009 to Sep' 2010 against the loan worth Rs.146.54 million was lying in store and was not installed at site. Non-adherence to rules resulted in un-necessary purchase of material of Rs.146.54 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for unnecessary purchase of material against ADB Loan.

(Draft Para No. 546/2013)

10.3.14 Non-recovery of revenue from consumers - Rs.66.41 million

According to Commercial Procedure, "Revenue Officer and Assistant Manager is responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures".

During audit of GEPCO for the year 2011-12, it was revealed that three thousand eight hundred and ninety four (3,894) audit notes involving an amount of Rs.66.41 million were outstanding for want of recovery from consumers. Non-recovery of billing revenue caused loss to the Company which needed to be investigated. Non-implementation of rules for investigation resulted in non-recovery of revenue of Rs.66.41 million from the consumers.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 603/2013)

10.3.15 Unjustified payment of GST on free supply electricity to employees - Rs.46.90 million

According to Section 39 of Special Procedure for Collection and Payment of Sales Tax on Electric Power, “in case of WAPDA and KESC, sales tax levied and collected during a tax period shall be deposited on accrual basis i.e. the amount of sales tax actually billed to the consumer or purchasers.”

During audit of GEPCO for the year 2011-12, it was found that GST amounting to Rs.46.90 million was paid to CBR on supply of free electricity to GEPCO/WAPDA employees. GST and other taxes was the responsibility of employees instead of employer/GEPCO i.e. Purchaser not Seller. Payment of GST by the company without recovering from employees resulted in unjustified payment of GST of Rs.46.90 million.

The matter was taken up with management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery of GST from employees besides fixing responsibility.

(Draft Para No. 70, 343 &612/2013)

10.3.16 Excess expenditure against deposit works - Rs.35.28 million

According to Section-III-C (1) of Book of Financial Powers, “deposit works shall be undertaken only after getting full amount of sanctioned work estimated deposits with WAPDA, with an undertaking from the depositor to meet any variation.”

During audit of GEPCO for the year 2011-12, it was revealed that an expenditure of Rs.182.78 million was incurred against the estimated cost of Rs.147.50 million during execution of thirty seven (37) deposit works from 2009 to 2011. The excess expenditure of Rs.35.28 million was not recovered from the sponsor(s) till close of financial year. Non-adherence to rules resulted in excess expenditure of Rs.35.28 million against deposit works.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry in Nov’ 2012. In a meeting held on Dec’ 18, 2012, the management replied that all the cases were within 10%. The reply was not tenable as no documentary evidence was provided in support of reply.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 251/2013)

10.3.17 Loss due to awarding the contract in violation of PPRA Rules - Rs.24.76 million

According to the rule 38 of PPRA Rules, "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." Further, Special Condition (VI) of contract provides that "the manufacturer/ bidder shall start the manufacturing of the offered vehicle/material after signing of the contract agreement and the clearance of complaint lodged in NAB".

During audit of GEPCO for the year 2011-12, it was revealed that the contract for procurement of construction equipment (under ADB Loan No. 2438 PAK) was awarded to M/s Automobile Company for Rs.351.83 million (2nd lowest) instead of M/s Meraj Limited Pakistan for Rs.327.07 million (1st lowest). A complaint was also lodged with NAB against the bidding process of this contract but the said contract was executed without clearance of complaint. Violation of PPRA Rules resulted in loss of Rs.24.76 million (Rs.351.83 million – Rs.327.07 million) due to non-awarding the contract to the 1st lowest bidder.

The matter was taken up with the management on Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for violation of PPRA Rules.

(Draft Para No.466/2013)

10.3.18 Improper utilization of ADB loan - Rs.16.65 million

Para-10 (i) Chapter-2 of General Financial Rules provides that "every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money".

During audit of GEPCO for the year 2011-12, it was revealed that a low bed trailer with prime mover valuing Rs.16.65 million was procured from M/s Automobile Corporation of Pakistan, Karachi on Aug' 01, 2011 for supply of construction equipment. The trailer was handed over to PD GSC where it was standing idle since its purchase. Poor planning and financial management resulted in improper utilization of resources amounting to Rs.16.65 million.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry in Nov’ 2012. In a meeting held on Dec’ 18, 2012, the management replied that the trailer was used at different placed for shifting of power transformers. The reply was not tenable as relevant record of journey performed was not produced.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 210/2013)

10.3.19 Loss due to using double bore system on one connection - Rs.16.38 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of GEPCO for the year 2011-12, it was revealed that seventy seven (77) tube well consumers relating to various Divisions load ranging from 5 KW to 8 KW was sanctioned against their energy connections. After obtaining the connections, the consumers were using the double or more bores on the same connection without extension of load from the competent authority as separate connection was required to be sanctioned against each bore. The consumers had also enhanced the capacities of transformers through private workshops illegally with the collaboration of field staff for using the double bore system. The same was evident from the excess consumption of units. Resultantly, Company has sustained a loss of Rs.16.38 million in the shape of cost of material and security deposit.

The matter was taken up with the management in Oct’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 18, 2012, the management replied that the matter would be got investigated through a committee and Audit would be informed accordingly about the findings of the enquiry committee. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 461/2013)

10.3.20 Non-replacement of transformers damaged during warranty period - Rs.14.17 million

According to the standard clause of warranty, "the supplier would be held responsible for all losses that un-acceptable goods should be substituted with acceptable goods at his own expense and cost".

During audit of GEPCO for the year 2011-12, it was revealed that seventy one (71) transformers of different capacities worth Rs.14.17 million damaged / defective during warranty period to different manufacturers for replacement. Replacement of these transformers had not been received. Non-adherence to contractual clause resulted in non-replacement of electrical material worth Rs.14.17 million.

The matter was taken up with management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious replacement of transformers besides fixing responsibility.

(Draft Para No. 584/2013)

10.3.21 Loss due to unauthorized installation of transformers - Rs.10.53 million

According to abridged condition-6 of supply, in the event of any addition or alteration made to the existing energy consuming apparatus with the previous inspection test and approval of Authority, the Authority shall be entitled to disconnect supply to consumer premises from the Authority main without any previous notice.

During audit of GEPCO for the year 2011-12, it was revealed that ten (10) industrial consumers installed 400 KVA transformers illegally without the approval of competent authority. Focal person FIA/Assistant Director (S&I) GEPCO Head Quarter Gujranwala directed the concerned formation to issue the disconnection notices to the consumers during Jul' 2012 who had not yet provided any legal documents of their illegal installation of transformers. Non-adherence to the rules resulted in loss of Rs.10.53 million due to unauthorized installation of transformers.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 18, 2012, the management replied that three (3) cases declared regularized / legal by FIA

Gujranwala and remaining seven (7) cases were under process / investigation with FIA Gujranwala. Further progress was not intimated till the finalization of this report.

Audit requires vigourous pursuance of proceedings of FIA inquiry besides fixing responsibility.

(Draft Para No. 506/2013)

10.3.22 Loss due to non-utilization of power transformer - Rs.10 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GEPCO for the year 2011-12, it was found that 10 MVA power transformer was become spare due to augmentation with 20/26 MVA power transformer and was lying idle in switch yard at 132 KV grid station Qila Dedar Singh where frequent oil seepage had been observed. Non-adherence to Authority's instructions resulted in loss of Rs.10 million due to non-utilization of power transformers.

The matter was taken up with the management on Sep' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 18, 2012, the management replied that it would be confirmed to Audit through inspection of Audit Officer of Internal Audit whether the transformer was lying in safe custody i.e. properly sealed/in one unit. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 544/2013)

10.3.23 Unjustified expenditure due to illegal electrification of Plazas / Colony - Rs.9.70 million

According to Government of the Punjab Local Government & Community Development Department circular No. SOR(LG)38-2/2004-P dated March 26, 2010 regarding the Punjab private housing schemes and land sub division Rules 2010, "no residential scheme will be established without prior approval of the TMA Authority".

During audit of GEPCO for the year 2011-12, it was revealed that eighteen (18) plazas and one housing colony were electrified against deposit of Rs.9.696 million without observing the following legal requirements:

i) Approval of NOC of the TMA as per rules of Local Government.

ii) Layout / site map of commercial building/housing colony duly prepared by the architect and approved by the TMA.

As such electrification of the plazas was quite illegal/irregular which may cause to legal disputes. Violation of the rules/instructions resulted in irregular expenditure of Rs.9.70 million due to illegal electrification of plazas/colony.

The matter was taken with the management in Aug’ & Oct’ 2012 and reported to the Ministry in Nov’ & Dec’ 2012. In a meeting held on Dec’ 18, 2012, the management replied that owner of the residential scheme had provided the approval of the TMA as per rules of Local Government, NOC obtained by the applicant, title of the property and layout / site map of colony duly prepared by the architect and approved by the TMA. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 387 & 609/2013)

10.3.24 Loss due to incorrect billing to tube well consumers - Rs.7.81 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, “Revenue Officer and Assistant Manager are responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company; ii) efficient application of billing and collection procedures”.

During audit of GEPCO for the year 2011-12, it was found that seventy three (73) tube well connections with sanctioned load above 5 KW were being billed under Batch-22 Code-47. According to rules, these connections were required to be shifted in Batch-29 under Code-53 for billing purpose. Due to wrong application of tariff for the purpose of billing and non-shifting of these connections from Batch-22 to Batch-29. Non-adherence to Authority’s instructions resulted in loss of Rs.7.81 million due to incorrect billing.

The matter was taken up with the management in Oct’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 18, 2012, the management replied that all tube well consumers having load above 5 KW had been shifted to Batch-29. The reply was not tenable as no documentary evidence was provided till the finalization of this report.

Audit requires expeditious production of record besides fixing responsibility for wrong application of tariff.

(Draft Para No. 464 & 502/2013)

10.3.25 Loss due to non-disposal of 66 KV redundant transmission line - Rs.7.70 million

Clause-1.4.2 (a) of WAPDA disposal procedures provides that "once declared unserviceable, beyond economical repair or dead by the competent authority, the material should be disposed off with minimum delay".

During audit of GEPCO for the year 2011-12, it was revealed that a 66 KV transmission line Narowal to Zafarwal was redundant since 2007 but its material worth Rs.7.70 million was not removed from site for disposal. The material needs to be disposed off as early as possible in the light of disposal procedure to avoid loss on account of wear and tear and theft in future as a part of feeder had already been stolen. Non-adherence to Authority's instructions resulted in loss of Rs.7.70 million due to non-disposal of redundant transmission line.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry on Dec' 13, 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for disposal of 66 KV transmission line.

`(Draft Para No. 602/2013)

10.3.26 Non-recovery of cost of stolen electrical material from independent consumers - Rs.5.26 million

Authority letter No.608-19/GMO/CEHQ/6B/DISCOS, dated Jan' 20, 2006 provides that "the cost of electrical material stolen within the consumer premises would be charged to consumer".

During audit of GEPCO for the year 2011-12, it was revealed that thirty three (33) independent transformers of various capacities were stolen. New transformers were installed without recovering the cost of stolen transformers of Rs.5.26 million from the independent consumers. Non-adherence to Authority's instructions resulted in non-recovery of cost of stolen material of Rs.5.26 million from consumers.

The matter was taken up with the management in Aug' and Oct' 2012 and reported to the Ministry in Oct' and Dec' 2012. In a meeting held on Dec' 18, 2012, the management replied that demand notices were issued in seventeen (17) cases for Rs.2.83 million, an amount of Rs.1.05 million was recovered in eight (8) cases. DCO effected in one case for Rs.2.39 million and duplicity in seven (7) cases Rs.1.14 million. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility and production of recovery record.

(Draft Para No. 183 & 344/2013)

10.3.27 Recoverable amount of pension's benefits - Rs.4.86 million

Manager (Admn) GEPCO, Gujranwala office letter No. 14902-4/GA-1 dated September 09, 2011 provides that "pension benefits of all the contract employees are required to be deducted from their pay upon regularization".

During audit of GEPCO for the year 2011-12, it was revealed that seventy one (71) Junior Engineers appointed from Mar' 2003 to May 2011 on contract basis were declared regular from initial appointment / date of joining during September 2011. Recovery of pension benefits worth Rs.4.86 million from their salaries was not made as required under the above instructions.

The matter was taken up with management in Nov 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 606/2013)

10.3.28 Loss due to unjustified refund of capital cost Rs.4.71 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GEPCO for the year 2011-12, it was revealed that estimate for construction of independent feeder at a cost of Rs.4.71 million was approved for industrial consumer on Sep' 10, 2009 having applied load of 3000 KW. The consumer paid the cost of demand notice accordingly on Dec' 14, 2010. Manager Project Construction GEPCO Gujranwala completed the work of construction of feeder in Jan' 2012. After two years, it was pointed out on Apr' 26, 2012 that connection was illegal due to same premises and proposed that the consumer should apply for extension of load from 3000 to 6000 KW for his existing connection under tariff B-4, having Independent Grid Station. The consumer refused and applied on Jun' 13, 2012 for refund of capital cost Rs.4.71 million which was refunded on Aug' 15, 2012. Non-adherence to rules resulted in loss of Rs.4.71 million due to refund of capital cost.

The matter was taken up with management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 637/2013)

10.3.29 Loss due to non-recovery of sharing cost of transformers from consumers - Rs.4.64 million

As per G.M (CS) Circular No.1476-98/GMCS/DGC/ D(R&CP)/58006 dated September 09, 2003, "the transformer sharing cost will be recovered from the consumer applying load above 10kw upto 15kw where distribution network exists and load is available on the existing transformer."

During audit of GEPCO for the year 2011-12, it was revealed that the load of fifty eight (58) consumers was sanctioned ranging from 6 KW to 22 KW but they were utilizing the load ranging from 13 KW to 77 KW. Sharing cost of transformer amounting to Rs.4.64 million was required to be charged to the consumers. Violation of commercial operating procedure resulted in loss of Rs.4.64 million due to non-recovery of sharing cost of transformers.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Sep' 2012. In a meeting held on Dec' 18, 2012, the management replied that notices had been issued to consumers to deposit difference of sharing cost pointed out by Audit. Progress achieved in the matter would be intimated accordingly. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 47/2013)

10.3.30 Loss due to non-recovery of penalties imposed on employees - Rs.4.25 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GEPCO for the year 2011-12, it was revealed that penalties of Rs.4.25 million were imposed upon defaulted officers/officials on account of misappropriation, shortage, theft of material and loss of Company. The action to recover the amount was not taken which showed weak and inefficient supervisory control of the management. Non-adherence to Authority's instructions resulted in loss of Rs.4.25 million due to non-recovery of penalties imposed on employees.

The matter was taken up with the management in Oct' & Nov' 2012 and reported to Ministry in Dec' 2012. In a meeting held on Dec' 18, 2012, the management replied that the recovery was under process from the responsible as well as debit advice had been raised to recover the loss. Progress achieved in the matter would be intimated to Audit. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery from the officers/officials involved besides fixing responsibility.

(Draft Para No.463 & 539/2013)

10.3.31 Non-recovery of Neelam Jhelum Surcharge on free supply electricity to employees - Rs.3.31 million

Govt. of Pakistan levied Neelum Jehlum Surcharge @ Rs.0.10/per unit for construction of Neelum Jehlum Hydro Power Project.

During audit of GEPCO for the year 2011-12, it was revealed that Neelam Jhelm Surcharge amounting to Rs.3.31 million was paid to PEPCO for payment on account of Neelam Jhelum Hydro Electric Project by the Company. The above surcharge was required to be recovered from WAPDA employees which was not done. Violation of the Government instructions resulted in non-recovery of Rs.3.31 million from employees.

The matter was taken up with management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 615/2013)

10.3.32 Loss due to non-recovery of standard rent - Rs.2.88 million

According to para "d" of the Director Finance (Regulation), WAPDA Lahore clarification No. FO(B&F)/4-8/Acq/Vol-8/4314-4413 dated Jan' 10, 2007, "where the accommodation is allotted by one organization to the employees of other organization, the standard rent is to be charged by the formation concerned from the formation whose employees have been allotted accommodation.”

During audit of GEPCO for the year 2011-12, it was found that an amount of Rs.2.88 million was recoverable from nineteen (19) private persons being illegal occupants of WAPDA accommodations from Nov’ 2006 to Jun’ 2012 on account of standard rent. Non-adherence to instructions under reference resulted in non-recovery of standard rent of Rs.2.88 million.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry on Dec’ 11 & 13, 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery of standard rent from unauthorized occupants.

(Draft Para No. 580 & 601/2013)

10.3.33 Non-recovery of supply charges against temporary connections - Rs.2.88 million

According to special condition of supply under tariff-E of Schedule of Electricity Tariff GEPCO, “the supply shall not be given by the Company without obtaining security equal to the anticipated supply and other miscellaneous charges for the period of temporary supply”.

During audit of GEPCO for the year 2011-12, it was revealed that an amount of Rs.2.88 million was outstanding against the temporary connections as forthcoming from CP-120A. In contravention of special condition, the Company did not obtain security equal to the anticipated supply charges and resultantly had nothing to adjust against the outstanding dues. The recovery of dues was impossible as the consumers had left the sites without paying energy cost. Non-adherence to the conditions of schedule of tariff resulted in non-recovery of supply charges of Rs.2.88 million.

The matter was taken up with the management from Aug’ to Nov’ 2012 and reported to the Ministry from Sep’ to Dec’ 2012. In a meeting held on Dec’ 18, 2012, the management replied that notices had been issued to consumers to deposit the temporary supply charges. Progress achieved in the matter would be intimated accordingly. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery from the consumers concerned besides disciplinary action against the person(s) responsible.

(Draft Para No. 48, 50, 510 & 540/2013)

10.3.34 Loss of energy charges due to illegal running of disconnected connections - Rs.2.39 million

Para-2 of Authority's circular dated April 15, 1998 lays down that "disconnections will be effected through removal of meters, transformers, span or any other equipment to ensure that no possibility of loop hole is left for unauthorized use of energy during the period of disconnection". The equipment after having been removed from site was required to be returned to store.

During audit of GEPCO for the year 2011-12, it was revealed that two hundred and sixty six (266) permanently disconnected connections were illegally running at site. Non-adherence to operational rules resulted in loss of Rs.2.39 million due to illegal running of disconnected connections.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 614/2013)

10.3.35 Inadmissible payment on account of danger allowance - Rs.2.34 million

According to M.D PEPCO letter No.1625-39/CE (O)/Stat-131 dated Sep' 06, 2010 the danger allowance @ Rs.5000/- per month maximum inclusive of Rs.400/- and Rs.1000/- per month sanctioned vide No.1187/31047-79 dated Nov' 11, 2010 for Linemen-I , Linemen-II and Assistant Linemen who are physically working on line vis-à-vis the scheme for getting the concerned employees insured by insurance company for cover of Rs.2.0 million for death and Rs.150,000/- for minor injuries.

During audit of GEPCO for the year 2011-12, it was revealed that thirty nine (39) Assistant Linemen (ALM) were receiving danger allowance @ Rs.5,000 per month without authorization by the competent authority which was conditional to work on live line. Violation of rules resulted in inadmissible payment of danger allowance for Rs.2.34 million to the Assistant Linemen.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Sep' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 53/2013)

10.3.36 Loss due to non-acceptance of highest bid auction - Rs.2.01 million

According to Clause-38 of PPRA Rules (Acceptance of bid), "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 audit of GEPCO for the year 2011-12, it was revealed that open auction of damaged/burnt 20/26 MVA Power transformer and seven (7) 11 KV panels damaged at 132 KV Grid station Kharian was arranged on Jul' 23, 2011. The highest bid offered was Rs.8.11 million (Rs.6.10 million + 21% taxes). The bid was not accepted by the committee and cancelled accordingly. The auction of this material was again arranged on Oct' 26, 2011 and May 02, 2012 and cancelled due to less bidding. The final and 4th bidding was arranged on Jun' 22, 2012 and the material was auctioned for Rs.6.10 including all taxes 21 % (GST and Income Tax). Resultantly, due to non-acceptance of highest bid at the first time and the negligence of auction committee, Company had sustained a loss of Rs.2.01 million (Rs.8.11 million - Rs.6.10 million).

The matter was taken up with the management on Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 18, 2012, the management replied that the matter would be investigated to dig out the reasons for not accepting bids of higher rates at the first instance and subsequently allowing disposal of material at lower rate. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for the loss.

(Draft Para No. 446/2013)

10.3.37 Non-providing of transformer as per assessed load - Rs.1.40 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GEPCO for the year 2011-12, it was found that load for electrification / energization of Commercial Buildings / Plazas was assessed by Manager (Operation) but transformers for substation were not provided on assessed load. This resulted undue benefit of sub-station cost which was given to consumers and less recovery of capital cost Rs.1.40 million

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 616/2013)

10.3.38 Loss due to application of wrong tariff – Rs.1.40 million

According to schedule of electricity tariff-B industrial tariff, "the water pump and tube well operating on three phase other than those meant for irrigation or reclamation of agriculture land should be charged under tariff-B".

During audit of GEPCO for the year 2011-12, it was revealed that five (5) energy connections were running under wrong tariff as detailed below. Wrong application of tariff deprived the Company of revenue of Rs.1.398 million.

Sr. No	Reference No.	Sanctioned Tariff	Applicable Tariff	Amount less billed (Rs.)
1	29-12461-0047700	B-2(b)	D-I(b)	854,573
2	27-12441-0086200	B-2(b	A-I	29,938
3	27-12441-0272100	A-2(c)	A-I	16,275
4	24-12441-0140101	B-3	A-2	477,100
5	29-12441-0091102	B-2(b)	A-I	20,605
			TOTAL	**1,398,491**
			Say Rs. in million	**1.40**

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Sep' 2012. In a meeting held on Dec' 18, 2012, the management replied that in four (04) cases the tariff was correctly being charged. In one case the change of tariff had been implemented and recovery of amount had also been made. The reply was not tenable as no documentary evidence in was provided till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 52/2013)

10.3.39 Loss due to misappropriation of transformers - Rs.1.23 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GEPCO for the year 2011-12, it was revealed that five (05) transformers of various capacities were misappropriated from various locations in Aug' 2012 as pointed out by surveillance team during checking of sites. The beds of these transformers were empty and the load of these transformers was shifted to other transformers. Legal and departmental inquiry of such cases was not conducted contrary to above instructions. Due to misappropriation of the transformers, the Company sustained a loss of Rs.1.23 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 18, 2012, the management replied that the matter would be got investigated and Audit would be informed accordingly. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 541/2013)

10.3.40 Loss due to less recovery of security deposits - Rs.1.07 million

Ministry of Water and Power has implemented the revised security deposit rates as promulgated vide Government of Pakistan SRO No.04(1)/2011 dated Jan' 03, 2011.

During audit of GEPCO for the year 2011-12, it was revealed that security deposits from thirty (30) consumers of different categories were recovered at old rates instead of revised rates from Jul' 2010 to Mar' 2012. Non-implementation of revised security deposits rates resulted in loss due to less recovery of security deposit amounting to Rs.1.07 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 18, 2012, the management replied that in six (6) cases, the security was correctly recovered. In the remaining sixteen (16) cases, demand notices were issued for the recovery. Any progress achieved in this matter would be intimated. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 368/2013)

10.3.41 Loss due to non-finalization of inquiry - Rs.1.03 million

According to the instructions issued by WAPDA dated Jul' 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 audit of GEPCO for the year 2011-12, it was revealed that two (2) tube well consumers removed their 10 KVA transformers and installed 25 KVA transformers illegally. They enhanced their load illegally with the connivance of LS/field staff and using supply for 2 and 3 bores as evident from spot checking report of surveillance team. Inquiry committee was constituted to probe into the matter regarding installation of illegal 25 KVA two (02) transformers on tube well premises and other allegations in Aug' 2012 for completion of proceedings within seven days positively but report was still awaited. Due to non-finalization of enquiry, Company has sustained a loss of Rs.1.03 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 18, 2012, the management replied that inquiry had been finalized and XEN Jalal Pur Bhattian was instructed to regularize the matter. Further progress was not intimated till the finalization of this report.

Audit requires expeditious implementation of findings of inquiry report besides making good the loss.

(Draft Para No. 508/2013)

CHAPTER-11

HYDERABAD ELECTRIC SUPPLY COMPANY LIMITED (HESCO)

(193-216)

11. HYDERABAD ELECTRIC SUPPLY COMPANY LIMITED

11.1 Introduction

Hyderabad Electric Supply Company Limited ("The Company") is a public limited company incorporated in Pakistan on April 23, 1998 and commenced commercial operation on July 01, 1998. The Company was established to take over all the properties, rights, assets, obligations and liabilities of Hyderabad Area Electricity Board owned by WAPDA and such other assets and liabilities as agreed. The company has obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The company purchases electricity from National Transmission and Despatch Company (NTDC) and sells it to the consumers within its service territory.

HESCO receives energy from three main sources viz. NTDC, GENCOs situated within the jurisdiction of HESCO and from Small Power Producers / Captive Power Producers at 11 KV. NTDC provides energy to HESCO from its two 500 KV Grid Stations Dadu & Jamshoro and three 220 KV Grid Stations situated at Lodra (Shikarpur), Hala Road Hyderabad and T.M. Khan Road Hyderabad. HESCO also receives electricity directly from GENCOs viz. Gas Thermal Power Station (GTPS) Kotri which has installed capacity of 174 MW, Thermal Power Station (TPS) Guddu having installed capacity of 1,600 MW, Lakhra Power House having installed capacity of 150 MW and Liberty Power House having installed capacity of 235 MW.

The jurisdiction of HESCO includes three Operations, one Grid System Construction and one Grid System Operations Circles.

11.2 Comments on Financial Statement

11.2.1 Financial Overview

Monthly accounts (Trial Balance and other management information schedules) from thirty three (33) accounting units are sent to Finance Director HESCO where these accounts are consolidated and Financial Statements like Balance Sheet, Profit and Loss Account and Cash Flow Statement are prepared. The financial results along-with the financial ratios were as under:

11.2.2 Extracts of the Financial Statements[9]
Balance Sheet as at Jun' 30, 2012

Rupees in millions

	2011-12	%	2010-11	%	2009-10
Equity and Liabilities					
Accumulated Loss	(82,197.24)	51.20	(54,364.96)	22.00	(44,560.11)
Non-current liabilities					
Long term Financing	2,809.95	85.14	1,517.74	68.76	899.33
	22,076.51	(21.38)	28,080.69	20.76	23,253.87
Current liabilities					
Trade and other Payables	132,641.25	9.33	121,324.99	25.71	96,508.53
Current portion of long term loans	170.56	182.54	60.37	100	-
	133,462.21	9.69	121,669.77	25.94	96,610.83
	98,421.03	**(21.66)**	**125,634.51**	**19.04**	**105,538.15**
Assets					
Non-current assets					
Operating fixed assets	15,216.52	(41.02)	25,798.45	8.35	23,809.59
Capital work in progress	6,483.07	(6.79)	6,955.33	18.74	5,857.53
	21,699.59	(33.75)	32,753.78	10.40	29,667.12
Trade debts	36,160.36	(37.64)	57,984.68	64.22	35,309.22
Bank balances	2,208.55	(15.84)	2,624.14	(16.89)	3,157.25
	76,720.92	**(17.40)**	**92,877.25**	**22.42**	**75,865.94**
	98,421.03	**(21.66)**	**125,634.507**	**19.04**	**105,538.15**

Profit and Loss Account
For the year ended Jun' 30, 2012

	2011-12	%	2010-11	%	2009-10
Revenue					
Electricity sale	56,473.61	(14.56)	66,098.08	6.68	61,957.43
Rental and service income	1,413.39	(21.79)	1,807.13	15.92	1,558.94
	57,887.00	(14.75)	67,905.21	6.91	63,516.38
Cost of electricity	68,124.16	2.66	66,360.26	12.25	59,117.55
Gross profit/(Loss)	(10,237.16)	(762.62)	1,544.95	(64.88)	4,398.83
Operating Cost	18,409.96	47.44	12,486.40	29.24	9,661.51
Other income	822.12	(4.02)	856.52	(16.48)	1,025.48
Financial and other charges	370.58	83.92	201.49	(2.17)	205.95
Profit/(Loss) for the year	**(27,832.27)**	**183.86**	**(9,804.85)**	**138.51**	**(4,110.83)**

[9] *Only balances with significant variations during the current financial year and those against which comments are being incorporated in this analysis are reproduced.*

11.2.3 Financial Ratios

The summary of ratios calculated for the three financial years is given below:

COMPANY		HESCO		
YEAR		**2011-2012**	**2010-2011**	**2009-2010**
Profitability Ratios				
Return on Capital Employed	%	67.58	-285.74	125.64
Gross Profit Margin	%	-18.13	2.34	7.10
Net Profit Margin	%	-49.28	-14.83	-6.63
Asset Turnover Ratio	Times	-1.61	16.80	6.95
Return on Total Assets	%	-28.28	-7.80	-3.90
Short Term Liquidity Ratio				
Current Ratio	Times	0.57	0.76	0.79
Working Capital Ratios				
Debtors Turnover Period	days	234	137	208
Creditors Turnover Period	days	711	667	596
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	3.03	1.26	0.85
Gearing Ratio	%	-20.93	-246.54	221.71
Leverage Ratio	%	140.63	719.59	-463.10
Interest coverage	%	-74.10	-47.58	-18.89

11.2.4 Cash Flow Analysis

The Company suffered net cash outflow (deficit) of Rs.415.59 million during current period and outflow (deficit) of Rs.2,281.78 million during the financial year 2011-12 resulting in closing balance of Rs.2,208.55 million (Rs.2,624.15 million: 2010-11).

The Company incurred net cash outflow (deficit) of Rs.1,292.01 million from operating activities. The main components which triggered such increase include,

iii) Employee benefits increased by Rs.41.63 million i.e. 10% over the past year,

iv) Employees retirement benefit transferred to SEPCO during the year of Rs.6,847.96 million i.e. 100%.

The Company invested on fixed assets amounting to Rs.3,980.37 million during the financial year 2011-12 for the improvement of the power distribution system. However, the Company could not utilize the assets efficiently and effectively as the return on assets declined significantly.

Moreover, the cash inflow of Rs.1,402.41 million injected from financing activities as the Company borrowed (Rs.781.95 million: 2010-11) from financial institutions/ donors agencies, Rs.2,133.46 million raised through deferred credit (amount received from consumers and Govt. towards the cost of extension of distribution network and of providing service connection).

The decrease in liquidity ratio by 25% indicated cash flow problems for the Company. The Company utilized its accumulated cash reserves to manage its operational requirements resulting in significant decline of Rs.533.10 million in cash reserves which needs to be justified.

11.2.5 Ratios Analysis

11.2.5.1 Profitability

Profitability ratios of the company interms of gross profit and net profit showed the worst position ever. Both ratios became negative due to huge loss during the year.

i) Gross profit

During the financial year 2011-12,electricity sale of the company decreased to Rs.56,473.61 million i.e. decrease of Rs.9,624.47 million, 14% (Rs.66,098.08 million: 2010-11). On the other hand cost of electricity increased by 2% (Rs.68,124.16 million during the year 2011-12, Rs.66,360.26 million: 2010-11). The proportionate increase in cost of electricity was not much higher but the sales of electricity decreased significantly due to which the Company suffered a gross loss of Rs.10,237.16 million. The line losses of 78 sub divisions of the Company ranged from 10% to 40.56%, resulting in high cost of electricity.

In view of the forgoing, the Gross Profit ratio declined significantly i.e. (18.13%) gross loss as compared to gross profit of 2.34 for the financial year 2010-11.

The abnormal decrease in the sale and increase in cost of sale and line losses, resulting in significant increase in gross loss of the company, which needs to be explained.

ii) Net Profit Ratio

The company suffered accumulated losses of Rs.82,197.24 million, out of which Rs.27,832.28 million was incurred during the present financial year.

This indicated that the operational efficiency of the Company remained highly unsatisfactory. The operational loss was mainly due to increase in operating expenses by 55% over the previous year which mainly attributed to enhancement in pay and allowances, repairs & maintenance expenses. It was further observed that the Company approved certain allowances in respect of various categories of employees, the detail of which is mentioned hereunder:

i) Transport subsidy

ii) Special WAPDA allowance

iii) Danger allowance

The grant of above allowances without the approval/concurrence of Ministry of Finance was not in line with the provisions of Government Rules and Regulations and amount paid on account of above allowances was irregular.

In view of the forgoing, the Net Profit ratio declined significantly i.e. (49.28%) net loss as compared to net loss of (14.83%) for the financial year 2010-11.

The Company could not manage its expenses including line losses due to which the cost of electricity and indirect expenses increased significantly. The expenses increased to such a huge amount that the relative revenue generated from sale and other income could not mitigate the impact.

iii) Return on capital employed

The return on capital employed would not be calculated due to heavy losses.

iv) Return on total assets

The return declined to (28.28%) from (7.80%) as company was not utilizing its assets efficiently to generate favorable return.

The Company invested Rs. 3,980.37 million on the non-current assets during the financial year. The investment was financed through the consumer security deposits and Government Grants realized during the present financial year. In addition to the above, the Company held cash reserve of Rs.2,208.55 million. The debt to total asset ratio and gearing ratio was (3.03%) and 20.93% respectively, which showed that company was relying on debt to finance its operations. Audit suggested that the Company should review its capital structure and policy for getting loan because it badly affected the liquidity position of the company and had direct impact on the profitability of the company.

The huge investment on non-current assets could not improve the profitability position of the Company as the return on total assets declined significantly which needs to be explained.

11.2.5.2 Short Term Liquidity

i) Current ratio

The current ratio declined to 0.57 from 0.76 indicating short term financial difficulties in repayment of current liabilities.

The Company did not hold adequate liquid assets required to settle its short term liabilities which needs to be explained.

11.2.5.3 Working Capital Cycle

i) Debtor / Creditor turnover period

The trade receivables decreased significantly i.e. by (37.64%) over the previous year. In addition to that the debtor turnover period increased to 234 days (137 days in 2010-11). Moreover, the company wrote off an amount of Rs.1.24 million as bad debts during the present financial year.

An increase in accounts receivable, debtor's turnover period and writing off debtor as bad debts reflected inefficient collection procedures and poor administration of trade debts, resulting loss of revenue to the Company and ultimately worsening liquidity position.

Delays in collection from debtors had trickledown effect on the creditor turnover period which increased to 711 days from 667 days.

The increase in accounts receivable and accounts payable indicated continuing cash flow shortage resulted in persistent working capital financing problems for the Company. Poor management of debtors and creditor turnover period and writing-off of bad debts needs to be explained.

11.2.5.4 Gearing, leverage and interest coverage ratios

The long term financing of the Company increased by 85.14%. The trade and other payables increased by 9.3%. Significant increase in the non-current and current liabilities reflects that the Company encountered the liquidity problems and the management has not taken adequate remedial action to address the issue.

The financial position of the Company deteriorated during the past few years as depicted in the summary of ratios mentioned above. The gearing position of the Company showed negative trend i.e. -90.93% during the financial year 2011-12 as compared to -246.54% during the financial year 2010-11. High gearing reflect liquidity problems resulted in cash flow risk for the Company. The Company heavily relied on the external sources to finance its operations instead of funding the operations out of resources generated from its operations.

Reliance on borrowings / loans and payment of huge financial charges needs to be explained.

11.2.6 Recommendations:

It is evident from the above analysis that the profitability, liquidity and solvency position of the Company deteriorated with an exceptionally high rate. In order to finance the operations, Company would heavily rely on financing from external sources which will aggravate the liquidity position. If these conditions prevail, the Company would require heavy funding from the Government to maintain going concern status.

In view of the forgoing, it is recommended that Company should revamp its organizational structure and address operational issues, being the major cause of losses. In addition to that, the Company should also restructure its financial arrangements by funding its operations from cheap sources of finance, resulting in low interest cost.

The line losses, being the major cause of losses is required to be addressed at higher level. There is a dire need to develop a policy to address the heavy line losses and to ensure the inflow of funds in the form of revenue.

The issue of huge receivables from Government and private consumers also needs due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

11.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	Name of Report	No. of Directives	Status of compliance		
				Full	Partial	Outstanding
HESCO	2004-05	Audit Report	3	Nil	**1** (Para No. 11.7)	**2** (Para No. 11.16, 11.8)

Position of compliance on PAC directives is satisfactory.

11.4 AUDIT PARAS

11.4.1 Loss due to theft of energy - Rs.29.41 million

General Condition of tariff E-I (Security Deposits) stipulates that “the supply under this tariff shall not be given by the Authority without first obtaining security equal to the anticipated supply charges and other miscellaneous charges for the period of temporary supply”.

During audit of HESCO for the year 2011-12, it was revealed that some temporary connections were given on the occasion of URS of Hazrat Lal Shahbaz Qalandar in Jul’ 2011 but contrary to above conditions, neither any electric meter for a single connection was installed nor any demand notice on the basis of anticipated consumption of electricity was served. Non-adherence to rules and poor management resulted in loss due to theft of energy for Rs.29.41 million.

The matter was taken up with the management in Oct’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec 20, 2012, the management replied that as per Authority’s standing instructions, the temporary connections were sanctioned and recovery effected on the occasion of Urs of Lal Shahbaz Qalandar. The reply was not tenable as no documentary evidence was provided in support of recovery till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 311/2013)

11.4.2 Loss due to theft of energy - Rs.22.75 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of HESCO for the year 2011-12, it was found that an amount of Rs.22.75 million was recoverable from running and permanently disconnected consumers on account of theft of electricity. Moreover, the electricity connections of large number of consumers were still pending for disconnection and FIRs were also not lodged against the defaulters. Non-adherence to rules and poor management resulted in loss of Rs.22.75 million.

The matter was taken up with the management in Oct’ & Nov’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 308 & 493/2013)

11.4.3 Loss due to theft of electrical material - Rs.7.79 million

According to the instructions issued by WAPDA dated Jul' 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 audit of HESCO for the year 2011-12, it was revealed that eleven (11) cases of theft of electrical material (transformers) worth Rs.7.79 million were noticed. Neither FIRs were lodged with the concerned police stations nor administrative actions were taken to fix the responsibility of loss and to decide its fate. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs.7.79 million.

The matter was taken up with the management in Aug' & Oct' 2012 and reported to the Ministry in Oct' & Dec' 2012. In a meeting held on Dec' 20, 2012, the management replied that in five (5) cases, FIRs had been lodged and enquiry proceedings for departmental action were under process, outcome of which would be informed to Audit accordingly. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility and making good the loss.

(Draft Para No.178 & 310/2013)

11.4.4 Non-implementation of equipment removal orders – Rs.33.86 billion

According to the minutes of meeting CEOs DISCOs Conference Nov' 26, 2007, "the outcome of implementation of EROs should be visible in HESCO in the succeeding months and their monitoring is also essential".

During audit of HESCO for the year 2011-12, it was found that an amount of Rs.33.86 billion was recoverable on account of energy charges against 373,411 consumers upto Jun' 2012. Resultantly, equipment removal orders (EROs) were issued but the same were not implemented.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec 20, 2012, the management replied that efforts were geared up to implement EROs as well as to effect recovery of outstanding dues and as a result, recovery of Rs.2.25 million was made. Further progress towards recovery was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 438/2013)

11.4.5 Huge receivables amount from energy defaulters - Rs.29.88 billion

According to the Office letter No.320-30/GM (C&M)/P/CE(O)/Stat/130 dated Jun' 14, 2012 circulated by General Manager C&M PEPCO, "special efforts are required during the remaining days of Jun' 2012. Running defaulters/ disconnected defaulters need physical checking for effective recovery."

During audit of HESCO for the year 2011-12, it was found that an amount of Rs.29.88 billion was receivable from 319,720 energy defaulters (Government & Private) for a period exceeding from six months i.e. from Dec' 31, 2011 upto more than three years. In this respect, no efforts were made by the management to accelerate the recovery from defaulters. Owing to the increasing trend of receivables, PEPCO was facing financial difficulties in discharging its obligations towards Power Sector Companies (PSC) and Independent Power Producers (IPPs). Non-recovery from energy defaulters resulted in blockage of funds to the tune of Rs.29.88 billion.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Jan' 2013. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 652/2013)

11.4.6 Excess payment on account of General Sales Tax - Rs.1.91 billion

According to Sales Tax Special Procedure Rules 2006 (Special procedure for collection and payment of sales tax on electric power) "basis for filing sales tax return for DISCOs was changed from collection to accrual. Under changed system, these entities have been forced to pay sales tax on uncollectible and delayed collections".

During audit of HESCO for the year 2011-12, it was revealed that GST collected from the consumers was less than the amount billed to consumers. This amount also included GST on detection bills, detail of which was not provided. The amount of detection bills/other defaulters were not recovered from the consumers but GST was paid to FBR by the Company on the assessment/billed amount. Non-implementation of commercial procedures of billing and collecting revenue of the Company resulted in less collection of Rs.1.91 billion.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 2012, the management replied that the matter had already been taken up with FBR by PEPCO through Ministry of Water and Power in which it had been pleaded to the FBR that the recovery of sales tax be made on collection instead of assessment. Response of the FBR was awaited. Further progress was not intimated till the finalization of this report.

Audit requires vigourous pursuance of case with FBR besides production of copy of letter written by PEPCO/Ministry to FBR.

(Draft Para No. 490/2013)

11.4.7 Loss due to expired claims of sales tax - Rs.527.42 million

Section-28 of the Sales Tax Rules 2006 provides that "no refund claim shall be entertained if the claimant fails to furnish the claim on the prescribed software (RCPS) along-with the supportive documents within one hundred and twenty days of the filing of return"

During audit of HESCO for the year 2011-12, it was revealed that the management could not claim input sales tax of Rs.527.42 million due to non-submission of input sales tax claim for the month of Aug' and Sep' 2010 within the stipulated period of 120 days. Non-adherence to rules and poor financial management resulted in loss of Rs.527.42 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 20, 2012, the management replied that the matter was taken up with FBR for condonation of time for submission of sales tax return through E-filling. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 484/2013)

11.4.8 Loss due to non-billing of electricity supply – Rs.321.31 million

According to the instructions issued by WAPDA dated Jul' 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 audit of HESCO for the year 2011-12, it was revealed that sixteen (16) 11 KV feeders were running without load and consumers as evident from CP-22A. Due to this 37.80 million units valuing Rs.321.31 million received on these feeders during were shown as 100% lost. Poor management resulted in loss of Rs.321.31 million due to non-billing of electricity supply.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 404/2013)

11.4.9 Unauthorized purchase of material - Rs.317.65 million

The Prime Minister’s Secretariat (Public) vide reference No. 1(1)/Misc.(Pb-1)/PAW/2007/ dated Mar’ 09, 2007 requested the Auditor-General of Pakistan to ensure through an appropriate audit that funds in the interim period are properly kept and accounted for and that if they earn any return that amount accrues to the Government of Pakistan as per rules.

During audit of HESCO for the year 2011-12, it was found that material worth Rs.317.65 million was purchased from village electrification savings during May and Jul’ 2011 without prior approval of Prime Minister of Pakistan. The material purchased from village electrification funds was unauthorized. Non-implementation of government instructions resulted in unauthorized purchase of material of Rs.317.65 million.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 538/2013)

11.4.10 Unauthorized purchase through variation in violation of PPRA Rules - Rs.210.20 million

According to rules-42-C(iv) of PPRA Rules repeat orders should be given upto fifteen (15) percent of the original procurement.

During audit of HESCO for the year 2011-12, it was revealed that six hundred (600) transformers valuing Rs.210.20 million were purchased from three (03) suppliers during August, 2011 through variation/repeat orders by enhancing quantities upto 100% above the original purchase orders for six hundred (600) transformers in contradiction to PPRA Rules. Non-adherence to rules resulted in irregular purchase of Rs.210.20 million.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 20, 2012, the management replied that procurement was made after introduction of the amendment No. 5 issued on Jun’ 03, 2010. The matter of above said amendment remained under dispute for about eleven (11) months. Due to the acute shortage / requirement, the competent authority accorded the approval for placing the variation / change order at the same rate upto the extent of 100% of the original purchase orders for which the BOD was fully empowered. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No. 402/2013)

11.4.11 Non-obtaining of performance guarantees – Rs.199.21 million

According to clause 10 of the contract agreement, “amount of performance security in the shape of bank guarantee @10% of the contract price would be submitted by the contractor”.

During audit of HESCO for the year 2011-12, it was revealed that contract agreements worth Rs.199.21 million were executed with the different local/foreign firms for execution/supply of equipment, material for STG/ELR project without obtaining performance guarantees. The contactors could not complete works within the stipulated period mentioned in the relevant contract agreements. Non-adherence to contractual clauses resulted in non-obtaining of performance security amounting to Rs.199.21 million.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 20, 2012, the management replied that before award of work / supply of equipment and material, this office always obtained the performance guarantees. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 325/2013)

11.4.12 Excess payment on account of General Sales Tax - Rs.75.03 million

According Section 14 of Chapter III (Special Procedure for Collection and payment of Sales Tax on Electric Power) of Sales Tax Special Procedure Rules 2007, "in case of WAPDA and KESC, sales tax levied and collected under Rule-13 during a tax period shall be deposited on 'accrual basis' i.e. the amount of sales tax actually billed to the consumers or purchaser for the tax period."

During audit of HESCO for the year 2011-12, it was revealed that detection bills of 77.45 million energy units worth Rs.611.71 million were issued and this amount included GST of Rs.103.99 million. The amount of detection bills was not recovered from the consumers but GST was paid by the Company on accrual basis as per billed amount. Later on credit of 22.34 million energy units costing Rs.441.34 million was given to the consumers but refund claims of GST worth Rs.75.03 million already paid at the time of charging of detection bills, was not lodged with the FBR.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Oct' 2012. In a meeting held on Dec' 20, 2012, the management replied that the matter had already been taken up with FBR by PEPCO through Ministry of Water and Power in which it had been pleaded to the FBR that the recovery of sales tax be made on collection instead of assessment. Response from FBR was awaited. Further progress was not intimated till the finalization of this report.

Audit emphasizes vigourous pursuance of case with FBR through PEPCO/Ministry besides fixing responsibility.

(Draft Para No.114/2013)

11.4.13 Non-recovery of liquidated damages – Rs.33.34 million

According to purchase order clause-15-A (i), "if the supplier fails to deliver the material within specified delivery period, the liquidated damages @ 2% per month or subject to a maximum of 10% of the contract price would be recovered from supplier".

During audit of HESCO for the year 2011-12, it was revealed that ten (10) purchase orders for supply of electrical material were placed with different suppliers / contractors from May to Sep' 2011 but the contractors could not supply the material within stipulated time period. Non-adherence to rules resulted in non-recovery of liquidated damages amounting to Rs.33.34 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 20, 2012. It was stated that the liquidated damages where required, had been recovered/deducted by the Finance Director HESCO at the time of payment of the invoices / bills of the suppliers. The reply was not tenable as no documentary evidence was provided in support of recovery till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 403/2013)

11.4.14 Recoverable amount from independent consumers on energy losses beyond permissible limit - Rs.30.29 million

According to Table 5 of Chapter 5 of Distribution Rehabilitation Guidelines (Sep' 2003), "the maximum permissible limit for annual energy losses for H.T Circuit (Rural) is 3%".

During audit of HESCO for the year 2011-12, it was revealed that the percentage of energy losses of two (2) dedicated 11 KV feeders was 75.50% and 94.73% against the permissible limit of 3%. The field formations as well as the consumers were responsible to keep the energy losses within permissible parameters. High Tension (HT) circuit installed by the consumers was incapacitated to withstand the running load resulting in increase in the technical losses. Non-adherence to distribution rehabilitation guidelines resulted in non-recovery of energy losses of Rs.30.29 million from independent consumers beyond permissible limit.

The matter was taken up with the management in Jul' 2012 and reported to the Ministry in Oct' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery from the independent consumers besides fixing responsibility.

(Draft Para No. 115/2013)

11.4.15 Loss due to damage of transformers – Rs.23.83 million

According to the instructions issued by WAPDA dated Jul' 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 audit of HESCO for the year 2011-12, it was revealed that fifty six (56) transformers of various capacities valuing Rs.23.83 million were damaged. The matter was investigated through inquiry committees and all the defaulting officials were exonerated but nothing was decided about the loss.

Non-adherence to rules resulted in loss of Rs.23.83 million due to damage of transformers.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter at higher level for fixing responsibility besides making good the loss.

(Draft Para No. 488/2013)

11.4.16 Non-replacement of transformers damaged under warranty – Rs.19.49 million

According to purchase orders, “the material damaged/became defective during warranty period is to be substituted with new ones or get repaired at the cost and expense of the suppliers”.

During audit of HESCO for the year 2011-12, it was revealed that thirty nine (39) transformers of different capacities worth Rs.19.49 million damaged/defective during warranty period were sent to manufacturer for replacement. The replacement was pending resulting in blockage of the amounts of the Company. Non-insertion of time limit clause in the purchase orders resulted in inordinate delay for the replacement of the damaged equipment of Rs.19.49 million.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires expeditious replacement of transformers from suppliers besides fixing responsibility.

(Draft Para No. 618/2013)

11.4.17 Wasteful expenditure due to un-necessary construction of feeders - Rs.18 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of HESCO for the year 2011-12, it was revealed that nine (9) 11 KV feeders were not functioning to supply energy to the consumers which indicated that the construction of these feeders was not under-taken according to requirements. Resultantly an amount of Rs.18 million (cost of nine (9) feeders with minimum 1 KM length Rs.2.00 million) has gone waste.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 408/2013)

11.4.18 Undue favour to the consumers on account of non-regularization of unauthorized extension of load - Rs.17.38 million

According to abridged condition-6 of supply of power, "in case of non-removal/non-regularization of un-authorized extended load, the supply to the consumer shall be disconnected".

During audit of HESCO for the year 2011-12, it was revealed that one hundred and forty nine (149) industrial consumers had extended the load of the energy connections without the approval of competent authority. The field formations neither disconnected the energy connections nor regularized the un-authorized extended load. Resultantly, an amount of Rs.17.38 million remained un-recovered from consumers on account of cost of equipments, security deposits and rehabilitation charges.

The matter was taken up with the management in Aug' & Oct' 2012 and reported to the Ministry in Oct' & Dec' 2012. In a meeting held on Dec' 20, 2012, the management replied that notices had been issued to the consumers either to remove un-authorized extension of load or get it regularized. An amount of Rs.1.00 million in the head of difference of security had been recovered and amount of Rs.0.10 million was duplicated. The reply was not tenable as no documentary evidence was provided in support of recovery till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 134 & 307/2013)

11.4.19 Loss due to payment of interest on un-spent ADB loans – Rs.14.06 million

According to loan agreement with ADB, HESCO has to pay interest @ 17% per annum on the principal amount of loan.

During audit of HESCO for the year 2011-12, it was found that an amount of US$ 3.80 million was transferred by Asian Development Bank (ADB) (under Loan No. 2438) for enhancing the efficiency of distribution system, out of which US$ 0.19 million remained un-spent as on Jun' 30, 2012. Accordingly interest charges @ 17% per annum amounting to Rs.14.06 million were paid on the un-spent balance to ADB as per loan agreement. Poor management resulted in loss due to payment of interest charges worth Rs.14.06 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Nov' 2012. In a meeting held on Dec' 20, 2012, the management replied that the actual unspent balance in the designated account as on Jun' 30, 2012 was Rs.1.58 million. Only the amount of US$ 0.19 million appearing in the bank statement was due to fluctuation of Dollar rates. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 274/2013)

11.4.20 Wasteful expenditure on feeders rehabilitation works - Rs.11.98 million

According to Para-VI of Planning Procedure (Distribution and Rehabilitation Guidelines), "the required benefit / cost ratio for HT proposal is; "a) for re-conductoring proposals >=1.5, b) for bifurcation & area planning proposals >=2.0".

During audit of HESCO for the year 2011-12, it was revealed that four (4) works regarding rehabilitation of feeders under System Augmentation Program (SAP) valuing Rs.11.98 million were approved by Chief Executive Officer which were carrying ≤ zero cost benefit ratio. These proposal were not financially viable i.e. with zero envisaged benefits. This resulted into wasteful expenditure. Non-adherence to planning procedures resulted in wasteful expenditure of Rs.11.98 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 487/2013)

11.4.21 Loss due to rejection of defective material – Rs.11.19 million

According to Clause 12-iii (Inspection & Rejection) of Rate Contract dated Jun' 2010 Speaks "If the transformers are rejected as aforesaid, then without prejudice to the right of the purchaser, the Contractor shall submit stores in replacement of those rejected but resubmission shall not mean extension of delivery period".

During audit of HESCO for the year 2011-12, it was revealed that ninety nine (99) damaged/defective transformers of various capacities valuing Rs.11.19 million were sent to M/s Ajmer Engineering Works (PVT) Ltd. Kotri for reclamation through various lots against rate contract. The reclaimed transformers were rejected by the Company's representative due to some defects. Neither the contractor responded to the observations in inspection certificates nor returned the transformers. Non-adherence to contractual clauses resulted in loss of Rs.11.19 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 20, 2012, the management replied that actually damaged transformers were sent to M/s Ajmer Engineering Works Kotri for repairing. After repair, the inspection team examined the repaired transformers and some of them had miner defects. Later on the supplier removed the defects and these transformers were received back in regional store. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 486/2013)

11.4.22 Loss due to negligence of HESCO Staff - Rs.11.05 million

According to the instructions issued by WAPDA dated Jul' 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 audit of HESCO for the year 2011-12, it was revealed that a 11 KV Coal Mine Feeder was erected in 2004 in the light of directive issued by Minister for Water & Power to electrify the labour colonies but neither any colony was electrified nor any other connection was installed. Resultantly the feeder remained at the mercy of thieves and illegal users of electricity (Kunda Connections). In the light of complaint lodged by Mutahida Labour Federation, it was decided to rehabilitate the said feeder. During Survey for estimation of the feeder in Sept' 2012, it was pointed out by Circle Management that material valuing Rs.11.05 million was stolen. Poor management resulted in loss of Rs.11.05 million due to negligence of HESCO staff.

The matter was taken up with the management in Oct 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter at higher level besides fixing responsibility and making good the loss.

(Draft Para No. 309/2013)

11.4.23 Loss due to wrong application of tariff - Rs.10.91 million

General Condition-I of Industrial Supply tariff included in schedule of tariffs shall applicable, "A supply for bonafide industrial purpose in factories including offices and normal working of industry and also for water pumps and tube well operating on or reclamation of agriculture meant for irrigation or reclamation of agriculture land."

During audit of HESCO for the year 2011-12, it was revealed that thirty six (36) water supply drainage schemes were running under agriculture tariff-D instead of industrial tariff. The company sustained a loss of Rs.10.91 million due to wrong application of tariff.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on December 20, 2012, the management replied that the matter was under probe to actually assess the status of the consumers and if the security was found less recovered, the same would be effected under intimation to Audit. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.312/2013)

11.4.24 Non-recovery on account of shortage of store - Rs.7.17 million

According to para 23(2) of Section-I of Book of Financial Powers, "any sum due to the Authority shall be recoverable as arrears of land revenue".

During audit of HESCO for the year 2011-12, it was found that an amount of Rs.7.17 million was recoverable from employees on account of store shortages as forthcoming from financial statements for the year ended Jun' 2012. Non-adherence to prescribed rules resulted in non-recovery of store shortages of Rs.7.17 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 409/2013)

11.4.25 Recoverable amount of capital cost from tube well consumers Rs.5.09 million

According to the instructions issued by WAPDA dated Jul' 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 audit of HESCO for the year 2011-12, it was revealed that fifty three (53) tube well connections were installed in different locations by allowing the consumers to make payment of capital cost in three installments i.e. 1st installment 50% of capital cost and remaining balance in two equal installments from May 2005 to Jun' 2010. The capital cost Rs.5.09 million of the said connections was still recoverable despite lapse of considerable period.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 305/2013)

11.4.26 Loss due to less charging of MDI reading - Rs.3.85 million

According to the instructions issued by WAPDA dated Jul' 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 audit of HESCO for the year 2011-12, it was revealed that Maximum Demand Indicator (MDI) load was less charged to twenty (20) consumers as per CP-88A. Resultantly, the company sustained a loss of Rs.3.85 million due to less charging of fixed charges.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 20, 2012, the management replied that the CP-88L was the register of payment posted to the consumer. The reply was not tenable as the observation was based on CP-88A instead of CP-88L.

Audit emphasizes expeditious recovery of revenue less charged besides fixing responsibility.

(Draft Para No. 485/2013)

11.4.27 Non-return of excess material to store - Rs.2.97 million

According to para 75 of WAPDA Accounting Manual 1978, “on completion of the ‘work’ the excess material will be returned to godown or transferred to another ‘work’. Where the materials are returned to a godown, the Budget and Accounts Officer will, on receipt of the Stores, returned to Store-keeper Advice, credit the Materials-at-Site Account and debit the Stores Control Account in the General Ledger, and the relevant stores account in the Subsidiary Ledger. If the excess material has been transferred to another ‘work’, then the Budget and Accounts Officer, on receipt of the transfer advice, will credit the Material-at-Site Account of the transfer and debit the Materials-at-Site Account or Work-in-Progress Account, as the case may be, of the ‘work’ which has received the material”.

During audit of HESCO for the year 2011-12, it was revealed that electrical material worth Rs.2.97 million was drawn in excess of the requirement in ninety seven (97) cases of village electrification as evident from M/s BARQAAB’s reports. These works were completed but the excess material was not returned to store by the officials. Non-adherence to the distribution store manual resulted in non-return of material amounting to Rs.2.97 million.

The matter was taken up with the management in Aug’ 2012 and reported to the Ministry in Oct’ 2012. In a meeting held on Dec’ 20, 2012, the management replied that the list of excess drawn material than the requirement was not attached with the para, however, reports of M/s Barqaab had been examined for the period upto Jun’ 2012 vide which no excess material was reported. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility and making good the loss.

(Draft Para No. 153/2013)

11.4.28 Loss due misappropriation of material - Rs.2.52 million

According to the instructions issued by WAPDA dated Jul' 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 audit of HESCO for the year 2011-12, it was revealed that material valuing Rs.13.91 million was drawn from store for installation of distribution lines and sub-stations to provide temporary connection on the occasion of URS of Lal Shahbaz Qalander in Jul' 2011. But instead of returning all material to store, only partial material valuing Rs.11.39 million was returned to store. Poor management resulted in loss of Rs.2.52 million due to misappropriation of material.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 20, 2012, the management replied that maximum quantity of material had already been returned to store. As for the remaining material, the matter was under investigation by an inquiry committee. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility and making good the loss.

(Draft Para No. 306/2013)

11.4.29 Loss due to less recovery of security deposits - Rs.1.54 million

Para-2 of Authority's letter dated Aug' 16, 2003 provides that, "the security for new connection of water supply schemes of Provincial Government/Department agencies should be recovered at the rate of appropriate industrial tariff because the original applicable tariff is industrial tariff B-1 , B-2 depending upon the load".

During audit of HESCO for the year 2011-12, it was revealed that nineteen (19) water supply schemes were sanctioned under agriculture tariff D-1(b) instead of appropriate industrial tariff contrary to above instructions. Resultantly the security deposits worth Rs.1.54 million were less recovered.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Nov' 2012. In a meeting held on Dec' 20, 2012, the management replied that the matter was being probed to actually assess the status of the consumers and if the security was found less recovered, the same would be effected under intimation to Audit. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 276/2013)

CHAPTER-12

ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED (IESCO)

(219-237)

12. ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED

12.1 Introduction

Islamabad Electric Supply Company Limited (IESCO) started its operations as a Public Limited Company in May, 1998 and registered under Companies Ordinance, 1984 as a public limited company.

The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The mission of IESCO is to bring the assurance of energy to its customers, with world class quality and commitment for satisfaction of consumers. The Company purchases electricity from NTDC on 220 KV Grid Station Burhan, Sangjani, University and 500 KV Grid Station Rawat. Additionally, IESCO receives electricity from Altern Energy Power House Fateh Jang and sells it to the consumers in Islamabad, Rawalpindi, Attock, Jehlum and Chakwal Districts**.** The Company distributes electricity to consumers at the tariff notified by NEPRA.

The jurisdiction of IESCO includes five Operation Circles, one Grid System Construction Circle, and one Project Construction Circle and one Grid System Operation Circle.

12.2 Comments on Financial Statements

12.2.1 Financial Overview

Monthly accounts (Trial Balance and other management information schedules) from Finance Director IESCO where these accounts are consolidated and Financial Statements like Balance Sheet, Profit and Loss Account and Cash Flow Statement are prepared. The financial results along-with the financial ratios were as under:

12.2.2 Extracts of the Financial Statements[10]

Balance Sheet as at Jun' 30, 2012

(Rupees in million)

	2011-12	%	2010-11	%	2009-10
Equity and Liabilities					
Accumulated Loss	(7,109.73)	(215.84)	6,137.79	17.62	5,218.39
Surplus on revaluation of property and plant	14,696.56	30.55	11,257.55	(2.20)	11,510.22

10 *Only balances with significant variations during the current financial year and those against which comments are being incorporated in this analysis are reproduced.*

Non-current liabilities					
Long term loans	4,473.91	80.62	2,476.94	(13.67)	2,869.02
Employee retirement benefits	5,499.53	8.60	5,064.21	13.79	4,450.46
Deferred credit	17,322.51	15.21	15,035.46	21.52	12,372.88
Deferred tax liability	3,221.98	14.78	2,807.18	(4.62)	2,943.24
	30,517.93	20.23	25,383.79	12.14	22,635.60
Current liabilities					
Trade and other payables	46,534.64	64.69	28,255.87	32.11	21,387.36
Accrued markup	1,530.75	95.95	781.21	131.26	337.80
Current portion of long term loans	1,057.93	(35.64)	1,643.85	289.74	421.78
	49,123.31	60.11	30,680.92	38.53	22,146.94
	93,026.33	**17.37**	**79,258.30**	**17.75**	**67,309.41**
Assets					
Non-current assets					
Property, plant and equipment	57,409.64	18.212	48,564.78	10.97	43,765.50
Long term advances	33.23	17.27	28.34	55.63	18.21
Long term deposits	0.14	7.95	0.126	0.00	0.13
Current assets					
Stores and spares	2,783.21	6.51	2,613.17	(16.99)	3,148.17
Trade debts	23,011.15	26.54	18,184.87	63.45	11,125.84
Other receivable	8,520.35	17.21	7,269.60	5.60	6,883.95
Cash and bank balances	1,268.62	(51.16)	2,597.42	9.71	2,367.62
	35,583.33	16.04	30,665.06	30.35	23,525.57
	93,026.33	**17.37**	**79,258.30**	**17.75**	**67,309.41**

Profit and Loss Account
For the year ended Jun' 30, 2012

(Rupees in million)

	2011-12	**%**	**2010-11**	**%**	**2009-10**
Revenue					
Electricity sale	62,716.43	9.29	57,386.07	14.27	50,219.24
Subsidy from GoP on sale of electricity	10,160.29	(5.43)	10,744.00	(32.02)	15,816.40
Rental and service income	31.93	16.95	27.30	4.49	26.12
	72,908.65	6.97	68,157.37	3.17	66,061.76
Cost of electricity	80,312.85	27.42	63,027.74	9.75	57,429.09
Gross profit/(Loss)	(7,404.20)	(244.34)	5,129.63	(40.58)	8,632.67
Amortization of deferred credit	735.96	5.00	700.94	20.19	583.21
	(6,668.24)	(214.37)	5,830.57	(36.73)	9,215.88
Other operating cost (excluding depreciation)	6,129.80	17.89	5,199.75	28.46	4,047.90
Depreciation on operating fixed assets	1,528.29	18.77	1,286.71	18.64	1,084.56
	(14,326.34)	2,084.23	(655.90)	(116.06)	4,083.41
Other income	1,260.06	(10.64)	1,410.140	26.79	1,112.16
	(13,066.27)	(1832.37)	754.24	(85.48)	5,195.58
Financial and other charges	574.36	193.59	195.64	150.96	77.95
Workers' profit participation fund	-	100.00	27.93	(89.41)	263.69
Profit/ (loss) before taxation	(13,640.63)	(2541.91)	558.60	(89.08)	5,117.62
Taxation deferred	137.59	1.13	136.05	(0.90)	137.29
Profit/(Loss) for the year	**(13,503.04)**	**(2125.27)**	**666.73**	**(86.64)**	**4,991.22**

12.2.3 Financial Ratios

The summary of ratios calculated for the three financial years is given below:

COMPANY		IESCO		
YEAR		**2011-2012**	**2010-2011**	**2009-2010**
Profitability Ratios				
Return on capital employed	%	(61.98)	2.65	18.33
Gross profit margin	%	(11.81)	8.94	17.19
Net profit margin	%	(21.53)	1.16	9.94
Asset turnover ratio	Times	1.43	1.18	1.11
Return on total assets	%	(14.52)	0.84	7.42
Short Term Liquidity Ratio				
Current ratio	Times	0.72	1.00	1.06
Working Capital Ratios				
Debtors turnover period	Days	134	116	81
Creditors turnover period	Days	211	164	136
Debt, Gearing & Leverage Ratios				
Debt to total asset	%	5.95	5.20	4.89
Gearing ratio	%	21.22	8.70	10.12
Leverage ratio	%	63.49	81.44	79.49
Interest cover	times	(22.75)	3.86	66.65

12.2.4 Cash Flow Analysis

The Company generated net cash outflow (deficit) of Rs.1,328.80 million (inflow (surplus) of Rs.229.80 million: 2010-11) during the financial year resulting in closing balance of Rs.1,268.62 million (Rs.2,597.42 million: 2010-11).

Net cash flows from operating activities declined by Rs.592.06 million (11.7%) over the previous year mainly due to loss during 2011-2012. The main components which triggered such decline, was the employee benefits which increased by Rs.253.04 million i.e. 74%.

The Company liquidated its short-term investment amounting to Rs.1,500.54 million during the financial year 2011-12, to finance its operations. In addition to the above, the Company invested Rs.5,914.64 million on fixed assets (Rs.5,648.45 million: 2010-11) for the improvement of the power distribution system. However, the Company could not utilize the assets efficiently and effectively as the return on assets declined significantly.

Moreover, the net cash inflow of Rs.1,516.77 million injected from financing activities as the Company borrowed Rs.1,880.41 million (Rs.1,041.54 million: 2010-11) from financial institutions/ donor agencies.

The retention of 8.5% of financing in the form of cash reserves was dropped to 3.6%, which indicates cash flow problems for the company. The company was utilizing its accumulated cash reserves to manage its operational requirements resulting in significant decline of 51.16% in cash reserves which needs to be justified.

12.2.5 Ratios Analysis

12.2.5.1 Profitability

Profitability ratios of the company showing the worst position ever faced by the company in terms of gross profit and net profit both ratios went to negative due to huge loss in the year.

i) Gross profit

During the financial year 2011-12, electricity sales of the company increased to Rs.62,716.43 million i.e. increase of Rs.5,330.31 million, 9.29% (Rs.57,386.07 million: 2010-11). On the other hand cost of electricity increased by 27.42% (Rs.80,312.85 million during the year 2011-12, Rs.63,027.74 million: 2010-11). The proportionate increase in cost of electricity was higher than the increase in the sales of electricity due to which the Company suffered a gross loss of Rs.7,404.20 million. The line losses of 62 sub divisions of the Company ranged from 10% to 30.35%, resulting in high cost of electricity.

In view of the forgoing, the Gross Profit ratio declined significantly i.e. (11.81%) gross loss as compared to gross profit of 8.94% for the financial year 2010-11.

The abnormal increase in the cost of sales, resulting in significant increase in gross loss of the company needs to be explained.

ii) Net Profit Ratio

The Company sustained net loss of Rs.13,503.05 million during the financial year ended Jun’ 30, 2012. Accumulated reserves amounting to Rs.6,137.79 million brought forward from previous years were absorbed to balance the impact of loss sustained during the financial year resulting in Accumulated loss amounting to Rs.7,109.73 million.

This indicates that the operational inefficiency of the Company remained highly unsatisfactory. The operational loss was mainly due to increase in operating expenses by 18% over the previous year which mainly was dut to enhancement in pay and allowances and repairs & maintenance expenses. It was further observed that the Company approved certain allowances in respect of various categories of employees. The detail of which is mentioned hereunder:

i) Transport subsidy

ii) Special WAPDA allowance

iii) Danger allowance

The grant of above allowances without the approval/concurrence of Ministry of Finance was not in line with the provisions of Government Rules and Regulations and amount paid on account of above allowances was irregular.

In view of the forgoing, the Net Profit ratio declined significantly i.e. (21.53%) net loss as compared to Net Profit ratio of 1.16% for the financial year 2010-11.

The Company could not manage its expenses including line losses due to which the cost of electricity and indirect expenses increased significantly. The expenses increased to such a huge amount that the relative revenue generated from sales and other income could not mitigate the impact. The Company required to justify such an abnormal increase in expenses.

iii) Return on capital employed

The return declined to (61.98%) loss from 2.65% profit, showing that the Company could not utilize its resources in an efficient and effective manner.

iv) Return on total assets

The return declined to (14.52%) from (0.84%) as company was not utilizing its assets efficiently to generate favorable return.

The Company invested Rs.5,914.64 million on the non-current assets during the financial year. In addition to the above, the Company was holding cash reserves of Rs.1,268.62 million. The debt to total asset ratio and gearing ratio was 5.95 and 21.22 respectively which showed that company was relying heavily on debt to finance its operations. Audit suggested that the Company should review its capital structure and policy of getting loan because it badly affected the liquidity position of the company and have direct impact on the profitability of the company.

The huge investment on non-current assets could not improve the profitability position of the Company as the return on total assets declined significantly which needs to be explained.

12.2.5.2 Short Term Liquidity

i) Current ratio

Despite the fact, the Company liquidated its short term investment amounting to Rs.1,500.54 million, the current ratio declined to 0.72 from 1.00 indicating short term financial difficulties in repayment of current liabilities.

The Company does not hold adequate liquid assets required to settle its short term liabilities which needs to be explained.

12.2.5.3 Working Capital Cycle

i) Debtor / Creditor turnover period

The trade receivables increased significantly i.e. by Rs.4,826.29 million (26.54%) over the previous year. In addition to that, the debtor turnover period increased to 134 days (116 days in 2010-11 and 81 days in 2009-10). Moreover, the company has written off an amount of Rs.1.44 million as bad debts during the present financial year.

An increase in accounts receivable and debtor turnover period reflected inefficient collection procedures and poor administration of trade debts, resulting loss of revenue to the Company and ultimately worsening liquidity position.

Delays in collection from debtors had trickle-down effect on the creditor's turnover period which increased to 211 days from 164 days.

The increase in accounts receivable and accounts payable indicated that there was a continuing cash flow shortage resulting in persistent working capital financing problems for the Company. Poor management of debtors and creditor's turnover period and writing off significant amount as bad debts needs to be explained.

12.2.5.4 Gearing, leverage and interest coverage ratios

The non-current liabilities of the company increased by 20.23% over the previous year. The Trade and other payables increased by 65% (i.e. by Rs.18,278.77 million) and the creditors' turnover period increased to 211 days. Significant increase in the amount of payables and increase in number of days to settle the liabilities reflect that the company was encountering the liquidity problems and the management had not taken adequate remedial action to address the issue.

The financial position of the Company deteriorated during the past few years as depicted in the summary of ratios mentioned above. The gearing position of the Company showed negative trend i.e. 21.22% during the financial year 2011-12 as compared to 8.70% during the financial year 2010-11. High gearing reflected liquidity problems resulting in cash flow risk for the Company. The Company was relying on the external sources to finance its operations instead of funding the operations out of resources generated from its operations.

Reliance on borrowings/ (loans) and payment of financial charges needs to be explained.

12.2.6 Recommendations:

It is evident from the above analysis that the profitability, liquidity and solvency position of the company was deteriorating with an exceptionally high rate. In order to finance the operations, Company would heavily rely on financing from external sources which will aggravate the liquidity position. If these conditions prevail, the Company would require heavy funding from the Government to maintain going concern status.

In view of the forgoing, it is recommended that Company should revamp its organizational structure and address operational issues, being the major cause of losses. In addition to that, the Company should also restructure its financial arrangements by funding its operations from cheap sources of finance, resulting in low interest cost.

The line losses, being the major cause of losses is required to be addressed at higher level. There is a dire need to develop a policy to address the heavy line losses and to ensure the inflow of funds in the form of revenue.

The issue of huge receivables from Government and private consumers also needs due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

12.3 AUDIT PARAS

12.3.1 Loss due to theft of electrical material - Rs.7.74 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of IESCO for the year 2011-12, it was revealed that electrical material comprising transformers and conductor in fifty six (56) cases worth Rs.7.74 million was stolen. FIRs in most of the cases were lodged with the concerned police stations but administrative action in majority of the cases was not taken to fix the responsibility of loss and to decide its fate. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs.7.74 million.

The matter was taken up with the management in Aug' to Oct' 2012 and reported to the Ministry in Sep' to Nov' 2012. In a meeting held on Dec' 26, 2012, the management replied that fifteen (15) cases had been closed by police because culprits were not traceable. In two cases, the matter was subjudice and in remaining thirty nine (39) cases, the matter was under investigation with police. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter at higher level besides fixing responsibility.

(Draft Para No. 55, 58, 150, 189, 227 & 278/2013)

12.3.2 Loss due to pending EROs - Rs.12.55 billion

Para-2 of Authority's circular dated April 15, 1998 lays down that "disconnections will be effected through removal of meters, transformers, span or any other equipment to ensure that no possibility of loop hole is left for unauthorized use of energy during the period of disconnection. The equipment after having been removed from site was required to be returned to store".

During audit of IESCO for the year 2011-12, it was revealed that two thousand eight hundred and thirty eight (2,838) government consumers defaulted the payment of energy charges. Resultantly, equipment removal orders (EROs) were issued but the same were pending from more than one month to 188 months. Non-implementation of EROs resulted in loss of Rs.12.55 billion.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that most of the EROs mainly pertained to AJK, hospitals and Capital Development Authority (CDA). Efforts were always made to implement the EROs to recover the IESCO's revenue. Further progress towards recovery was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility for non-implementation of EROs.

(Draft Para No. 401/2013)

12.3.3 Huge receivables amount from energy defaulters - Rs.11.68 billion

According to the Office letter No.320-30/GM (C&M)/P/CE(O)/Stat/130 dated 14.06.2012 circulated by General Manager C&M PEPCO, "special efforts are required during the remaining days of June, 2012. Running defaulters/ disconnected defaulters need physical checking for effective recovery."

During audit of IESCO for the year 2011-12, it was revealed that an amount of Rs.11.68 billion was receivable from seven thousand three hundred and ninety five (7,395) energy defaulters (Government & Private) for a period exceeding from six months i.e. from Dec' 31, 2011 upto more than three years. No efforts were made by the management to accelerate the recovery from defaulters. Owing to the increasing trend of receivables, PEPCO was facing financial difficulties in discharging its obligations towards Power Sector Companies (PSC) and Independent Power Producers (IPPs). Non-recovery from energy defaulters resulted in blockage of Rs.11.68 billion.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Jan' 2013. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 649/2013)

12.3.4 Loss due to supply of energy to feeders having no load - Rs.795.12 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 audit of IESCO for the year 2011-12, it was revealed that twenty four (24) feeders were running without load/consumers whereas 61.16 million electricity units amounting to Rs.795.12 million received on these feeders were not billed to consumers. Poor management resulted in loss of Rs.795.12 million due to supply of energy to feeders having no load.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter at higher level besides fixing responsibility for running feeders without load.

(Draft Para No. 499/2013)

12.3.5 Non-mutation/transfer of WAPDA property - Rs.228.20 million

Any person acquiring by inheritance, purchase, mortgage, gift, or otherwise, any right in an estate as a land-owner, or a tenant for a fixed term exceeding one year, shall, within three months from the date of such acquisition, reports his acquisition of right to the Patwari of the estate, who shall enter in his register of mutations every report made to him in the light of section 42 of Land Revenue Act.

During audit of IESCO for the year 2011-12, it was revealed that land worth Rs.228.20 million was acquired for three (03) 132 KV Grid Stations from Provincial/Federal Govt. and private owners during 1965, 1980 and 1990. Land was required to be mutated in the name of Company which was not yet transferred as required under the rules. Non-adherence to government instructions resulted in non-mutation of property costing Rs.228.20 million.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 26, 2012, the management replied that the cost of land for 33 KV Grid Station Talagang was fixed by the Punjab Government in 1963 as Rs.1,01,007.57 which was paid to the owners. The same owner set petition in Wafaqi Mohtasib Court against WAPDA for vacation of land, as they did not want to sell out their land at that cost. Title for transfer in the name of WAPDA is under process. Lands of 132 KV Grid Station Cantt: Rawalpindi and Chaklala Rawalpindi were on lease. The case for renewal of lease was under process between Ministry of Water and Power & Ministry of Defense through Cantt. Board Chaklala, Rawalpindi. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 497/2013)

12.3.6 Loss due to levy of commitment charges on un-utilized loans – Rs.52.93 million

According Section 2.03, Article-II of World bank Loan No.7565-PAK, "The borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the loan (less amounts withdrawn from time to time), commencing sixty (60) days after the date of this loan agreement.

During audit of IESCO for the year 2011-12, it was revealed that an amount of Rs.52.93 million was due for payment/adjustment as commitment charges on the un-utilized World Bank (loan No.7565-PAK) from Jun' 2009 to Jun' 2012. Further the World Bank representative showed his concern over slow pace of project implementation in Feb' 2012 as less than half the loan/credit amounts had been committed and less than 30% funds disbursed. 50% of the loan credit amount was expected to be cancelled on the scheduled completion date of loan i.e. Jun' 30, 2012. Lack of planning, inefficiency and poor management resulted in payment of commitment charges amounting to Rs.52.93 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 333/2013)

12.3.7 Undue favour to the consumers on account of non-regularization of unauthorized extension of load - Rs.41.49 million

According to abridged condition-6 of supply of power, "in case of non-removal/non-regularization of un-authorized extended load, the supply to the consumer shall be disconnected".

During audit of IESCO for the year 2011-12, it was revealed that one hundred and sixty one (161) industrial consumers had extended the load of the energy connections without the approval of competent authority. In violation of the abridged condition, the field formations neither disconnected the energy connections nor regularized the un-authorized extended load. Resultantly, an amount of Rs.41.49 million remained un-recovered from consumers on account of cost of equipment, security deposit and rehabilitation charges.

The matter was taken up with the management in Aug' to Oct' 2012 and reported to the Ministry in Sep' to Nov' 2012. In a meeting held on Dec 26, 2012, the management replied that notices had been issued to the consumers to either remove un-authorized extension of load or get it regularized. Progress / recovery would be intimated to Audit. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 54, 64, 187 & 279/2013)

12.3.8 Loss due to improper utilization of ADB loan - Rs.17.38 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 audit of IESCO for the year 2011-12, it was revealed that a low bed trailer with prime mover 90 ton valuing Rs.17.38 million was procured. The trailer was allocated to Project Director GSC IESCO for transportation of grid station machinery. Neither the trailer was got registered with Excise Department nor used for transportation of grid station machinery and remained idle since the date of allocation. Poor planning and financial management resulted in loss of Rs.17.38 million due to improper utilization of resources.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that this trailer was only used for the transportation of power transformer of any capacity from one city to another or from one location to another subject to scope of work. However, vehicle had already been registered with the Excise Department. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 330/2013)

12.3.9 Excess expenditure against deposit works - Rs.15.01 million

According to Section-III-C (1) of Book of Financial Powers, "deposit works shall be undertaken only after getting full amount of sanctioned work estimated deposits with WAPDA, with an undertaking from the depositor to meet any variation."

During audit of IESCO for the year 2011-12, it was found that an amount of Rs.15.01 million was incurred in excess of estimated cost during execution of thirteen (13) deposit works. The excess expenditure was not recovered from the sponsor(s) till close of financial year. Non-adherence to rules resulted in excess expenditure of Rs.15.01 million.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry in Nov’ 2012. In a meeting held on Dec’ 26, 2012, the management replied that the excess expenditure had been adjusted through JVs against each work. The reply was not tenable as no documentary evidence was provided in support of adjustment till the finalization of this report.

Audit emphasizes expeditious adjustment besides fixing responsibility.

(Draft Para No. 241/2013)

12.3.10 Unauthorized award of work in violation of PPRA Rules - Rs.8.58 million

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

During audit of IESCO for the year 2011-12, it was revealed that a work valuing Rs.8.58 million for supply of four (4) Landative Towers Type L-60 was awarded to M/s Zahid & Company Lahore through work order on Mar’ 19, 2012 on quotation basis. Non-adherence to PPRA Rules resulted in unauthorized award of work amounting to Rs.8.58 million.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter at higher level besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No. 359/2013)

12.3.11 Non-replacement of transformers damaged under warranty period - Rs.8.35 million

According to standard clause of “warranty” incorporated in purchase orders, “suppliers are bound to furnish a certificate, certifying that goods supplied confirm exactly to the specification laid down in contract and are brand new. The supplier in the event of material being found defective or not conforming to the specifications governing supply at the time of delivery within a period of 12 months from the date of completion of supply will be held responsible for all losses and that unacceptable goods shall be substituted with acceptable goods at his expenses".

During audit of IESCO for the year 2011-12, it was revealed that forty eight (48) transformers valuing Rs.8.35 million of different capacities damaged/became defective during warranty period were not sent to manufacturer for replacement. Non-insertion of time limit clause in the purchase orders resulted in inordinate delay for the replacement of the damaged equipment of Rs.8.35 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that five (5) transformers had been received back after repair and in six (6) cases, inspection certificates had been issued and would be received in store shortly. As for the remaining thirty seven (37) cases, the transformers were under repair with the manufacturer and would be received back in the due course of time. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 399/2013)

12.3.12 Unjustified expenditure on civil works in violation of PPRA Rules - Rs.7.68 million

According to rule 42(b)(i) of PPRA Rules, "a procuring agency may call for quotations if the cost of object is below the prescribed limit of one hundred thousand rupees"

During audit of IESCO for the year 2011-12, it was revealed that various civil works costing Rs.7.68 million were awarded to seven (07) contractors through quotations. Non-adherence to PPRA rules resulted in unjustified expenditure of Rs.7.68 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No. 442/2013)

12.3.13 Recoverable amount from industrial consumers - Rs.6.24 million

According to tariff B-III (501 KW to 5000 KW), "the meter is to be installed on HT (11KV)".

During audit of IESCO for the year 2011-12, it was revealed that the running load of two (02) consumers was 814 KW and 760 KW against the sanctioned load 490 KW and 450 KW under tariff B-II respectively. Owing to non-conversion of tariff from B-II to B-III and non-installation of meter at HT lines, the line losses of Rs.1.24 million sustained by the company. An amount of Rs.5 million on account of sharing cost of feeder was also to be recovered from the consumers. Violation of tariff schedule resulted in non-recovery of Rs.6.24 million from industrial consumers.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Sep' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 63/2013)

12.3.14 Non-recovery of Neelum Jehlum Surcharge from employees - Rs.5.20 million

Govt. of Pakistan levied Neelum Jehlum Surcharge @ Rs.0.10/per unit for construction of Neelum Jehlum Hydro Power Project.

During audit of IESCO for the year 2011-12, it was revealed that free electricity of 4.33 million units was provided to the employees of the Company but the Neelum Jehlum Surcharge of Rs.5.20 million was not recovered from the employees. Violation of rule resulted in non-recovery of Neelum Jehlum Surcharge amounting to Rs.5.20 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012 the management replied that being a policy matter, the case would be taken up with higher ups for clarification as all of the WAPDA/DISCOs/PEPCO employees were enjoying the said facility. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery from employees besides fixing responsibility.

(Draft Para No. 498/2013)

12.3.15 Non-recovery of supply charges against temporary connections - Rs.3.07 million

According to special condition of supply under tariff-E of Schedule of Electricity Tariff IESCO, “the supply shall not be given by the Company without obtaining security equal to the anticipated supply and other miscellaneous charges for the period of temporary supply”.

During audit of IESCO for the year 2011-12, it was found that an amount of Rs.3.07 million was outstanding against the temporary connections. In contravention of special condition, the Company did not obtain security equal to the anticipated supply charges and resultantly had nothing to adjust against the outstanding dues. Non-adherence to the conditions of schedule of tariff resulted in non-recovery of Rs.3.07 million.

The matter was taken up with the management in Aug’ 2012 and reported to the Ministry in Sep’ 2012. In a meeting held on Dec’ 26, 2012, the management replied that an amount of Rs.1.20 million was recovered. Efforts for the recovery of balance amount were being made. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 62/2013)

12.3.16 Non-recovery from employees on account missing / damaged material- Rs.1.40 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 audit of IESCO for the year 2011-12, it was revealed that an amount of Rs.1.40 million was recoverable from twenty (20) officials on account of missing / damaged material as imposed by the Superintending Engineer on April 12, 2012. No recovery had so far been made/initiated. Non-implementation of rules for safeguarding the assets of the Company resulted in non-recovery of Rs.1.40 million.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry on Oct’ 2012. In a meeting held on Dec’ 26, 2012, the management replied that an amount of Rs.0.21 million was recovered so far, seven employees had obtained stay orders from the court against the recovery amounting to Rs.0.23 million and recovery of balance amount of Rs.0.95 million was under process. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 190/2013)

12.3.17 Loss due to wrong application of tariff - Rs.1.34 million

According to General Definition Part-II of Terms and Conditions of Tariff, “The supply under (Tariff-D) this tariff shall not be available to consumer using pumps for the irrigation of parks, meadows, gardens, orchards, attached to and forming part of the residential, commercial or industrial premises in which case the corresponding Tariff A-1, A-2 or Industrial Tariff B-1, B-2 shall be respectively applicable.

During audit of IESCO for the year 2011-12, it was revealed that eight (8) electrical connections of Tehsil Management Administration were running under tariff D-I(b) whereas these were to be charged under tariff B-II. Non-implementation of rules resulted in wrong application of tariff which caused a loss of Rs.1.34 million.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry in Oct’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 188/2012)

12.3.18 Unjustified expenditure on procurement in violation of PPRA Rules - Rs.1.27 million

According to rule 42(b)(i) of PPRA Rules, “a procuring agency may call for quotations if the cost of object is below the prescribed limit of one hundred thousand rupees”

During audit of IESCO for the year 2011-12, it was revealed that procurement of electrical material of Rs.1.27 million was made from four (04) contractors / suppliers through quotations. Non-adherence to PPRA Rules resulted in unjustified expenditure of Rs.1.27 million.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec 26, 2012, the management replied that Book of Financial Powers (NTDC) provides the special clause for such like purchases purposely keeping in view the type of works to be handled under emergency. Management unit could not afford delay in execution of such site works. According to site requirements and nature of emergency in their execution, the procurements were made through quotations instead of calling tenders. The reply was not tenable because control cable, conversion of single cabin Toyota pickup, loading/un-loading services of transformers, etc. purchased. These items were not of emergency nature.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No. 443/2013)

12.3.19 Loss due to wasteful expenditure incurred for construction of WAPDA hospital - Rs.1.13 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 audit of IESCO for the year 2011-12, it was revealed that an amount of Rs.1.13 million was paid on account of advertisement, design, drawing and soil testing for on extension work of WAPDA Hospital at H-8, Islamabad without obtaining NOC from CDA. Whereas CDA cancelled the allotted plot due to non-payment of extension charges during 1998. Poor management resulted in loss due to wasteful expenditure of Rs.1.13 million.

The matter was taken up with the management in Nov' 2009 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 400/2013)

12.3.20 Loss due to non-recovery of standard rent - Rs.1.05 million

According to para "d" of the Director Finance (Regulation), WAPDA Lahore clarification No. FO(B&F)/4-8/Acq/Vol-8/4314-4413 dated Jan' 10, 2007, "where the accommodation is allotted by one organization to the employees of other organization, the standard rent is to be charged by the formation concerned from the formation whose employees have been allotted accommodation."

During audit of IESCO for the year 2011-12, it was revealed that six (6) employees of other IESCO formations were residing in the colony but standard rent amounting to Rs.1.05 million was not recovered. Non-adherence to Authority's instructions resulted in loss due to non-recovery of standard rent of Rs.1.05 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that four (4) officers/officials in the list of para were retired employees. Notices had been issued to them to either vacate the residences house or deposit standard rent. Out of which one employee had deposited Rs.0.02 million. Recovery from remaining three (3) employees was in process. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 372/2013)

12.3.21 Unjustified refund of liquidated damages – Rs.1.04 million

According to delivery clause of Purchase Order, "the delivery must be completed not later than the dates specified 1st day of inspection or 15th day of inspection call which ever is earlier, shall be reckoned as date of delivery at store to IESCO consignee provided the goods accepted for supply have been delivered within 20 days of issuance of inspection certificate for local manufactured material and 30 days for imported material subject to the conditions that the supplier / manufacturer offer the material for inspection at least 15 days prior to due date and no offer is rejected to being a fake call or material not conforming to specification."

During audit of IESCO for the year 2011-12, it was revealed that liquidated damages amounting to Rs.1.04 million were deducted by the management from the supplier (M/s Potential Engineering, Lahore) due to delayed supply of material. Later on, the contractor was obliged by amending the delivery clause by changing the time period from thirty (30) days to seventy (70) days and the liquidated damages were refunded to the supplier on Feb' 17, 2012. Poor contractual management resulted in unjustified refund of liquidated damages amounting to Rs.1.04 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 26, 2012, the management replied that the material was received in store on Dec' 12, 2011 i.e. sixty seven (67) days late from the issuance of inspection certificate. This office only amended the delivery clause and not extended the delivery schedule. The reply was not tenable as the contractor was obliged by amending the delivery clause.

Audit requires inquiry in the matter besides fixing responsibility and making recovery of liquidated damages.

(Draft Para No. 290/2013)

CHAPTER-13

LAHORE ELECTRIC SUPPLY COMPANY LIMITED (LESCO)

(241-272)

13. LAHORE ELECTRIC SUPPLY COMPANY LIMITED

13.1 Introduction

Lahore Electric Supply Company Limited (LESCO) started its operation as a Public Limited Company registered under Companies Ordinance, 1984 in July, 1998. The registered office of the Company is situated in Lahore.

The principal activity of the Company is distribution and supply of electricity within defined geographical boundaries. The Company has obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The mission of LESCO is to provide un-interrupted electric supply and quality service to all customers at the minimum possible cost. The Company purchases electricity from National Transmission and Despatch Company (NTDC) and sells it to the consumers in Lahore, Sheikhupura, Kasur, Okara and Nankana Sahib Districts.

LESCO receives supply from NTDC on 220 KV grid stations at Bund Road, Ravi Road, Sarfraz Nagar, New Kot Lakhpat, Kala Shah Kaku and eleven (11) private producers. The jurisdiction of LESCO includes seven Operation Circles, one Grid System Construction Circle, one Construction Circle and one Grid System Operation Circle.

13.2 Comments on Financial Statements

13.2.1 Financial Overview

Monthly accounts (Trial balance and other management information schedules) from 78 accounting units were sent to Finance Director LESCO where these accounts were consolidated and financial statements including Balance Sheet, Profit & Loss Account and Cash flow statement were prepared. The financial results along with the financial ratios are as under:

13.2.2 Extracts of the Financial Statements[11]
Balance Sheet as at Jun' 30, 2012

(Rupees in million)

Share capital and reserves	2011-12	%	2010-11	%	2009-10
Accumulated Loss	(27,701.96)	5,148.60	(527.80)	(75.14)	(2,123.00)

[11] *Only balances with significant variations during the current financial year and those against which comments are being incorporated in this analysis are reproduced.*

Non-current liabilities					
Long term Loans	3,552.51	40.04	2,536.86	96.66	1,289.96
Employee retirement and benefit	22,367.85	19.91	18,654.44	16.15	16,060.50
Deferred credit	17,426.67	10.34	15,792.95	14.65	13,775.17
	49,617.09	17.00	42,407.91	18.75	35,712.67
Current liabilities	82,973.16	88.114	44,155.85	20.066	55,214.78
	111,626.29	**20.32**	**92,773.97**	**(2.90)**	**95,542.45**
Assets					
Non-current assets	42,411.13	24.880	37,536.88	27.968	32,655.55
Current assets					
Stores and spares	4,105.12	19.96	3,422.03	18.59	2,885.50
Trade debts	32,912.10	41.37	23,281.54	49.56	15,566.22
Advances, prepayments	22,714.39	43.13	15,869.62	(49.70)	31,549.11
Cash and Bank balances	9,483.55	(25.11)	12,663.90	(1.72)	12,886.06
	69,215.16	25.31	55,237.09	(12.16)	62,886.893
	111,626.29	**20.32**	**92,773.97**	**(2.90)**	**95,542.45**

Profit and Loss Account

For the year ended Jun' 30, 2012

Revenue	**2011-12**	**%**	**2010-11**	**%**	**2009-10**
Electricity sale	132,830.38	15.78	114,722.74	(12.30)	130,809.46
Subsidy from GoP	19,666.01	(5.66)	20,845.09	-	-
	152,496.39	12.49	135,567.83	3.64	130,809.46
Cost of electricity	167,897.20	34.08	125,218.90	7.45	116,532.18
Gross profit/(Loss)	**(15,400.81)**	**(248.82)**	**10,348.93**	**(27.51)**	**14,277.27**
Amortization of deferred credit	751.60	14.19	658.22	5.20	625.70
Other operating cost	15,870.26	26.94	12,502.48	12.45	11,118.60
Loss before interest and tax	(30,519.48)	1,940.99	(1,495.33)	(139.51)	3,784.37
Other income	3,456.02	(1.19)	3,497.54	6.41	3,286.79
Loss before Tax	(27,063.46)	(1,451.68)	2,002.21	(71.68)	7,071.17
Financial and other charges	110.71	(65.73)	323.04	81.09	178.38
Profit/(Loss) for the year	**(27,174.17)**	**(1,803.49)**	**1,595.21**	**(75.42)**	**6,489.63**

13.2.3 Financial Ratios

The summary of ratios calculated for three financial years are as under:

COMPANY		LESCO		
YEAR		**2011-2012**	**2010-2011**	**2009-2010**
Profitability Ratios				
Return on Capital Employed	%	(430.58)	6.68	29.14
Gross Profit Margin	%	(11.59)	9.02	10.91
Net Profit Margin	%	(20.46)	1.39	4.96
Asset Turnover Ratio	times	4.64	2.36	3.24
Return on Total Assets	%	(0.24)	1.72%	6.79%
Short Term Liquidity Ratio				
Current Ratio	times	0.83	1.25	1.14
Working Capital Ratios				
Debtors Turnover Period	days	90	74	43
Creditors Turnover Period	days	159	94	132
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	3.80	3.02	1.59
Gearing Ratio	%	56.52	8.47	5.32
Leverage Ratio	%	(333.54)	20.73	19.02
Interest coverage	%	(244.45)	6.20	39.64

13.2.4 Cash Flow Analysis

The Company's net outflow (deficit) of cash was Rs.3,180.35 million (Rs.222.16 million : outflow 2010-11) during the financial year resulting in closing balance of Rs.9,483.55 million (Rs.12,663.90 million: 2010-11).

The Company generated net cash inflow of Rs.832.93 million from operating activities as compared to that of last year which was of Rs.2,062.87 million. The main components which triggered such decrease were the employee benefits that increased by Rs.302.28 million i.e. 39 % over the past year.

Moreover, the net cash inflow of Rs.2,228.52 million was injected from financing activities as the Company borrowed Rs.1,256.04 million from Asian Development Bank, raised Rs.4,336.91 million through deferred credit (amount received from consumers and Government towards the cost of extension of distribution network and of providing service connection) and raised Rs.846.41 million through security deposits received from consumers.

The Company invested Rs. 6,232.84 million on fixed assets for the improvement of distribution network. The retention of 23% of financing in the form of cash reserves has dropped to 14%, which indicated cash flow problems for the Company. The Company utilized its accumulated cash reserves to manage its operational requirements resulting in significant decline of 25% in cash reserves which was required to be justified.

13.2.5 Ratios Analysis

13.2.5.1 Profitability

Profitability ratios of the company showed the worst position ever faced by the company in terms of gross profit and net profit as both the ratios went to negative due to huge loss in the year.

i) Gross profit

During the financial year 2011-12, electricity sales of the company increased by 16% (Rs.132,830.38 million as against Rs. 114,722.74 million during 2010-11). On the other hand cost of electricity increased by 34% (Rs. 167,897.20 million during the year 2011-12 as against, Rs.125,218.90 million during 2010-11). The proportionate increase in cost of electricity was higher than the increase in the sales of electricity due to which the Company suffered a gross loss of Rs.15,400.81 million. The line losses of 163 sub divisions of the Company ranged from 10% to 30.95%, resulting in high cost of electricity.

In view of the forgoing, the Gross Profit ratio declined significantly i.e. (11.59%) gross loss as compared to gross profit of 9.02% for the financial year 2010-11.

The abnormal increase in the cost of sales, resulting in significant increase in gross loss of the company was required to be explained.

ii) Net profit Ratio

The company suffered accumulated losses of Rs. 27,701.97 million, out of which Rs. 27,174.17 million was incurred during the present financial year.

Company suffered heavy loss during current financial year due to which its net profit ratio declined and turned into negative i.e. (20.46%) from 1.39 % as compared to net profit for the financial year 2010-11.

On the other hand cost of electricity increased by 34% (Rs.167,897.20 million during the year 2011-12 as against Rs.125,218.90 million during 2010-11). The cost of electricity was higher than the sale value which was the reason of gross loss of Rs.15,400.81 million. Consequently, the Company suffered huge net loss of Rs.27,174.17 million during the financial year 2011-12. This indicated that the operational efficiency of the Company remained highly unsatisfactory. The operational loss was mainly due to increase in operating expenses by 27% over the previous year which mainly attributed to enhancement in pay and allowances and repairs & maintenance expenses. It was further observed that the Authority approved certain allowances in respect of various categories of WAPDA employees as detailed below:

i) Transport subsidy
ii) Special WAPDA allowance
iii) Danger allowance
iv) Head Office Allowance
v) Over time Allowance

The grant of above allowances without the approval/concurrence of Ministry of Finance was not in line with the provisions of Government Rules and Regulations and amount paid on account of above allowances was irregular.

The Company could not manage its expenses including line losses due to which the cost of electricity and indirect expenses increased significantly. The expenses increased to such a huge amount that the relative revenue generated from sales and other income could not offset the impact.

iii) Return on capital employed

The return on capital declined to 430.58% as compared to 6.68% profit, during financial year 2010-11. This reflected that the Company could not utilize its resources in an efficient and effective manner.

iv) Return on total assets

The return of total assets declined to 0.24% from 1.72% as company was not utilizing its assets efficiently to generate favorable return.

The Company invested Rs.6,232.84 million on the non-current assets during the financial year. In addition to the above, the Company held cash reserves of Rs.9,483.55 million. The debt to total asset ratio and gearing ratio was 3.80 and 56.52 respectively which showed that company is relying heavily on debt to finance its operations. Audit suggested that the Company should review its capital structure and policy of getting loan because it badly affected the liquidity position of the company and had direct impact on the profitability of the company.

The huge investment on non-current assets could not improve the profitability position of the Company as the return on total assets declined significantly which was required to be explained.

13.2.4.2 Short Term Liquidity

i) Current ratio

The company current ratio declined to 0.83 from 1.25 indicating short term financial difficulties in repayment of current liabilities.

The Company did not hold adequate liquid assets required to settle its short term liabilities which was required to be explained.

13.2.4.3 Working Capital Cycle

i) Debtor's/ Creditors turnover period

The trade receivables increased significantly by Rs.23,281.54 million (41%) over the previous year. In addition to that, the debtors' turnover period increased to 90 days (74 days in 2010-11 and 43 days in 2009-10). Moreover, the company has created a provision for bad and doubtful debts with an amount of Rs.1,169.60 million during the present financial year.

An increase in accounts receivable, debtor's turnover period and creation of provision for doubtful debts reflected inefficient collection procedures and poor administration of trade debts, resulting into loss of revenue to the Company and ultimately worsening liquidity position.

Delays in collection from debtors had trickledown effect on the creditor's turnover period which increased to 159 days from 94 days.

The increase in accounts receivable and accounts payable indicated continuing cash flow shortage that resulted in persistent working capital financing problems for the Company. Poor management of debtors and creditors' turnover period and creation of provision for doubtful debts was required to be explained.

13.2.5.4 Gearing, leverage and interest coverage ratios

The ratios reflected negative trend due to high loss during current year i.e. (1,803%) during the financial year 2011-12 as compared to the financial year 2010-11. Gearing ratio of 56.52% showed that company was relying on debt, where as it should rely on its own resources.

Liquidity position of the Company deteriorated significantly due to huge losses in recent years i.e. a loss of Rs.27,174.17 million in 2011-12 as compared to a net profit of Rs.1,595.21 million in 2010-11. During that critical situation of financial crunch, Company was heavily surviving on Government guarantees and financial assistance.

Long term financing increased by 40% as the Company had received a loan from Asian Development Bank amounting to Rs.2,771.94 million for power distribution and enhancement project. The Trade and other payables increased by 127% (i.e. by Rs.42,052.05 million) and the creditors' turnover period increased to 159 days. Significant increase in the amount of payables and increase in number of days to settle the liabilities reflected that the company was encountering the liquidity problems and the management had not taken adequate remedial action to address the issue.

Reliance on borrowings/ (loans) and payment of huge financial charges was required to be explained.

13.2.6 Recommendations:

The above analysis showed that the profitability, liquidity and solvency position of the Company deteriorated with an exceptionally high rate. In order to finance the operations, Company would heavily rely on financing from external sources which will aggravate the liquidity position. If these conditions prevailed, the Company would require heavy funding from the Government to maintain going concern status.

In view of the forgoing, the Company should revamp its organizational structure and address operational issues, being the major cause of losses. In addition to that, the Company should also restructure its financial arrangements by funding its operations from cheap sources of finance, resulting in low interest cost.

The line losses, being the major cause of losses is required to be addressed at higher level. There is a dire need to develop a policy to address the heavy line losses and to ensure the inflow of funds in the form of revenue.

The issue of huge receivables from Government and private consumers shall also require due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

13.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	Name of Report	No. of Directives	Status of compliance		
				Full	Partial	Outstanding
LESCO	1996-97	Audit Report	3	Nil	**1** (Para No. 7)	**2** (Para No. 4, 62)
	2000-01	Audit Report	5	Nil	**2** (Para No. 28, 42)	**3** (Para No. 30, 33, 39)
	2004-05	Audit Report	2	Nil	Nil	**2** (Para No. 13.6, 13.7)

Position of compliance on PAC directives is not satisfactory.

13.4 AUDIT PARAS

13.4.1 Fraudulently encashment of performance guarantees by the suppliers – Rs.26.04 million

Clause-44 of Section-I “Instructions to Bidders” provides that “the performance security issued by a reputable bank located in Pakistan acceptable to LESCO valuing 10% of the contract price will be furnished. The performance security shall remain valid for a period in accordance with clause GCC 28.3 of Section-VIII, “Special Conditions of Contract”.

During audit of LESCO for the year 2011-12, it was revealed that five (05) performance guarantees valuing Rs.26.04 million were found missing as reported by the Chief Engineer PMU on Jul’ 23, 2012 and these guarantees were fraudulently withdrawn from the concerned banks by the suppliers before the date of completion of the suppliers’ performance/obligations which was un-justified. The company was put to risk of any defect / loss during maintenance period. Non-adherence to the contract provisions resulted in fraudulently encashment of performance guarantees of Rs.26.04 million.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry in Nov’ 2012. In a meeting held on Dec’ 15, 2012, the management replied that both the firms had submitted fresh performance guarantees, however, inquiry was under process with F.I.A and LESCO as well to fix responsibility. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter at Ministry level besides fixing responsibility.

(Draft Para No. 229/2013)

13.4.2 Loss due to misappropriation of cash imprest - Rs.1.31 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 audit of LESCO for the year 2011-12, it was revealed that a cheque bearing No.4252326 dated May 30, 2012 amounting to Rs.2.88 million was sent to Manager Muslim Commercial Bank, Ravi Road Okara on account of imprest. But adjustment of Rs.1.31 million was not made by the Assistant Manger, Sub Division, Ravi Road, Okara. Weak financial control resulted in loss due to misappropriation of cash imprest of Rs.1.31 million.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Sep 2012. In a meeting held on Dec' 15, 2012, the management replied that the FIR had been lodged and departmental proceedings initiated. Final outcome would follow. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter at higher level besides fixing responsibility.

(Draft Para No. 73/2013)

13.4.3 Loss due to theft of electrical material/vehicle - Rs.41.16 million

According to the instructions issued by WAPDA dated Jul' 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 audit of LESCO for the year 2011-12, it was revealed that one hundred and thirteen (113) cases of electrical material comprising transformers of various capacities, conductors, accessories and vehicles worth Rs.70.95 million were stolen. FIRs were lodged in some cases but administrative action was not taken to fix the responsibility of loss and to decide its fate. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs.70.95 million.

The matter was taken up with the management from Aug' to Nov' 2012 and reported to the Ministry from Sept' to Dec' 2012. In a meeting held on Dec' 15, 2012, the management replied that FIRs in all cases had been lodged and inquiry committees constituted to fix responsibility. Any progress achieved in the matter would be informed to Audit accordingly. An amount of Rs.29.79 million had been verified and the amount of para was reduced to Rs. 41.16 million.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 74, 87, 91, 124, 126, 266, 273, 296, 357, 378 & 452/2013)

13.4.4 Misuse of public funds on village electrification – Rs.2.06 million

According to circular No.241-62/ CE(RE) dated January 11, 2010 issued by Chief Engineer Rural Electrification, "ten compact houses within a radius of 400 feet are eligible for village electrification".

During audit of LESCO for the year 2011-12, it was revealed that eight (08) estimates for village electrification valuing Rs.4.18 million were approved by ignoring the minimum houses criteria for village electrification. An expenditure of Rs.2.06 million was incurred against village electrification in violation of criteria resulting misuse of public funds.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Oct' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-compliance to the minimum houses criteria.

(Draft Para No. 226/2013)

13.4.5 Huge receivables amount from energy defaulters - Rs.6.94 billion

According to the Office letter No.320-30/GM (C&M)/P/CE(O)/Stat/130 dated 14.06.2012 circulated by General Manager C&M PEPCO, "special efforts are required during the remaining days of June, 2012. Running defaulters/ disconnected defaulters need physical checking for effective recovery."

During audit of LESCO for the year 2011-12, it was revealed that an amount of Rs.6.94 billion was receivable from 169,260 energy defaulters (Government & Private) for a period exceeding from six months i.e. from Dec' 31, 2011 upto more than three years. In this respect, no efforts were made by the management to accelerate the recovery from defaulters. Owing to the increasing trend of receivables, PEPCO was facing financial difficulties in discharging its obligations towards Power Sector Companies (PSC) and Independent Power Producers (IPPs). Non-recovery from energy defaulters resulted in blockage of Rs.6.94 billion.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry on Jan' 2013. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 646/2013)

13.4.6 Non-removal of electrical equipment and non-recovery of outstanding energy charges - Rs.5.52 billion

Para-3 of Authority's circular dated Apr' 15, 1998 lays down that "disconnections will be effected through removal of meters, transformers, span or any other equipment to ensure that no possibility of loop hole is left for unauthorized use of energy during the period of disconnection". The equipment after having been removed from site was required to be returned to store".

During audit of LESCO for the year 2011-12, it was revealed that an amount of Rs.5.52 billion was outstanding on account of energy charges against eighteen thousand, four hundred and fifty six (18,456) private and government consumers. Non-implementation of Authority's instructions resulted in non-removal of the transformers and allied material from the sites and non-recovery of outstanding energy charges of Rs.5.52 billion.

The matter was taken up with the management from Aug' to Oct' 2012 and reported to the Ministry from Sep' to Dec' 2012. In a meeting held on Dec' 15, 2012, the management replied that an amount of Rs.8.91 million was recovered from forty one (41) consumers. Recovery for the remaining cases was under process. The reply was not tenable as no documentary evidence was provided in support of recovery of arrears till the finalization of this report.

Audit emphasizes expeditious remaining recovery besides fixing responsibility and ensure removal of electrical equipment.

(Draft Para No.71, 362 & 644/2013)

13.4.7 Non-encashment of security / performance bond - Rs.1.56 billion

According to clause 15-A (i) of the Purchase Orders, "the contracting officer will have the right to forfeit the security bond/guarantee (performance bond) if the supplier fails to supply the goods within time specified in the Purchase Order."

During audit of LESCO for the year 2011-12, it was revealed that forty two (42) purchase orders were placed on different firms for supply of store material. The suppliers could not supply the material within the delivery period specified in the relevant purchase orders. Poor management resulted in non-forfeiture of performance bond worth Rs.1.56 billion.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 15, 2012, the management replied that supply in thirty two (32) cases had been completed and accordingly LD charges recovered from the suppliers. As for the remaining ten (10) suppliers, supply was in process. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility and production of recovery record.

(Draft Para No. 314/2013)

13.4.8 Non-utilization of store material -Rs.978.63 million

According to para 5 of Memorandum dated Jan' 17, 1978 on irregularities of purchases of stores and equipments, "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 audit of LESCO for the year 2011-12, it was found that store requisitions for drawl of material amounting to Rs.978.63 million were issued but the said material was not drawn from stores as per gate passes record despite lapse of one year. Non-adherence to rules resulted in non-utilization of material amounting to Rs.978.63 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 635/2013

13.4.9 Loss due to non-execution / completion of rehabilitation of works - Rs.844.45 million

According to Para 4.1.3 to 4.1.6 of Distribution and Rehabilitation Guidelines, "total time will be restricted to 130 days (i.e. from approval of proposals, inspection and completion certificate). The officers relating to works of construction / supervision of works will share delay beyond 130 days".

During audit of LESCO for the year 2011-12, it was revealed that one thousand eight hundred ninety and nine (1,899) HT/ LT Proposals were approved under System Augmentation Programme (SAP), which were not executed and capitalized from 2002 to 2012. The envisaged benefits in the shape of saving of energy units costing Rs.844.45 million could not be achieved. Non-adherence to the Distribution Rehabilitation Guidelines resulted in loss of Rs.844.45 million.

The matter was taken up with the management in Aug' & Sep' 2012 and reported to the Ministry in Oct' & Dec' 2012. In a meeting held on Dec' 15, 2012, the management replied that some LT Proposals had been completed and remaining would be completed upon availability of material. The reply was not tenable as no documentary evidence was provided in support of recovery till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.185, 317, 377 &599/2013)

13.4.10 Non-recovery of sharing cost of grid station - Rs.584.52 million

According to clause-3 of General Manager (C&M) Power WAPDA, WAPDA House, Lahore office memo No.9-31/GM(C&M) P/E-5 dated 02.01.2003, "sharing cost of Grid Station and cost of land shall be recovered as: i) 50% of the cost shall be born by WAPDA, ii) 25% of the cost shall be paid by the sponsors of Housing Society (ies) i.e in lumpsum in advance, iii) 25% of the cost shall be recovered from the plot owners at the time of giving new connections to them".

During audit of LESCO for the year 2011-12, it was revealed that two hundred and thirty four (234) Housing Schemes were completed but recovery of 25% cost sharing of grid station on the part of individual plot owners was not forthcoming from the record. Non-adherence to Authority's instructions / guidelines resulted in non-recovery of sharing cost of grid station of Rs.584.52 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 316/2013)

13.4.11 Unjustified reimbursement of special excise duty and sales tax - Rs.502.45 million

According to special conditions of purchase order, "the special excise duty (SED) and sales tax will be reimbursed by LESCO on actual upon production of the invoice in triplicate, sales tax invoice, sales tax cum payment challan for the relevant period and affidavit on non-judicial stamped paper conforming that sales tax of the above supply is included in this statement."

During audit of LESCO for the year 2011-12, it was revealed that an amount of Rs.502.45 million was booked from Oct' 2009 to Apr' 2011 on account of reimbursement to the suppliers against GST and SED without supporting documents. Non-adherence to rules resulted in unjustified re-imbursement amounting to Rs.502.45 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 364/2013)

13.4.12 Un-authentic and doubtful receipt of material - Rs.354.47 million

According to Section-6 (Para-4.2) of Distribution Store Manual, "the Store Manager will inspect the material himself for quality against the specification given in the purchase order".

During audit of LESCO for the year 2011-12, it was revealed that a purchase order placed upon M/s Pakistan Engineering Co Limited for supply of nine hundred and fifty (950) "132 KV Double Circuit Transmission Line Tower Type ZM-I." The material was received with the remarks" subject to check later on" as recorded by store officials on dispatch notes of the suppliers. The receipt of material as mentioned in purchase order was not ensured. Non-adherence to rules resulted in doubtful receipt of material amounting to Rs.354.47 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 536/2013)

13.4.13 Unauthorized purchases in violation of PPRA Rules - Rs.210.41 million

According to rules 42 (c) (iv) PPRA Rules, "repeat order should be given upto fifteen (15) percent of the original procurement".

During audit of LESCO for the year 2011-12, it was found that electrical material worth Rs.210.41 million was purchased through variation orders. These variation / repeat orders were issued by enhancing the quantities by 25% quantity of 25 KVA, 75% quantity of 50 KVA and 100 KVA transformers over the quantities of the original purchase orders. Violation of provisions of PPRA Rules resulted in irregular expenditure of Rs.210.41 million.

The matter was taken up with the management in Sept' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 15, 2012. The management replied that as per Section-V, Clause 5.5 of Revised Book of Delegation of Powers for DISCO's, LESCO Board of Directors had full powers to place variation orders in original contracts. The procurement of transformers through variation / repeat orders was made with the approval of BOD. The reply was not tenable, as the variation / repeat orders were not in line with the PPRA Rules.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No. 313/2013)

13.4.14 Unjustified expenditure on engagement of consultants in violation of PPRA Rules - Rs.210.18 million

According to rule-21 of PPRA Rules, "the procurement agencies shall engage in open competitive bidding relating to procurement of material, execution of works and hiring of services".

During audit of LESCO for the year 2011-12, it was revealed that four (4) agreements were signed with four (04) consultants from Nov' 24, 2006 to Feb' 10, 2009 by direct contracting despite the fact that nature and scope of the work fall within the ambit of services of PITC WAPDA, MIS department of the company, besides such services were available from alternative sources. The Consultants were hired for transformation from COBOL based legacy system to Oracle based ERP system but the consultants were not delivering the services envisaged in their scope of work and deviating from their core functions as they could not deliver the bug free system within the stipulated timeframe. Despite spending of Rs.140.176 million the company was still using legacy system. On the other hand the company had paid Rs.210.18 million to Power Information Technology Company (PITC) WAPDA / PEPCO, for rendering such services for LESCO. As such the expenditure to the tune of Rs.210.18 million on engagement of consultants were not only undue burden on the company's fund but was also quiet unjustified.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.371/2013)

13.4.15 Infructuous expenditure due to unnecessary construction of feeders - Rs.197.67 million

According to para 5 of Memorandum dated January 17, 1978 on irregularities of purchases of stores and equipments, "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 audit of LESCO for the year 2011-12, it was revealed that one hundred and ten (110) 11KV feeders were not supplying energy to the consumers as sanctioned load and No. of consumers were shown as zero on these feeders. It indicated that these feeders were not constructed keeping in view the immediate requirements. Incurrence of expenditure of Rs.197.67 million on the construction of these feeders was held infructuous.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 620/2013)

13.4.16 Loss due to suspension of turn key project - Euro 2.56 million + Pak Rs.190.34 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 audit of LESCO for the year 2011-12, it was revealed that a contract for Design, Manufacture, Supply Erection Testing & Commissioning of 132 KV G/S Sheranwala Gate on turn key basis was awarded to M/s PEL with contract price comprising Euro 2.05 million + Pak Rs.152.02 million on Feb' 09, 2008 which was required to be commissioned on May 09, 2009 but the work was stopped on Jan' 28, 2009 after 11 months. However, payments amounting to Euro 1.55 million + Rs.101.13 million was made to the contractor on account of civil works and electrical equipment. The work was terminated on Jun' 16, 2010 due to which the payments made to the contractor has gone wasted. Moreover, contractor has claimed (Euro 1.01 million + Rs.89.20 million) due to suspension of work upto December 31.2011. Non-execution of work resulted in loss of Euro 2.56 million + Rs.190.34 million due to suspension of work.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 15, 2012, the management replied that the work was stopped by the CDGL/Punjab Govt. However, the matter was under consideration of high ups regarding the resumption of work/ settlement of claims. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 383/2013)

13.4.17 Loss due to installation of sub-standard conductor/GSL wire - Rs.143.33 million

According to Table-6 of Distribution Rehabilitation Guidelines, “panther and Osprey conductor is to be erected for current above 104 Amps on 11 KV lines”.

During audit of LESCO for the year 2011-12, it was revealed that GSL wire and Gopher Conductor was erected against five (05) 11 KV feeders. The existing load on these feeders was more than 104 Amps. As per technical provisions, Panther and Osprey conductor was to be used to bear the load above 104 Amps which was not done. Resultantly, percentage of line losses were ranging from 23.4% to 54.4% against the permissible limit of 11%. Non-adherence to Authority’s instructions resulted in loss of Rs.143.33 million.

The matter was taken up with the management in Oct’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 15, 2012, the management replied that the GSL wire/under size conductor was used to restore electricity in emergency, which had been replaced with proper size conductor. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 386/2013)

13.4.18 Undue favour to the consumers on account of non-regularization of unauthorized extension of load – Rs.128.81 million

According to abridged condition-6 of supply of power, in case of non-removal/ non-regularization of unauthorized extension of load, the supply to the consumer shall be disconnected.

During audit of LESCO for the year 2011-12, it was revealed that three hundred and thirty three (333) industrial consumers extended their connected load without the approval of competent authority. Neither the field formations disconnected these premises nor consumers got regularized their load from the competent authority. Non-adherence to Authority's instructions/ rules resulted in undue favour to the consumers of Rs.133.73 million.

The matter was taken up with the management in Aug' 2010 & Jul' to Oct' 2012 and reported to the Ministry from May to Dec' 2012. In a meeting held on Dec' 15, 2012, the management replied that the consumers extended their load for a short period, which was removed. In case the extension of load was established, the consumers were served with DNs for the difference of security to regularize the extended load. Recovery of Rs.4.92 million had been verified and amount of para was reduced to Rs.128.81 million.

Audit emphasizes expeditious remaining recovery besides fixing responsibility.

(Draft Para No. 10, 72, 85, 90, 265, 291, 356, 360 & 385/2013)

13.4.19 loss due to less charging the cost of power transformers to industrial consumers - Rs.87 million

According to NEPRA Eligibility Criteria for consumers of Distribution Companies 2003 Part-II 3(3), "all charges to be deposited by an applicant shall be estimated in accordance with the prudent utility practices, instructions issued by the licensee and orders of the Authority issued from time to time".

During audit of LESCO for the year 2011-12, it was revealed that six (06) industrial connections under tariff B-3/B-4 regarding construction of grid stations were sanctioned on full cost deposit basis. The used power transformers MVA 10/13 were provided in the estimates instead of new ones. Non-adherence to NEPRA's eligibility criteria, resulted in loss of Rs.87 million due to less charging of cost of power transformers to the industrial consumers.

The matter was brought to the notice of the management in Nov' 2011 and reported to the Ministry in May 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 09/2013)

13.4.20 Blockade of funds due to purchase of unnecessary material - Rs.54.07 million

According to para 5 of Memorandum dated Jan’ 17, 1978 on irregularities of purchases of stores and equipments, “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 audit of LESCO for the year 2011-12, it was revealed that material worth Rs.54.07 million received from Feb’ 2007 to Nov’ 2008 was lying in the store for the last five (05) years and was declared as slow moving and obsolete. Poor inventory management resulted in un-necessary procurement of material worth Rs.54.07 million during 2007 and 2008.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry in Nov’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for unnecessary purchase of material.

(Draft Para No. 269/2013)

13.4.21 Unauthorized award of contract in violation of PPRA Rules - Rs.43.22 million

According to Rules-20 of Public Procurement Rules 2004, the procuring agencies shall use open competitive bidding as the principal method of procurement for procurement of goods, services and works. Further, Para-10 (i) Chapter-2 of General Financial Rules provides that “every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money”.

During audit of LESCO for the year 2011-12, it was revealed that an agreement between M/s Ovex Technologies (Pvt.) Limited and LESCO was signed on Apr’ 22, 2009 to establish a call center. The Company had paid Rs.43.22 million to M/s Ovex Technologies for establishing a call center and rendering services for LESCO during the year 2009 to 2012 but no remarkable reforms / achievements in the area of receiving the complaints and resolving the issues of the consumers have been noticed. Violation of PPRA Rules and poor financial management resulted in unjustified payment of Rs.43.22 million.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 315/2013)

13.4.22 Loss due to non-recovery of capital cost from consumers - Rs.27.57 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of LESCO for the year 2011-12, it was revealed that three (3) deposit works for construction of 132KV Grid Stations were completed. The expenditure incurred on these deposit works was in excess of Rs.27.57 million from the deposits made by consumers. Weak financial control resulted in loss of Rs.27.57 million due to non-recovery of capital cost from consumers.

The matter was taken up with the management in Aug’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 15, 2012, the management replied that an amount of Rs.40.99 million was deposited with LESCO. Out of which an expenditure of Rs.29.38 million was incurred. It was further replied that the work of Descon had been completed. The remaining two works were in progress and would be completed from the available balance of Rs.10.872 million. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 88/2013)

13.4.23 Unauthorized installation of dismantled / reclaimed material - Rs.23.89 million

According to General Manager (C&M) Power, WAPDA circular No.2265/GM(C&M)P/ DG(EM)PAC-1 dated August 21, 2004, “dismantled / reclaimed material should only be used against maintenance, augmentation or for replacement of damaged material to the system but not for new connections.”

During audit of LESCO for the year 2011-12, it was revealed that reclaimed / dismantled material valuing Rs.23.89 million was utilized against various new works in violation of the instructions. Non-adherence to the standard operating procedure resulted in unauthorized utilization of dismantled / reclaimed material worth Rs.23.89 million.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry on Dec' 2012. In a meeting held on Dec' 15, 2012, the management replied that in cases of widening of roads, only new structures were installed and remaining material i.e. conductor, insulators of the old line were used for the erection of feeders. As for the cases of new connection pointed out in the Audit para, the installation of new feeders was not possible because of non-availability of space on the roads. Therefore, the structures of existing feeders were changed with the higher size to install an additional feeder to provide electricity to the consumer. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 355/2013)

13.4.24 Non-recovery of pay and allowances of LESCO staff from the consumers having independent grid stations - Rs.20 million

According to the clause 7.3.1(e) of the policy for connecting consumer grid station to the NTDC/ DISCO network and its operation and maintenance issued dated July 30, 2010, "the salaries and allowances of the NTDC/ DISCO staff deputed for operation of the consumer grid station will be calculated on the basis of maximum of the pay scale admissible to such officials and will be remitted by the consumer to NTDC/ DISCO in advance".

During audit of LESCO for the year 2011-12, it was revealed that the pay and allowances of LESCO staff posted in four (04) private 132 KV Grid Stations amounting to Rs.20 million were not recovered from the prospective consumers. Non-adherence to policy resulted in non-recovery of pay and allowances of Rs.20 million.

The matter was brought to the notice of the management in Nov' 2011 and reported to the Ministry in May 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 08/2013)

13.4.25 Unjustified expenditure on engagement of consultant in violation of PPRA Rules - Rs.16.60 million

According to rule 21 of PPRA Rules, "the procurement agencies shall engage in open competitive bidding". Further, Clause-3 D(i)(d) of Procurement of Consultancy Services Regulations, 2010 provides that "single source or direct selection of consultant will be made where only one consultant is qualified or has experience of exceptional worth."

During audit of LESCO for the year 2011-12, it was revealed that the management hired M/s BARQAAB Consultants at cost of Rs.16.60 million to provide consultancy services for Rural Electrification Program (REP), System Augmentation Program (SAP) and deposit works by direct contracting despite the fact that nature and scope of work fell within the ambit of the duties of the engineers of the Company. Non-adherence of rules / regulations resulted in unjustified expenditure of Rs.16.60 million.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Nov' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules and regulations.

(Draft Para No.268/2013)

13.4.26 Extra expenditure due to procurement of store material in violation of PPRA Rules - Rs.11.99 million

According to Para-9 (Limitation on Splitting or regrouping of proposed procurement) of PPRA Rules, "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 audit of LESCO for the year 2011-12, it was revealed that ten (10) purchase orders were placed to different firms for procurement of store items by splitting up into parts. An excess amount of Rs.11.99 million was spent on account of purchases of the store items of the same specifications at higher rates. Violation to provisions of PPRA Rules resulted in an extra expenditure of Rs.11.99 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No.298 & 619/2013)

13.4.27 Recoverable amount from independent consumers on energy losses beyond permissible limit - Rs.10.62 million

According to table 5 of Chapter 5 of Distribution Rehabilitation Guidelines (Sep' 2003), "the maximum permissible limit for annual energy losses for H.T Circuit (Rural) is 3%".

During audit of LESCO for the year 2011-12, it was found that the percentage of energy losses of five (5) dedicated 11 KV feeders was ranging from 4.2% to 29% against the permissible limit of 3%. The field formations as well as the consumers were responsible to keep the energy losses within permissible parameters. High tension (HT) circuit installed by the consumers was incapacitated to withstand the running load resulting in increase in the technical losses. Non-adherence to distribution rehabilitation guidelines resulted in non-recovery of energy losses of Rs.10.62 million from independent consumers beyond permissible limit.

The matter was taken up with the management in Jul' 2012 and reported to the Ministry in Oct' 09, 2012. In a meeting held on Dec' 15, 2012, the management replied that the units consumed on both feeders could not billed due to non-allocation of feeder code that is why, the losses were on the higher side. After the implementation of feeder code, the losses had come down within permissible limit. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.92 &94/2013)

13.4.28 Loss due to non-recovery of energy charges- Rs.9.40 million

According section 1.3 of commercial procedure, "the Revenue Officer and Assistant Manager are responsible for, i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures".

During audit of LESCO for the year 2011-12, it was revealed that energy charges on account of detection bills due to various discrepancies found in meters amounting to Rs.9.40 million were outstanding against four hundred ninety one (491) domestic consumers. Non-adherence to the commercial operating procedure resulted in loss of Rs.9.40 million due to non-recovery of energy charges.

The matter was taken up with the management in Oct’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 454/2013)

13.4.29 Non-recovery of security deposits from industrial consumers - Rs.8.07 million

Section-III-C (1) of Book of Financial Powers provides that “deposit works shall be undertaken only after getting full amount of sanctioned work estimate deposits with WAPDA, with an undertaking from the depositor to meet any variation.”

During audit of LESCO for the year 2011-12, it was revealed that two (02) works for extension of load were completed but the security amounting to Rs.8.07 million was not recovered according to extended load from the industrial consumers. Non-adherence to rules resulted in non-recovery of security deposit of Rs.8.07 million from consumers.

The matter was taken up with the management in Aug’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 15, 2012, the management replied that the construction work of the extension of load of industrial consumer was not completed due to non-approval of shut down. Security deposit would be recovered after the completion of works as per procedure. Further progress towards recovery was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 321/2013)

13.4.30 Non-adjustment of material - Rs.7 million

According to the Section 4.11.1 of Stores and Inventory Management, “if any difference arises in the physical count and the record maintained by the store keeper, an investigation committee is formed by the Chief Engineer Development to investigate the reasons for such irregularity”.

During audit of LESCO for the year 2011-12, it was revealed that material worth Rs.7 million was issued to the field formations on loan basis and in emergent situations but the adjustment of same was not forthcoming from record. Non-adherence to rules resulted in non-adjustment of material amounting to Rs.7 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 15, 2012, the management replied that the material was given to other DISCOs on loan basis. The reply was not tenable as no documentary evidence was provided in support of recovery till the finalization of this report.

Audit emphasizes expeditious adjustment of material besides fixing responsibility.

(Draft Para No. 535/2013)

13.4.31 Loss due to non-recovery of energy charges - Rs.6.96 million

According to section 1.3 of commercial procedure, the Revenue Officer and Assistant Manager are responsible for, i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures".

During audit of LESCO for the year 2011-12, it was revealed that energy charges amounting to Rs.8.16 million were outstanding against two (2) commercial consumers since Sep' 2011. Non-adherence to the commercial operating procedure resulted in loss of Rs.8.16 million due to non-recovery of energy charges.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec 2012. In a meeting held on Dec' 15, 2012, the management replied that an amount of Rs.1.20 million was recovered through installments approved by competent authority. Recovery of Rs.1.20 million was verified and amount of para was reduced to Rs.6.96 million.

Audit emphasizes expeditious remaining recovery besides fixing responsibility.

(Draft Para No. 384/2013)

13.4.32 Unjustified expenditure due to electrification of private colonies-Rs.5.93 million

According to Prime Minister's Secretariat Islamabad memo No. JS (P)/Elc/NA-66/1543/23Pb(SII) dated August 18, 2008, "as far as the new developed colonies are concerned, the respective developer would be responsible to provide electricity to the area."

During audit of LESCO for the year 2011-12, it was revealed that electrification of six (6) private housing schemes was made under village electrification programme. Public funds amounting to Rs.5.93 million had been spent upon electrification of housing colonies. Non-adherence to the instructions regarding electrification of private schemes resulted in un-justified expenditure of Rs.5.93 million.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Nov' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 267/2013)

13.4.33 Non-disposal of dismantled material - Rs.5.29 million

According to Chapter-XI section-1 and clause 1.4 of the WAPDA Disposal Procedure, unserviceable vehicles and material/equipments are to be disposed off timely.

During audit of LESCO for the year 2011-12, it was revealed that dismantled electrical material valuing Rs.5.29 million was lying in the store since long. The material was kept in the open and exposed to the environmental effects. This resulted in their deterioration and decrease in value with the passage of time. Non-adherence to rules resulted in non-disposal of dismantled material amounting to Rs.5.29 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 15, 2012, the management replied that the material had been disposed off in two cases. In third case the purchaser had requested Chief Executive LESCO to refund the amount as he was not willing to lift the material. The decision of CEO LESCO was awaited. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 365/2013)

13.4.34 Loss due to non-deduction of liquidated damages - Rs.3.73 million and US$0.18 million

According to clause 44(1) of general contract conditions, "liquidated damages shall be 0.05% per day subject to maximum of ten percent (10%) of the total contract price".

During audit of LESCO for the year 2011-12, it was revealed that twelve (12) civil and electrical works awarded to various contractors were not completed within the stipulated period. The liquidated damages worth Rs.3.73 and US$0.18

million were not deducted from contractors' bills. Non-adherence to the contract conditions resulted in loss of Rs.3.73 and US$0.18 million.

The matter was taken up with the management in Aug' and Sep' 2012 and reported to the Ministry in Oct' and Nov' 2012. In a meeting held on Dec' 15, 2012, the management replied that LD in one case had been recovered, in one (1) case date extended, in six (6) cases the works were under process and LD would be deducted. Three (3) works were completed within the time and one case did not belong Project Director GSC. The reply was not tenable as no documentary evidence was provided in support of recovery till the finalization of this report.

Audit emphasizes expeditious recovery of liquidated damages besides fixing responsibility and production of recovery record.

(Draft Para No.89 & 235/2013)

13.4.35 Unjustified expenditure on engagement of legal consultant - Rs.2.5 million

According to rule 21 of PPRA Rules, "the procurement agencies shall engage in open competitive bidding".

During audit of LESCO for the year 2011-12, it was revealed that M/s A.F Ferguson was appointed as Sale Tax Consultant at a contract cost of Rs.2.5 million by direct contracting despite the facts that the scope of work fall with the ambit of services being rendered by a large numbers of lawyers / legal advisor's on the panel of LESCO. Non-adherence to PPRA Rules resulted in unjustified expenditure of Rs.2.5 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No.299/2013)

13.4.36 Non-recovery of penalty from employee - Rs.2.21 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 audit of LESCO for the year 2011-12, it was revealed that a recovery of Rs.2.21 million (@ 1/3 of Basic Pay) was imposed on Mr. Aon Muhammad Shah, Line Superintendent-II, by the Superintending Engineer, South Circle, vide office order No. 05 dated Jan' 12, 2012. Non-implementation of office orders resulted in non-recovery of penalty of Rs.2.21 million from employee.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Oct' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 152/2013)

13.4.37 Loss due to damaged equipment - Rs.2.16 million

According to the instructions issued by WAPDA dated Jul' 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 audit of LESCO for the year 2011-12, it was revealed that various types of electrical equipment of grid stations valuing Rs.2.16 million were damaged. These damages occurred due to mal operation and poor maintenance. Neither the preliminary reports of damaged equipment were prepared nor the responsibility of the losses fixed. Non-adherence to rules / regulations resulted in loss of Rs.2.16 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 15, 2012, the management replied that the material got damaged after completing its useful life and not because of poor maintenance. However, the position would be enquired through inquiry committees to assess the causes of actual damage. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 453/2013)

13.4.38 Loss due to printing of consumer census forms for consultant - Rs.1.95 million

According to Para-10 (i) Chapter-2 of General Financial Rules, "every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money".

During audit of LESCO for the year 2011-12, it was revealed that 4,886 reams were used for printing consumer census proforma for M/s BARQAAB. The company had to incur an expenditure of Rs.1.95 million on account of cost of papers. The expenditure incurred on the printing of the said forms for the consultant was not justified. Non-implementation of financial rules resulted in loss of Rs.1.95 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 382/2013)

13.4.39 Loss due to non-recovery of standard rent - Rs.1.69 million

According to term "d" of the Director Finance (Regulation), WAPDA Lahore clarification No. FO(B&F)/4-8/Acq/Vol-8/4314-4413 dated Jan' 10, 2007, "where the accommodation is allotted by one organization to the employees of other organization, the standard rent is to be charged by the formation concerned from the formation whose employees have been allotted accommodation.".

During audit of LESCO for the year 2011-12, it was revealed that an amount of Rs.1.69 million was recoverable from the two officers illegal occupants of WAPDA accommodations from Feb' 2008 to Jun' 2012 on account of standard rent. Non-adherence to instructions under reference resulted in non- recovery of standard rent of Rs.1.69 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 15, 2012, the management replied that the matter had already been taken up with concerned persons. However, Audit proposal would be complied with and progress thereof would be intimated to Audit accordingly. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 319/2013)

13.4.40 Loss due to non-recovery of energy charges- Rs.1.64 million

According to section 1.3 of commercial procedure, "the Revenue Officer and Assistant Manager are responsible for, i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures".

During audit of LESCO for the year 2011-12, it was revealed that energy charges amounting to Rs.1.64 million were outstanding against two (2) industrial consumers. Non-adherence to the commercial operating procedure resulted in loss of Rs.1.64 million.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Sep' 2012. In a meeting held on Dec' 15, 2012, the management replied that in one case, recovery was already made. The matter was under investigation in respect of other case. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility and production of recovery record.

(Draft Para No. 75/2013)

13.4.41 Non-return of electrical material to stores - Rs.1.08 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 audit of LESCO for the year 2011-12, it was revealed that extension of load was sanctioned in six (6) cases from Apr' 2010 to Feb' 2012 and transformers of required capacity were installed. A credit of Rs.1.08 million was given to consumers for already installed lower capacity transformers while preparing the estimates of these works but the dismantled transformers were not returned to stores. Non-implementation of rules for safeguarding the assets of the Company resulted in non-return of dismantled electrical material to stores worth Rs.1.08 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Nov' 2012. In a meeting held on Dec' 15, 2012, the management replied that the material in six cases as pointed out in the para would be returned to store. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit emphasizes expeditious return of material to store besides fixing responsibility.

(Draft Para No. 264/2013)

13.4.42 Non-recovery of supply charges against temporary connections-Rs.1.07 million

According to special condition of supply under tariff-E of Schedule of Electricity Tariff LESCO, "the supply shall not be given by the Company without obtaining security equal to the anticipated supply and other miscellaneous charges for the period of temporary supply".

During audit of LESCO for the year 2011-12, it was revealed that an amount of Rs.1.57 million was outstanding against the temporary connections. In contravention of special condition, the Company did not obtain security equal to the anticipated supply charges and resultantly had nothing to adjust against the outstanding dues. Non-adherence to the conditions of schedule of tariff resulted in non-recovery of supply charges of Rs.1.57 million against temporary connections.

The matter was taken up with the management in Aug' and Oct' 2012 and reported to the Ministry in Oct' and Dec' 2012. In a meeting held on Dec' 15, 2012, the management replied that some amount had been recovered from the consumers, as for remaining amount the connections had been disconnected and the recovery was under process. Recovery of Rs.0.50 million had been verified and amount of para was reduced to Rs.1.07 million.

Audit emphasizes expeditious remaining recovery besides fixing responsibility.

(Draft Para No.125 & 293/2013)

13.4.43 Non-return of surplus material to stores - Rs.5.85 million

According to Distribution Store Manual, "the surplus / dismantled material is to be returned to store".

During audit of LESCO for the year 2011-12, it was revealed that material worth Rs.5.85 million was found surplus in various schemes / programmes from Jul' to Dec' 2011 but was not returned to store as pointed out in reconciliation statement prepared by M/s Barqaab. Non-adherence to the standard operating procedure resulted in non-return of material worth Rs.5.85 million to stores.

The matter was taken up with the management in Aug’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 15, 2012, the management replied that the material had been returned to store. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 376/2013)

CHAPTER-14

MULTAN ELECTRIC POWER COMPANY LIMITED (MEPCO)

(275-301)

14. MULTAN ELECTRIC POWER COMPANY LIMITED

14.1 Introduction

Multan Electric Power Company Limited (MEPCO) started its operations as a Public Limited Company, in May, 1998 and registered under Companies Ordinance 1984. The register 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 Company had obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The Company purchase electricity from NTDC on 220 KV Grid Station Yousaf Wala, Garanund Road Faisal Abad, NGPS Perian Ghaib, Kot Addu Power Company, Muzzafargarh Power House and Gaddu Power House, and sells it to the consumers of Multan, Sahiwal, Vehari, Bahawal Pur, Lodhran, Bahawal Nagar, Rahim Yar Khan, D.G Khan and Muzzafar Garh districts.

The jurisdiction of MEPCO includes eight Operation Circles, one Project Construction Circle, one Grid System Construction Circle and two Grid System Operation Circles.

14.2 Comments on Financial Statements

14.2.1 Financial Overview

Monthly accounts (Trial Balance and other management information schedules) from different accounting units were sent to Finance Director MEPCO where these accounts were consolidated and financial statements including Balance Sheet, Profit & Loss Account and Cash flow statement were prepared. The financial results along with the financial ratios are as under:

14.2.2 Extracts of the Financial Statements[12]

Balance Sheet as at Jun' 30, 2012

(Rupees in million)

	2011-12	%	2010-11	%	2009-10
Equity and Liabilities					
Accumulated Loss	(67,954.34)	56.47	(43,428.67)	26.33	(34,376.89)
Non-current liabilities	50,308.49	14.59	43,902.07	20.86	36,326.15

[12] *Only balances with significant variations during the current financial year and those against which comments are being incorporated in this analysis are reproduced.*

Receipts against deposit works	13,292.33	32.91	10,001.33	-4.61	10,485.06
Creditors, accrued and other liabilities	110,000.26	54.81	71,055.43	-0.04	71,086.62
Accrued markup	1,047.79	155.49	410.11	-61.44	1,063.50
Current portion of long term loans	487.53	80.09	270.72	842.98	28.71
Current liabilities	124,827.90	52.72	81,737.58	-1.12	82,663.90
	118,005.68	**26.84**	**93,034.62**	**-2.52**	**95,436.81**
Non-current assets	56,385.13	14.34	49,313.83	11.15	44,366.53
Stores and spares	3,53.,69	10.31	3,205.14	31.91	2,429.85
Trade debts	18,091.58	23.48	14,651.99	22.42	11,968.61
Advances, prepayments and other receivables	35,085.90	77.28	19,790.73	-33.27	29,658.99
Cash and bank balances	4,907.37	(19.19)	6,072.92	-13.40	7,012.82
Current assets	61,620.55	40.94	43,720.79	-14.39	51,070.28
	118,005.68	**26.84**	**93,034.62**	**-2.52**	**95,436.81**

Profit and Loss Account
For the year ended Jun' 30, 2012

(Rupees in million)

	2011-12	%	2010-11	%	2009-10
Electricity sale	109,403.70	15.15	95,010.32	8.65	87,446.02
Cost of electricity	124,398.32	28.49	96,817.59	11.91	86,515.41
Gross profit/(Loss)	(14,994.62)	729.68	(1,807.27)	-294.20	930.61
Operating Cost	12,989.10	22.39	10,613.31	26.49	8,390.44
Loss before Interest and Tax	(26,575.43)	139.97	(11,074.51)	73.40	(6,386.55)
Other income	2,062.33	1.02	2,041.47	18.88	1,717.24
Loss before Tax	(24,513.10)	171.37	(9,033.04)	93.46	(4,669.31)
Financial and other charges	12.57	(32.93)	18.74	-98.24	1,062.98
Profit/(Loss) for the year	**(24,525.67)**	**170.95**	**(9,051.78)**	**57.91**	**(5,732.29)**

14.2.3 Financial Ratios:

The summary of ratios calculated for the three financial years is given below:

COMPANY		**MEPCO**		
YEAR		**2011-2012**	**2010-2011**	**2009-2010**
Profitability Ratios				
Return on Capital Employed	%	(148.86)	(254.44)	(71.26)
Gross Profit Margin	%	(13.71)	(1.90)	1.06
Net Profit Margin	%	(22.42)	(9.53)	(6.56)
Asset Turnover Ratio	Times	(16.04)	8.41	6.85
Return on Total Assets	%	(20.78)	(9.73)	(6.01)
Short Term Liquidity Ratio				
Current Ratio	Times	0.49	0.53	0.62
Working Capital Ratios				
Debtors Turnover Period	Days	60	56	50
Creditors Turnover Period	Days	323	268	300
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	3.42	3.41	1.39
Gearing Ratio	%	(24.50)	81.73	19.85
Leverage Ratio	%	(346.94)	(918.39)	(359.48)
Interest coverage	%	(1949.64)	(481.89)	(4.39)

14.2.4 Cash Flow Analysis

The Company suffered net cash outflow (deficit) of Rs.1,165.54 million (outflow (deficit) of Rs.939.90 million: 2010-11) during the financial year resulting in closing balance of Rs.4,907.37 million (Rs.6,072.92 million: 2010-11).

The Company incurred net cash out flow (deficit) of Rs.1,910.96 million from operating activities. The main components which triggered such increase include,

i) Employee benefits increased by Rs.145.93 million i.e. 30% over the past year,

In addition to the above, Rs.8,667.19 million were invested on fixed assets (Rs.6,618.37 million: 2010-11) for the improvement of the power distribution system. However, the Company could not utilize the assets efficiently and effectively as the return on assets declined significantly.

Moreover, the net cash inflow of Rs.9,424.40 million injected from financing activities as the Company borrowed Rs.1,349.51 million (Rs.1,844.87 million: 2010-11) from financial institutions/ donors agencies, Rs. 4,233.74 million raised through deferred credit (amount received from consumers and Govt. towards the cost of extension of distribution network and of providing service connection) and Rs. 550.42 million raised through security deposits received from consumers.

The retention of financing in the form of cash reserves had dropped by 19%, which indicated cash flow problems for the Company. The Company was utilizing its accumulated cash reserves to manage its operational requirements resulting in significant decline in cash reserves which needed to be justified.

14.2.5 Ratios Analysis

14.2.5.1 Profitability

Profitability ratios of the company showing the worst position ever faced by the company in terms of gross profit and net profit both ratios went to negative due to huge loss in the year.

i) Gross profit

During the financial year 2011-12, electricity sales of the company increased to Rs.109,403.70 million i.e. increase of Rs.14,393.39 million, 15.15% (Rs.95,010.32 million: 2010-11). On the other hand cost of electricity increased by 28.49% (Rs.124,398.33 million during the year 2011-12, Rs.96,817.59 million: 2010-11). The proportionate increase in cost of electricity was higher than the increase in the sales of electricity due to which the Company suffered a gross loss of Rs. 14,994.62 million. The line losses of 182 sub-divisions of the Company ranged from 10% to 36.50%, resulted in high cost of electricity.

In view of the forgoing, the Gross Profit ratio declined significantly i.e. (13.71%) gross loss as compared to gross loss of (1.90%) for the financial year 2010-11.

The abnormal increase in the cost of sales, resulting in significant increase in gross loss of the company needs to be explained.

ii) Net Profit Ratio

The company suffered accumulated loss of Rs.67,954.35 million, out of which loss Rs.24,525.67 million occurred during the present financial year. This indicated that the operational efficiency of the Company remained highly unsatisfactory. The operational loss was mainly due to increase in operating expenses by 22% over the previous year which was mainly attributed to enhancement in pay and allowances and repairs & maintenance expenses. It was further observed that the Company approved certain allowances in respect of various categories of employees. The detail of which is mentioned hereunder:

i) Transport subsidy

ii) Special WAPDA allowance

iii) Danger allowance

The grant of above allowances without the approval/concurrence of Ministry of Finance was not in line with the provisions of Government Rules and Regulations and amount paid on account of above allowances was irregular.

In view of the forgoing, the Net Profit ratio declined significantly i.e. (22.42%) net loss as compared to net loss of (9.53%) for the financial year 2010-11.

The Company could not manage its expenses including line losses due to which the cost of electricity and indirect expenses increased significantly. The expenses increased to such a huge amount that the relative revenue generated from sales and other income could not mitigate the impact.

The management is required to explain the abnormal increase in cost of sales and operating expenses resulting in net loss for the Company.

iii) Return on capital employed

The return declined to (148.86%), showing that the Company could not utilize its resources in an efficient and effective manner resulting in a negative return.

iv) Return on total assets

The return declined to (20.78%) from (9.73) during the financial year 2010-2011 as the Company was not utilizing its assets efficiently to generate favourable return.

The Company invested Rs.8,667.19 million on the non-current assets during the financial year. The investment was financed through the consumer security deposits and Government Grants realized during the present financial year. In addition to the above, the Company held cash reserves of Rs.4,907.37 million. The debt to total asset ratio and gearing ratio was 3.42 and (24.50) respectively, which showed that company was relying heavily on debt to finance its operations. Audit suggested that the Company should review its capital structure and policy of getting loan because it badly affected the liquidity position of the Company and had direct impact on the profitability of the Company.

The huge investment on non-current assets could not improve the profitability position of the Company as the return on total assets declined significantly, which needs to be explained.

14.2.5.2 Short Term Liquidity

i) Current ratio

The current ratio declined to 0.49 from 0.53 indicating short term financial difficulties in repayment of current liabilities.

The Company does not hold adequate liquid assets required to settle its short term liabilities which needs to be explained.

14.2.5.3 Working Capital Cycle

i) Debtor's/ Creditors turnover period

The trade receivables increased significantly i.e. by Rs.3,439.59 million (10%) over the previous year. In addition to this, the debtors' turnover period also increased to 60 days (56 days in 2010-11 and 50 days in 2009-10). Moreover, the company had written off an amount of Rs.1,594.14 million as bad debts during the current financial year.

An increase in accounts receivable, debtor's turnover period and writing off a significant amount of debtors as bad debts reflected inefficient collection procedures and poor administration of trade debts, resulting in loss of revenue to the Company and ultimately worsening liquidity position.

Delays in collection from debtors have trickledown effect on the creditor's turnover period which increased to 323 days from 268 days.

The increase in accounts receivable and accounts payable indicates that there was a continuing cash flow shortage resulting in persistent working capital financing problems for the Company. Poor management of debtors and creditor's turnover period and writing off significant amount as bad debts needs to be explained.

14.2.5.4 Gearing, leverage and interest coverage ratios

The non-current liabilities of the company increased by 14% over the previous year. The trade and other payables increased by 55% (i.e. by

Rs.38,944.83 million) and the creditors' turnover period increased to 323 days. Significant increase in the non-current and current liabilities reflected that the company was encountering the liquidity problems and the management had not taken adequate remedial actions to address the issue.

The financial position of the Company deteriorated during the past few years as depicted in the summary of ratios mentioned above. The gearing position of the Company improved i.e. 24.50% during the financial year 2011-12 as compared to 81.73% during the financial year 2010-11. Despite this fact, the Company heavily relied on the external sources to finance its operations instead of funding the operations out of resources generated from its operations.

Reliance on borrowings/ loans and payment of huge financial charges needs to be explained.

14.2.6 Recommendations:

It was evident from the above analysis that the profitability, liquidity and solvency position of the company was deteriorating with an exceptionally high rate. In order to finance the operations, Company would heavily rely on financing from external sources which will aggravate the liquidity position. If these conditions will prevail, the Company would require heavy funding from the Government to maintain going concern status.

In view of the forgoing, it is recommended that Company may revamp its organizational structure and address operational issues, being the major cause of losses. In addition, the Company may also restructure its financial arrangements by funding its operations from cheap sources of finance, resulting in low interest cost.

The line losses, being the major cause of losses is required to be addressed at higher level. There is a dire need to develop a policy to address the heavy line losses and to ensure the inflow of funds in the form of revenue.

The issue of huge receivables from Government and private consumers shall also need due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

14.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
MEPCO	2004-05	1	-	**1** (Para No. 14.5)	-

Position of compliance on PAC directives is not satisfactory.

14.4 AUDIT PARAS

14.4.1 Loss due to defective agreement of power purchase with private producer Rs.174.78 million

According to Section-4 of the PPRA Rules, "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 audit of MEPCO for the year 2011-12, it was revealed that a power purchase agreement was made with M/s Mahmood Textile Mills Limited for supply of electricity from its generating unit. The supplier was also a consumer of company. The rates of purchase of electricity from supplier were considerably high as compared to the rates charged to the consumers. The average of rate of purchase of electricity was Rs.13.98 to Rs.18.26 per unit as compared to the average sale rate of company to consumers of Rs.6.71 to Rs.8.95 per unit. Poor contractual management resulted in recurring loss of Rs.174.78 million by giving undue favour to private producer.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter at higher level besides fixing responsibility for making defective agreement with SPPs.

(Draft Para No. 375/2013)

14.4.2 Loss due to unjustified payment to CPP in violation of NEPRA instructions - Rs.127.46 million

According to Registrar NEPRA letter No. NEPRA / R / PAR / 69 / 335 dated Feb' 14, 2012, "it may be noted that in view of its observation in the cases of RFL (Roomi Fabric Limited) the Authority has already decided on Dec' 01, 2011 that Roomi Fabrics be treated as CPP for its entire supply and be allowed the rate of CPP".

During audit of MEPCO for the year 2011-12, it was revealed that an agreement was executed with M/s Roomi Fabric Limited under New Captive Power Plants (NCPP) Policy in spite of Captive Power Plants (CPP) which caused extra payment of Rs.127.46 million on account of financial cost component and non-gas period payment component from May, 2011 to May 31, 2012. Non-adherence to NEPRA instructions resulted in loss of Rs.127.46 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of NEPRA instructions.

(Draft Para No. 513/2013)

14.4.3 Recoverable amount on account of general sales tax - Rs.6.29 billion

The company shall file the monthly sales tax return in compliance with the requirements of Section-26 of the Sales Tax Act, 1990 (hereinafter referred as "Act") read with rule-13 through rule-18 of the Sales Tax Rules. The company shall deposit any tax due by the 15th of every month and shall file the monthly sales tax return by 18th of every month in compliance with the requirements of rule-18 of Sales Tax Rules read with Section-26 of the Act. Monthly sales tax returns filed by the company in compliance with the requirements of rule-28 of the Sales Tax Rules, shall be treated as a refund claim once all the supportive documents including the requisite data in the format or software (RCPS), filed with the Regional Tax Office (RTO).

During audit of MEPCO for the year 2011-12, it was revealed that general sales tax refund claims were not claimed regularly from Sales Tax Department from Jan' 2008 to Jun' 2012 and the accumulated balance piled up to the tune of Rs.6.29 billion as on Jun' 30, 2012. Poor planning and financial management resulted in blockage of resources amounting to Rs.6.29 billion.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 19, 2012, the management replied that MEPCO had already lodged sales tax refund claims of Rs.4.10 billion with FBR, which was under process. Further progress was not intimated till the finalization of this report.

Audit emphasizes vigourous pursuance of case with FBR besides fixing responsibility.

(Draft Para No. 623/2013)

14.4.4 Abnormal energy line losses above and beyond the target fixed by NEPRA - Rs.3.74 billion

NEPRA determined the targets of energy line losses 15% for the financial year 2011-12 for MEPCO.

During audit of MEPCO for the year 2011-12, it was revealed that total

12.45 billion units were received whereas 10.22 billion energy units were billed and 2.23 billion units (17.9%) were lost. Resultantly, 366.53 million units were lost in excess of permissible limit worth Rs.3.74 billion. Non-adherence of NEPRA targets resulted in loss of Rs.3.74 billion due to abnormal energy line losses.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 515/2013)

14.4.5 Huge receivables amount from energy defaulters - Rs.3.03 billion

According to the Office letter No.320-30/GM (C&M)/P/CE(O)/Stat/130 dated Jun' 14, 2012 circulated by General Manager C&M PEPCO, "special efforts are required during the remaining days of Jun' 2012. Running defaulters/ disconnected defaulters need physical checking for effective recovery."

During audit of MEPCO for the year 2011-12, it was revealed that an amount of Rs.3.03 billion was receivable from 151,300 energy defaulters (Government & Private) for a period exceeding six months i.e. from Dec' 31, 2011 upto more than three years. In this respect, no efforts were made by the management to accelerate the recovery from defaulters. Owing to the increasing trend of receivables, PEPCO was facing financial difficulties in discharging its obligations towards Power Sector Companies (PSC) and Independent Power Producers (IPPs). Non-recovery from energy defaulters resulted in blockage of Rs.3.03 billion.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Jan' 2013. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery of arrears besides fixing responsibility.

(Draft Para No. 650/2013)

14.4.6 Non-removal of electrical equipment and non-recovery of outstanding energy charges - Rs.1.23 billion

Para-3 of Authority's circular dated Apr' 15, 1998 lays down that "disconnections will be effected through removal of meters, transformers, span or any other equipment to ensure that no possibility or loop hole is left for unauthorized use of energy during the period of disconnection". The equipment after having been removed from site was required to be returned to store.

During audit of MEPCO for the year 2011-12, it was revealed that an amount of Rs.1.23 billion was outstanding on account of energy charges against four thousand, nine hundred and fifty seven (4,957) tube well consumers for a period ranging from one month to 165 months. Non-implementation of Authority's instructions resulted in non-removal of the transformers and allied material from the sites and non-recovery of outstanding energy charges of Rs.1.23 billion.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility and ensure removal of electrical equipment.

(Draft Para No. 434/2013)

14.4.7 Loss due to theft of electrical material - Rs.37.51 million

According to the instructions issued by WAPDA dated Jul' 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 audit of MEPCO for the year 2011-12, it was revealed that electrical material comprising of conductor and transformers worth Rs.37.51 million in two hundred and sixty four (264) cases was stolen. FIRs were lodged with the concerned police stations but administrative action were not taken to fix the responsibility of the loss and to decide its fate. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs.37.51 million.

The matter was taken up with the management from Aug' to Nov' 2012 and reported to the Ministry from Sep' to Dec' 2012. In a meeting held on Dec' 2012, the management replied that FIRs in all cases had been lodged and departmental actions initiated. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 82, 95, 98, 101, 116, 195, 196, 236, 247, 336 & 412/2013)

14.4.8 Loss due to theft of electricity by Kunda Connections - Rs.4.32 million

According to the instructions issued by WAPDA dated Jul' 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 audit of MEPCO for the year 2011-12, it was revealed that theft of electricity through two hundred (200) Kunda Connections was contributing a considerable loss to MEPCO. The units lost worked out to 0.480 million amounting to Rs.4.32 million. Non-implementation of Authority's instructions resulted in loss of Rs.4.32 million due to theft of electricity though kunda connections.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 436/2013)

14.4.9 Unjustified purchases in violation of PPRA Rules - Rs.544.79 million

According to rules 42 (C) (iv) of PPRA Rules, "repeat order should be given upto fifteen (15) percent of the original procurement".

During audit of MEPCO for the year 2011-12, it was revealed that electrical material worth Rs.544.79 million was purchased through variation orders. These variation / repeat orders were issued by enhancing the quantities by 25% of the original purchase orders. Violation to provisions of PPRA Rules resulted in unjustified expenditure of Rs.544.79 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No.417/2013)

14.4.10 Loss due to undue favour to the supplier - Rs.335.39 million

According to Rules-20 & 21 of PPRA Rules, "the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works".

During audit of MEPCO for the year 2011-12, it was revealed that a contract for procurement of eighteen (18) power transformers costing Rs.826.20 million was awarded to 3rd lowest bidder M/s PEL, Lahore during Jun’ 2012. As per bid evaluation report, the lowest bidder was M/s People ELE with offered price of Rs.490.81 million. The bid evaluation committee rejected the bid of lowest bidder with the plea that the ‘Tap Changer’ of the transformer was not equivalent to the Germany made tap changer. This special condition was included in the bid documents after the issuance of tender notice. Violation of PPRA Rules resulted in extra expenditure of Rs.335.39 million.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 410/2013)

14.4.11 Non-replacement of material damaged during warranty period - Rs.83.37 million

According to Clause-9 (Warranty) of the purchase orders, “the material damaged/become defective during warranty period is to be substituted with new ones or get repaired at the cost and expense of the suppliers”.

During audit of MEPCO for the year 2011-12, it was revealed that different types of material (transformers & meters) worth Rs.83.37 million was damaged/ became defective from December, 2007 to June, 2012 within the warranty period and sent to manufacturer for replacement but was not received back from the suppliers so far. Non-adherence to the purchase orders clause resulted in blockade of company’s funds to the tune of Rs.83.37 million due to non-replacement of material damaged under warranty period.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 19, 2012, the management replied that the actual amount of transformers and meters damaged under warranty came to Rs.24.02 million instead of Rs.83.37 million. Efforts for its replacement from manufacturers were being made and as soon as the material was received back, Audit would be informed. Audit has worked out an amount of Rs.83.37 million from the available record of material management. It is worth mentioning that defective material pertaining to year 2008 and 2009 was not replaced so far. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 422/2013)

14.4.12 Unjustified expenditure on engagement of consultant in violation of PPRA Rules - Rs.78.46 million

According to rule 21 of PPRA Rules, "the procurement agencies shall engage in open competitive bidding". Further, Clause-3 D (i) (d) of Procurement of Consultancy Services Regulations, 2010 provides that, "single source or direct selection of consultant will be made where only one consultant is qualified or has experience of exceptional worth".

During audit of MEPCO for the year 2011-12, it was revealed that the management, in violation of rules, hired M/s BARQAB consultants in Aug' 2004 to provide consultancy services for Energy Loss Reductions (ELR) and Development of Power (DOP) proposals by direct contracting despite the fact that nature and scope of work fell within the ambit of the duties of the engineers of the Company and such services were also available from alternative sources. Non-adherence to rules / regulations resulted in unjustified expenditure of Rs.78.46 million on engagement of consultant.

The matter was taken up with the management in Aug' to Nov' 2012 and reported to the Ministry in Sep' to Dec' 2012. In a meeting held on Dec' 19, 2012, the management replied that Authority approved appointment of M/s Barqaab Consulting Services for village electrification in all DISCOs during 2004-2005. The reply was not tenable as the services of the consultants were hired for village electrification only, whereas expenditure was also incurred for hiring the services against ELR/DOP program which was not inline.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No. 31, 421, 425, 429 & 622/2013)

14.4.13 Undue favour to the consumers on account of non-regularization of unauthorized extension of load - Rs.61.92 million

According to abridged condition-6 of supply of power, "in case of non-removal/non-regularization of un-authorized extended load, the supply to the consumer shall be disconnected".

During audit of MEPCO for the year 2011-12, it was revealed that three hundred and thirty three (333) industrial consumers had extended the load of the energy connections without approval of the competent authority. In violation of the abridged condition, the field formations neither disconnected their energy connections nor regularized the un-authorized extended load. Non-regularization of load provided undue favour of Rs.61.92 million to the consumers at the cost of Company's distribution system.

The matter was taken up with the management from Aug' to Nov' 2012 and reported to the Ministry from Sep' to Dec' 2012. In a meeting held on Dec' 19, 2012, the management replied that the notices had been issued to the consumers either to remove un-authorized extension of load or get it regularized. Progress / recovery would be intimated to Audit. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 37, 38, 67, 131, 198, 200, 245, 246 & 413/2013)

14.4.14 Loss due to purchase of electrical material at exorbitant rates - Rs.55.51 million

According to Para-9 (Limitation on splitting or regrouping of proposed procurement) of PPRA Rules, "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." Further, preface item (iv) of Book of Financial Powers of DISCO's, September, 2002 provides that "an individual item is not split up into parts merely to enable a part of the whole item to qualify for a particular sanction."

During audit of MEPCO for the year 2011-12, it was revealed that electrical material was purchased by splitting up tenders on different dates, even with a gap of few days at very exhorbitant rates in subsequent purchases. Violation of rules resulted in loss of Rs.55.51 million by allowing very exhorbitant rate for purchase of electrical material.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No. 416/2013)

14.4.15 Non-repairing of damaged transformer from M/s Siemens - Rs.50 million

According to Clause-9 (Warranty) of the purchase orders, "the material damaged/become defective during warranty period is to be substituted with new ones or get repaired at the cost and expense of the suppliers".

During audit of MEPCO for the year 2011-12, it was revealed that a power transformer 31.5/40 MVA (Siemens make) costing Rs.50 million damaged on November 29, 2011 at 132 KV grid station Vehari. An inquiry committee was constituted which recommended that M/s Siemens should repair the transformer at its own risk and bear transportation charges which was endorsed by the Chief Executive Officer, MEPCO, but the same was not done despite lapse of eight (08) months. Non-adherence to the recommendations of inquiry committee resulted in non-repair of transformer from supplier worth Rs.50 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 238/2013)

14.4.16 Non-forfeiture of security / performance bonds - Rs.44.13 million

According to clause 13-A (i) of the purchase orders, "the contracting officer will have the right to forfeit the security bond/guarantee (performance bond) if the supplier fails to supply the goods within time specified in the Purchase Order."

During audit of MEPCO for the year 2011-12, it was revealed that nineteen (19) purchase orders were placed on different firms for supply of store material from Jan' 2011 to Aug' 2012. The suppliers could not supply the material within the delivery period specified in the relevant purchase orders. Poor management resulted in non-forfeiture of security/performance bond worth Rs.44.13 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 19, 2012, the management replied that in one case, the performance bond had been encashed and in remaining eighteen (18) cases, the supply of material was under process and liquidated damages were being charged where applicable. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious forfeiture besides fixing responsibility.

(Draft Para No. 418 & 431/2013)

14.4.17 Non-return of power transformers – Rs.38.64 million

According to Para-10 (i) Chapter-2 of General Financial Rules, "every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money".

During audit of MEPCO for the year 2011-12, it was revealed that two (02) damaged 10/13 MVA power transformers were sent to Power Transformer Engineering Services Unit (PTESU) for repair on October 10, 2005 and March 28, 2007 respectively and one (1) 20/26 MVA power transformers was lying with Executive Engineer 500 KV T/L NTDC Rawat. Poor management resulted in non-return of transformers of Rs.38.64 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Nov' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 237 & 239/2013)

14.4.18 Recoverable amount from independent consumers on account of energy losses beyond permissible limit - Rs.32.31 million

According to table 5 of chapter 5 of Distribution Rehabilitation Guidelines (Sep', 2003) "the maximum permissible limit for annual energy losses for H.T Circuit (Rural) is 3%".

During audit of MEPCO for the year 2011-12, it was found that the percentage of energy losses of eight (8) dedicated 11 KV feeders remained 3.2% to 100% against the permissible limit of 3%. The field formations as well as the consumers were responsible to keep the energy losses within permissible parameters. High tension (HT) circuits installed by the consumers were incapacitated to withstand the running load resulting increase in the technical losses and financial impact of Rs.32.31 million.

The matter was taken up with the management in Jul' 2012 and reported to the Ministry in Sep' & Oct' 2012. In a meeting held on Dec' 19, 2012, the management replied that in two (2) cases, the difference of energy losses had been debited to the consumers. In third case namely - Faisalabad Textile Mills, the industry remained shut down due to flood which resulted in variances in energy consumption. The remaining cases were within permissible limit and difference in losses was due to spill over. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 83 & 97/2013)

14.4.19 Loss due to non-recovery of GST and Neelum Jehlum Surcharge from employees - Rs.30.18 million

According to Section 39 of Special Procedure for Collection and Payment of Sales Tax on Electric Power, "in case of WAPDA and KESC, sales tax levied and collected during a tax period shall be deposited on accrual basis i.e. the amount of sales tax actually billed to the consumers or purchasers."

During audit of MEPCO for the year 2011-12, it was revealed that free electricity of 24.03 million units was provided to the employees of the Company. An amount of Rs.30.18 million (Rs.27.78 + Rs.2.40 million) was paid by the Company on account of GST and Neelum Jehlum Surcharge (NJS), which was required to be paid by the employees being the user of energy instead of seller i.e. MEPCO. Violation of canons of financial propriety resulted in loss of Rs.30.18 million due to non-recovery of GST and NJS from employees.

The matter was taken up with the management in Oct' & Nov' 2012 and reported to the Ministry in Nov' & Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery of GST and NJS from Company employees besides fixing responsibility.

(Draft Para No.199, 244 & 414/2013)

14.4.20 Improper utilization of ADB loan - Rs.24.85 million

Para-10 (i) Chapter-2 of General Financial Rules provides that "every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money".

During audit of MEPCO for the year 2011-12, it was revealed that a ninety (90) ton low bed trailer with prime mover and three (3) 6-ton heavy duty trucks valuing Rs.24.85 million were procured on Feb' 25, 2011 (under ADB Loan No.2438-PAK) from M/s Automobile Corporation of Pakistan. The trailer and trucks were handed over to Project Director GSC, MEPCO in Mar' 2012 where these were standing idle since their purchase. Poor planning and financial management resulted in improper utilization of resources amounting to Rs.24.85 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 339/2013)

14.4.21 Unjustified expenditure in violation of PPRA Rules - Rs.18.52 million

According to Para No. 42 b (i) of PPRA Rules, "a procuring agency shall engage in the method of procurement (through request for quotations) only if the cost of object of procurement is below the prescribed limit of one hundred thousand rupees (Rs. 100,000)".

During audit of MEPCO for the year 2011-12, it was revealed that an expenditure of Rs.18.52 million was incurred on purchase of material, repair of vehicles and civil works on quotation basis instead of calling tenders. Violation of PPRA rules resulted in unjustified expenditure of Rs.18.52 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 19, 2012, the management replied that item wise justification of purchase would be provided to Audit. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA rules.

(Draft Para No. 340/2013)

14.4.22 Non-completion of schemes - Rs.12.79 million

Para 4.1.3 to 4.1.6 of Distribution and Rehabilitation Guidelines provides that 'total time will be restricted to 130 working days (i.e. from approval of proposal of inspection and completion certificate). The officers relating to work of constructions will share delay beyond 130 days."

During audit of MEPCO for the year 2011-12, it was revealed that an expenditure of Rs.5 million was incurred on nineteen (19) schemes against the estimated cost of Rs.12.79 million. These schemes were pending from 3 to 4 years and their percentage of completion was ranging from 9% to 87% (overall percentage 39%). Inordinate delay might lead to misappropriation of the material. Non-adherence to the Distribution Rehabilitation Guidelines resulted in non-completion of schemes amounting to Rs.12.79 million.

The matter was taken up with the management in Aug’ 2012 and reported to the Ministry in Sep’ 2012. In a meeting held on Dec’ 19, 2012, the management replied that one scheme had been completed/capitalized and another was cancelled and its material returned to store. For the remaining seventeen (17) schemes, efforts were geared up to complete them in shortest possible time. Progress achieved in the matter would be intimated to audit. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 35/2013)

14.4.23 Loss due to adjustment of commitment charges on un-utilized loan – Rs.10.72 million

According to Section 2.03, Article-II of (World Bank), “the borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the loan (less amounts withdrawn from time to time), commencing sixty (60) days after the date of this Loan Agreement”.

During audit of MEPCO for the year 2011-12, it was revealed that an amount of Rs.10.72 million was due for payment/adjustment as commitment charges on the un-utilized because of delay in completion of project. Further the World Bank representative showed concern over slow pace of project implementation in Feb’ 2012, as less than half the loan/credit amount was committed and less than 30% funds were disbursed. Lack of planning, inefficiency and poor management resulted in loss due to payment/adjustment of commitment charges amounting to Rs.10.72 million.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility and making good the loss.

(Draft Para No. 411/2013)

14.4.24 Non-utilization/surrender of surplus funds - Rs.10.05 million

The Prime Minister’s Secretariat (Public) vide reference No. 1(1)/Misc.(Pb-1)/PAW/2007/ dated Mar’ 09, 2007 requested the Auditor-General of Pakistan to ensure through an appropriate audit that funds in the interim period are properly kept and accounted for and that if they earn any return that amount accrues to the Government of Pakistan as per rules.

During audit of MEPCO for the year 2011-12, it was revealed that funds of Rs.391.23 million were received from Government for 625 village electrification schemes under different Programs. Actual cost of these works was Rs.381.18 million. As per policy, the unspent amount was required to be remitted to Government, which was not done. Violation of financial discipline resulted in non-utilization / surrender of surplus funds of Rs.10.05 million.

The matter was taken up with the management in Aug’ 2012 and reported to the Ministry in Sep’ 2012. In a meeting held on Dec’ 19, 2012, the management replied that on the directives of the PM secretariat, the surplus funds were adjusted against future schemes because of which the surplus funds were not surrendered. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 36/2013)

14.4.25 Loss due to high losses on Fort Munro Feeder - Rs.10.01 million

According to NEPRA determination, “the targets of energy line losses 15% for the financial year 2011-12 for MEPCO”.

During audit of MEPCO for the year 2011-12, it was revealed that line losses on Fort Munro feeder were 61.3% beyond the permissible limits fixed by NEPRA i.e. 15%. This resulted in excess line losses of 1.18 million units with financial impact for Rs.10.01 million.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry on Dec’ 2012. In a meeting held on Dec’ 19, 2012, the management replied that best efforts were being made to minimize the units lost by lodging FIRs against the culprits. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 437/2013)

14.4.26 Loss due to damage of overloaded transformer – Rs.7.24 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of MEPCO for the year 2011-12, it was revealed that a power transformer 20/26 MVA was damaged on Jan’ 18, 2010. The inquiry committee gave its recommendations and suggested that the power transformer having passed 25 years life and should not be loaded beyond 80%.Whereas this transformer (damaged) was loaded upto 97.70% for the last three years. Power Transformer Engineering Services Unit (PTESU) submitted an estimate of Rs.7.24 million for repair of damaged transformer due to overloading. Non-adherence to rules resulted in loss of Rs.7.24 million due to damage of power transformer owing to overloading.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 511/2013)

14.4.27 Unauthorized purchase of material in violation PPRA Rules - Rs.5.05 million

According to Rules-20 & 21 of PPRA Rules, "the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works".

During audit of MEPCO for the year 2011-12, it was revealed that P.G connectors of various sizes amounting to Rs.5.05 million were purchased from three different suppliers during Apr' 2012 without proper competition as only single bidder participated in the bid. Violation of PPRA Rules resulted in irregular procurement of material of Rs.5.05 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 19, 2012, the management replied that tenders were called according to procedure. Due to single bidder, approval of next higher authority was obtained as per delegation of financial powers. The reply was not tenable as no reason for awarding single tender was recorded therefore, purchases were made in violation of PPRA Rules.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No. 428/2013)

14.4.28 Loss due to non-recovery of fuel price adjustment - Rs.4.42 million

According to notifications of monthly fuel price adjustment (FPA) issued by NEPRA in Feb', Apr' and May 2012, "the FPA is applicable to all the categories except life line consumers".

During audit of MEPCO for the year 2011-12, it was revealed that detection bills were charged to three hundred and twenty nine (329) consumers through adjustment notes but the fuel price adjustment charges amounting to Rs.4.42 million were not recovered from them. Violation of NEPRA instructions resulted in loss of Rs.4.42 million due to non-recovery of fuel price adjustment.

The matter was taken up with the management in Jul' & Oct' 2012 and reported to the Ministry in Oct' & Nov' 2012. In a meeting held on Dec' 19, 2012, the management replied that in two hundred thirty (230) cases, an amount of Rs.0.30 million had been debited to consumers and the balance amount was incorrectly calculated by Audit. It was also added that a few cases were subjudice in the court of law. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery of FPA besides fixing responsibility.

(Draft Para No. 142, 204 & 248/2013)

14.4.29 Loss due to non-recovery of liquidated damages from consultant - Rs.3.83 million

According to Clause-23 of agreement "if the BARQAAB fails to perform the services within the period of 06 Months, MEPCO shall without prejudice to its other remedies under the contract, deduct from the contract price, as liquidated damages, a sum equivalent to 0.05 percent of the delivered price of un-performed services for each day until actual performance, upto maximum deduction of 10 % of the contract price".

During audit of MEPCO for the year 2011-12, it was revealed that two (2) contracts for G.I.S Mapping and Preparation of Digital Database and Census and Routification were awarded to M/s BARQAAB Consulting Services on Jul' 22, 2009 and Jan' 01, 2010 respectively. The Consultant could not complete the task within stipulated period in both the contracts. Violation of contractual condition resulted in loss of Rs.3.83 million due to non-recovery of liquidated damages.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 420/2013)

14.4.30 Loss due to unjustified re-connection - Rs.3.43 million

According to Reconnection Policy issued vide letter dated Nov' 20, 1998 provides that "reconnection order will be issued after recovering all the outstanding dues appearing in the last bill for the energy consumed upto the time of disconnection. Further fixed charges and cost of material will also be recovered from the consumer at the time of reconnection.

During audit of MEPCO for the year 2011-12, it was revealed that an industrial connection was disconnected on Apr' 28, 2003 due to default for payment of energy dues of Rs.13.36 million. The connection was restored in Jan' 2005 without recovering outstanding dues by violating RCO policy. Later on, the consumer challenged the Late Payment Surcharge (LPS) in the Court of Wafaqi Mohtasib and the case was decided against the MEPCO due to improper pursuance and non-production of proper authorities. Violation of RCO policy and undue favour to the consumer resulted in loss of Rs.3.43 million due to irregular reconnection.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 621/2013)

14.4.31 Non-return of excess / dismantled material to store - Rs.2.23 million

According to basic rule 2.2 of Distribution Stores Manual, the material in excess of requirement must not be drawn.

During audit of MEPCO for the year 2011-12, it was revealed that electrical material worth Rs.2.10 million was found surplus in forty one (41) works due to less installation/excess drawl of material than the requirement. These works were completed but the excess material was not returned to store. Moreover, material worth Rs.0.13 million dismantled against three (3) Energy Losses Reduction (ELR) works was also not returned to store. Non-adherence to the provisions of Distribution Stores Manual resulted in non-return of material to store amounting to Rs.2.23 million.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Sep' 2012. In a meeting held on Dec' 19, 2012, the management replied that in most cases, the material drawn in excess had since been returned to store. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility and production of record relating to return of material.

(Draft Para No. 34/2013)

14.4.32 Recoverable amount on account of external electrification cost - Rs.2.22 million

According to Section-III-C (1) of Book of Financial Powers, "deposit works shall be undertaken only after getting full amount of sanctioned work estimated deposits with WAPDA, with an undertaking from the depositor to meet any variation."

During audit of MEPCO for the year 2011-12, it was revealed that a revised estimate amounting to Rs.38.64 million for external electrification of Danish School System, D.G Khan against the original estimate of Rs.36.42 million was approved on Jun' 04, 2012 with the direction to recover the difference of amount of Rs.2.22 million (Rs.38.64 - Rs.36.42 million) from the sponsor. Non-adherence to rules resulted in less recovery of electrification cost amounting to Rs.2.22 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 11, 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 426/2013)

14.4.33 Overpayment of special allowance - Rs.2.07 million

According to decision taken vide agenda item-9 of 84th meeting of MEPCO B.O.D held on Oct' 25, 2012, "the Board revised its previous approval, accorded for payment of the allowance to HR cadre officers from retrospective effect to allow the allowance with future effect only, i.e. since the date of Board meeting, in which the previous approval was accorded".

During audit of MEPCO for the year 2011-12, it was revealed that an amount of Rs.2.07 million was paid to different officers from Sep' 01, 2009 to Aug' 27, 2012 in HR cadres on account of special allowance from ex-post facto effect instead of the date of approval of BOD meeting on Aug' 27, 2012. Violation of decision of BOD resulted in over payment of special allowance of Rs.2.07 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 11, 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 423/2013)

14.4.34 Loss due to unjustified grant of advance increment – Rs.1.96 million

According to office memorandum issued vide No.FD/(SR-1)1-(51)/2001 dated Nov' 06, 2001, "the existing scheme of advance increment was discontinued w.e.f. Dec' 1, 2001 by the Government of Pakistan".

During audit of MEPCO for the year 2011-12, it was revealed that an amount of Rs.1.96 million was paid to various officers from Feb' 2010 to Jun' 2012 on account of four (04) advance increments on the basis of higher qualification. Non-adherence to rules resulted in loss of Rs.1.96 million due to unjustified grant of advance increments.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 427/2013)

14.4.35 Loss due to non-recovery of penalties imposed by the competent authority - Rs.1.71 million

According to the instructions issued by WAPDA dated Jul' 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 audit of MEPCO for the year 2011-12, it was revealed that penalty of Rs.1.71 million was imposed upon Line Superintendents on account of misappropriation of material. The action to recover the amount was not taken which showed weak and inefficient supervisory control of the Company. Non-implementation of Authority's instructions resulted in loss of Rs.1.71 million due to non-recovery of penalties imposed by the competent authorities.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 19, 2012, the management replied that the recovery would be effected after finalization of departmental proceedings. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 448/2013)

14.4.36 Non-recovery of supply charges against temporary connections - Rs.1.28 million

According to special condition of supply under tariff-E of Schedule of Electricity Tariff MEPCO, “the supply shall not be given by the Company without obtaining security equal to the anticipated supply and other miscellaneous charges for the period of temporary supply”.

During audit of MEPCO for the year 2011-12, it was revealed that an amount of Rs.1.28 million was outstanding against the temporary connections as forthcoming. The Company did not obtain security equal to the anticipated supply charges and resultantly had nothing to adjust against the outstanding dues. Non-adherence to the conditions of schedule of tariff resulted in non-recovery of supply charges amounting to Rs.1.28 million against temporary connections.

The matter was taken up with the management in Oct’ 2012 and reported to the Ministry in Nov’ 2012. In a meeting held on Dec’ 19, 2012, the management replied that in most of cases, recovery from temporary connections had been made. The reply was not tenable as no documentary evidence was provided in support of recovery till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 243/2013)

CHAPTER-15

PESHAWAR ELECTRIC SUPPLY COMPANY LIMITED (PESCO)

(305-335)

15. PESHAWAR ELECTRIC SUPPLY COMPANY LIMITED

15.1 Introduction

Peshawar Electric Supply Company Limited (PESCO) started its operations as a Public Limited Company, registered under Companies Ordinance, 1984 in May, 1998. The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The mission of PESCO is to provide un-interrupted electric supply and quality service to all customers at the minimum possible cost. The Company purchases electricity from National Transmission and Despatch Company (NTDC) and sells it to the whole area of Khyber Pakhtun-Khwa (KP). However, the business of FATA circle, which consists of tribal area of KP, has been transferred to Tribal Areas Electric Supply Company Limited (PESCO) since July 3, 2002.

PESCO receives supply from NTDC on 220 KV Grid Stations at Daud Khel, Domail, Mardan and 500 KV Grid Stations at Tarbela and Peshawar. It also receives supply from Warsak power house, Kot Addu power house, Dargai power house, Jagran Power house AJK, Chashma nuclear power plant, Kurram Garhi power house and private power producers.

The jurisdiction of PESCO includes six Operation Circles, one Project Construction Circle, and one Grid System Construction Circle and one Grid System Operation Circle.

15.2 Comments on Financial Statements

15.2.1 Financial Overview

The financial statements of the Company are required to be approved within four month from the end of financial year. The Company could not issue the approved Annual Report within the time frame stipulated in the Companies Ordinance, 1984. Non-compliance with the relevant provisions of Companies Ordinance, 1984 reflect the inefficiency on the part of management and needs justification.

The Company provided draft/unapproved financial statements to this Directorate. Therefore reliability of the financial information could not be ensured as the Company could incorporate significant adjustments into the balances appearing in the draft financial statements. The following comments analysis was prepared on the unapproved financial statement.

Monthly accounts (Trial Balance and other management information schedules) from 70 accounting units are sent to Finance Director, PESCO, where these accounts are consolidated and financial statements including Balance Sheet, Profit and Loss Account and Cash flow statements are prepared.

15.2.2 Extracts of the Financial Statements[13]

Balance Sheet as at Jun' 30, 2012

(Rupees in millions)

	2011-12	%	2010-11	%	2009-10
Equity and Liabilities	**Rs.**		**Rs.**		**Rs.**
Share capital and reserves					
Unappropriated Loss	(126,265.08)	58.36	(79,734.77)	25.27	(63,648.16)
Non-current liabilities	27,982.72	21.14	23,099.08	19.85	19,273.89
Current liabilities					
Trade and other Payables	213,824.78	36.80	156,308.43	11.01	140,809.81
Mark up payable	457.20	145.64	186.13	(899.25)	18.63
	214,615.10	37.14	156,494.56	11.12	140,828.437
	134,414.77	**13.97**	**117,940.91**	**2.97**	**114,536.20**
Assets					
Non-current assets	35,131.61	9.80	31,997.38	14.02	28,063.53
Long term advances	161.33	3.15	156.40	45.47	107.52
Current assets					
Stores and spares	3,036.98	19.64	2,538.52	18.34	2,145.06
Trade debts	24,766.06	(12.42)	28,278.29	44.74	19,537.42
Balance with statutory authorities	23,367.37	71.46	13,628.55	(53.39)	29,236.45
Other receivables	45,688.99	22.56	37,280.02	17.35	31,768.78
Bank balances	1,865.57	(48.75)	3,640.43	6.85	3,406.90
	99,121.83	**15.54**	**85,787.13**	**(0.67)**	**86,365.15**
	134,414.77	**13.97**	**117,940.91**	**2.97**	**114,536.20**

PROFIT AND LOSS ACCOUNT
For the year ended Jun' 30, 2012

(Rupees in millions)

	2012	%	2011	%	2010
Revenue					
Electricity sale	53,293.07	18.64	44,920.70	40.58	31,953.13
Rental and service income	89.93	(25.41)	120.57	(83.58)	734.11
Subsidy from Govt.	25,225.43	(6.38)	26,945.29	(21.07)	34,140.00
	78,608.44	9.199	71,986.55	7.72	66,827.24

[13] *Only balances with significant variations during the current financial year and those against which comments are being incorporated in this analysis are reproduced.*

Cost of electricity	106,473.61	31.31	81,085.91	7.72	75,275.49
Gross profit/(Loss)	(27,865.17)	206.232	(9,099.36)	7.71	(8,448.25)
Amortization of deferred credit	687.45	22.86	559.52	-	559.52
Operating Cost	26,047.71	144.98	10,632.49	21.16	8,775.86
Other income	6,698.33	112.47	3,152.57	26.35	2,495.02
Financial and other charges	3.21	(95.19)	66.84	(83.66)	409.02
Profit/(Loss) for the year	**(46,530.31)**	**189.249**	**(16,086.60)**	**10.34**	**(14,578.59)**

15.2.3 Financial Ratios

This summary of ratios calculated for the three financial years are as under:

COMPANY		PESCO		
YEAR		**2011-2012**	**2010-2011**	**2009-2010**
Profitability Ratios				
Return on Capital Employed	%	(51.16)	(33.52)	(41.10)
Gross Profit Margin	%	(52.29)	(20.26)	(26.44)
Net Profit Margin	%	(87.31)	(35.81)	(45.62)
Asset Turnover Ratio	times	(0.66)	(1.17)	(1.22)
Return on Total Assets	%	(0.35)	(0.14)	(0.13)
Short Term Liquidity Ratio				
Current Ratio	times	0.46	0.55	0.61
Working Capital Ratios				
Debtors Turnover Period	days	169.62	229.77	223.18
Creditors Turnover Period	days	733.01	703.61	682.77
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	2.07	1.74	1.02
Gearing Ratio	%	(2.70)	(4.30)	(3.37)
Leverage Ratio	%	118.95	129.01	132.16
Interest coverage	%	(14,479.05)	(239.65)	(34.64)

15.2.4 Cash Flow Analysis

The Company's net outflow of cash was Rs.1,774.86 million (Rs. million: 233.53 inflow 2010-11) during the financial year resulting in closing balance of Rs. 1,865.57 million (Rs. 3,640.43 million: 2010-11).

Net cash flows from operating activities declined by Rs. 2,619.99 million (61.96%) over the previous year. Cash generated from operations decreased by Rs.2,619.99 million (62%) over the previous year causing serious cash flow problem for the Company. This year Company paid more amount on financial charges i.e. Rs.15.76 million (12.39%) due to increase in long term financing.

During the financial year 2011-2012, the Company invested Rs.4,321.09 million on fixed assets (Rs.5,029.37 million: 2010-11) for the improvement of the power distribution system, however, the Company could not use the assets efficiently and effectively as the operational losses referred above increased significantly.

Moreover, the net cash inflow of Rs.747.18 million injected from financing activities (Rs.838.02 million: 2010-11), the Company utilized its accumulated cash reserves to manage its operational requirements resulting in significant decline of 48.75% in cash reserves which is required to be justified.

15.2.5 Ratios Analysis

15.2.5.1 Profitability

Profitability ratios of the company showing the worst position ever faced by the company in terms of gross profit and net profit both ratio went to negative due to huge loss in the year.

i) Gross profit ratio declined significantly i.e. 52.29% gross loss as compared to gross loss of 20.26% for the financial year 2010-11. This reflects that the cost of electricity has increased more than the percentage increase in sales. The line losses of 173 sub-divisions of the Company range from 10% to 76.03%, resulted in high cost of electricity.

The abnormal increase in the cost of sales and line losses, resulting in significant increase in gross loss of the company needs to be explained.

ii) Net profit Ratio

The company suffered accumulated losses of Rs.126,265.08 million, out of which an amount of Rs.46,530.31 million was incurred during the present financial year.

In pursuance to the above, the net profit ratio declined significantly i.e. (87.31%) loss as compared to (35.81%) for the financial year 2010-2011.

The operating expenses increased by 145% which mainly attributed to enhancement in pay and allowances and repairs & maintenance expenses. It was further observed that the Authority approved certain allowances in respect of various categories of WAPDA employees. The detail of which is mentioned hereunder:

i) Transport subsidy

ii) Special WAPDA allowance
iii) Danger allowance
iv) Head Office Allowance
v) Over time Allowance

The grant of above allowances without the approval/concurrence of Ministry of Finance was not in line with the provisions of Government Rules and Regulations and amount paid on account of above allowances was irregular.

Consequently, the Company suffered huge net loss of Rs.46,530.31 million during the financial year 2011-12. This indicated that the operational efficiency of the Company remained highly unsatisfactory.

iii) Return on capital employed

The return declined to (51.16%) loss from (33.52%), showing that the Company could not utilized its resources in an efficient and effective manner.

iv) Return on total assets

The return declined to (0.35%) from (0.14%) as company was not utilizing its assets efficiently to generate favorable return.

The Company invested Rs.4,321.09 million on the non-current assets during the financial year. In addition to the above, the Company held cash reserves of Rs.1,865.57 million. The debt to total asset ratio and gearing ratio was 2.07% and 2.70% respectively. The huge investment on non-current assets could not improve the profitability position of the Company as the return on total assets declined significantly which needs to be explained.

15.2.5.2 Short Term Liquidity

i) Current ratio

The company current ratio declined to 0.46 from 0.55 indicating short term financial difficulties in repayment of current liabilities.

The Company did not hold adequate liquid assets required to settle its short term liabilities which needed to be explained.

15.2.5.3 Working Capital Cycle

ii) Debtor turnover period decreased to 170 days from 230 days due to decrease in trade receivable i.e. by 12.42%. However, it continued to reflect weak administration of receivables and ultimately liquidity problems for the Company. Financial crises further created obstacles in way of repayment to creditors which increased to 733 days from 704 days.

The huge duration for the collection and payment to debtors and creditors reflect poor management of debtors and creditors' turnover period which needs to be explained.

15.2.5.4 Gearing, leverage and interest coverage ratios

These ratios showed negative trend due to high losses in recent years i.e. (189)% during the financial year 2011-12 as compared to (10.34)% during the financial year 2010-11.

The gearing and leverage ratios reflect distorted results due to huge amount of accumulated losses which turned the equity negative.

Long term financing increased by 20% as the Company has advanced a loan from Asian Development Bank amounting to Rs. 10,451.45 million for power distribution and enhancement project.

The financial position of the Company deteriorated during the past few years as depicted in the summary of ratios mentioned above.

Reliance on borrowings/ (loans) and payment of huge financial charges needed to be explained.

15.2.6 Recommendations:

It is evident from the above analysis that the profitability, liquidity and solvency position of the Company deteriorated with an exceptionally high rate. In order to finance the operations, Company would heavily rely on financing from external sources which will aggravate the liquidity position. If these conditions prevail, the Company would require heavy funding from the Government to maintain going concern status.

In view of the forgoing, it is recommended that Company may revamp its organizational structure and address operational issues, being the major cause of losses. In addition to that, the Company may also restructure its financial arrangements by funding its operations from cheap sources of finance, resulting in low interest cost.

The line losses, being the major cause of losses is required to be addressed at higher level. There is a dire need to develop a policy to address the heavy line losses and to ensure the inflow of funds in the form of revenue.

The issue of huge receivables from Government and private consumers shall also require due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

15.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
PESCO	2004-05	2	-	**2** (Para No. 14.15, 14.16)	-

Position of compliance on PAC directives is not satisfactory.

15.4 AUDIT PARAS

15.4.1 Unjustified purchase of electricity SPPs - Rs.724.60 million

According to office note of agenda item of 64th BOD's meeting for extension of contract, the power purchase agreement signed with M/s Gadoon Textile Mills for purchase of electricity was expired on Dec' 04, 2011.

During audit of PESCO for the year 2011-12, it was revealed that a payment of Rs.724.60 million was made to M/s Gadoon Textile Mills on account of purchase of electricity after the expiry of the contract i.e. December 04, 2011. As the matter of higher purchase rates in original contract was with NAB, the BOD PESCO did not extend the contract. Hence, purchase of electricity amounting to Rs.724.60 million after expiry of contract was unjustified.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 21, 2012, the management replied that the matter was under investigation with NAB. Further progress was not intimated till the finalization of this report.

Audit emphasizes vigorous pursuance of case with NAB besides fixing responsibility.

(Draft Para No. 594/2013)

15.4.2 Loss due to embezzlement of cash - Rs.11.21 million

According to the instructions issued by WAPDA dated Jul' 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 audit of PESCO for the year 2011-12, it was revealed that an amount of Rs.17.86 million was embezzled in Rural Cantt: Division Peshawar during the period July 1998 to Jun' 2002 by the officers/officials. After investigation, NAB recovered Rs.7.3 million from the delinquent officers/officials through plea bargain and directed PESCO authorities to inquire the matter of missing original record amounting to Rs.9.6 million. Accordingly three successive inquiry committees were constituted but ended without any result. Later on a fourth inquiry committee was constituted who ignored its TOR (fixing percentage recovery on the responsible) and recommended to exclude/acquitted an officer from the charges. Neither any disciplinary action could be taken against the main accused nor fixed percentage recovery against responsible. Another incident of cash embezzlement of Rs.2.27 million was detected in City Division Peshawar for the period Jun' 2008 to Jun' 2010. However, Rs.0.66 million was recovered leaving a balance of Rs.1.61 million. NAB also investigated but closed the matter with the direction to the PESCO to affect the recoveries as indicated in the audit report/departmental inquiries from the officers/official involved. But neither any disciplinary action was taken against responsible nor effected recovery of cash embezzled. Weak financial control resulted in loss due to embezzlement of cash Rs.11.21 million (Rs.9.6 million + 1.61 million) during 2011-12.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes vigourous pursuance of case with NAB besides fixing responsibility and making good the loss.

(Draft Para No. 597/2013)

15.4.3 Loss due to theft of electrical material - Rs.32.31 million

According to the instructions issued by WAPDA dated Jul' 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 audit of PESCO for the year 2011-12, it was revealed that electrical material comprising transformers of various capacity, conductor and allied material worth Rs.32.31 million was stolen. Administrative and legal action in most of the cases was not taken to fix the responsibility of loss and to decide its fate. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs.32.31 million.

The matter was taken up with the management from Aug' to Oct' 2012 and reported to the Ministry from Sep' to Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 77, 122, 140, 171, 222, 282 & 350/2013)

15.4.4 Loss due to illegal use of energy - Rs.33.80 million

According to sub section 39-A(1) of electricity Act 1910, "whoever installs or uses any device, contrivance of artificial means for dishonest abstraction consumption or use of energy of license whether he derives any benefit therefrom or not shall be punished with imprisonment of either description for a term which may extent to three years, or with fine which may extend to five thousand rupees, or with both an if it is proved that any device contrivance or artificial means for such abstraction consumption or use exists or has existed on a premises, it shall be presumed unless contrary it proved that such person has committed an offence."

During audit of PESCO for the year 2011-12, it was revealed that six hundred and forty (640) private and government consumers were found using electricity through illegal means. Due to these illegal connections energy valuing Rs.33.80 million was stolen. No efforts were made to stop the illegal usage of energy. Non-adherence to the rules resulted in loss of Rs.33.80 million due to illegal use of energy.

The matter was taken up with the management in Aug' & Oct' 2012 and reported to the Ministry in Oct' & Nov' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 172 & 215/2013)

15.4.5 Loss due to non-recovery from the officers involved in theft of energy - Rs.1.12 million

According to the instructions issued by WAPDA dated Jul' 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 audit of PESCO for the year 2011-12, it was revealed that theft of energy was made in connivance with the officers/officials. As per direction of National Accountability Bureau (NAB), departmental enquiry committee assessed the loss of Rs.1.12 million in Jul' 2011 and held responsible three (03) officers/officials for connivance in theft of energy. Neither percentage of loss was imposed nor disciplinary action initiated against the delinquents.

Non-adherence of the instructions resulted in loss due to non-recovery of theft of energy of Rs.1.12 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery from delinquents besides fixing responsibility.

(Draft Para No. 593/2013)

15.4.6 Huge receivables from energy defaulters - Rs.45.01 billion

According to the Office letter No.320-30/GM (C&M)/P/CE(O)/Stat/130 dated Jun' 14, 2012 circulated by General Manager C&M PEPCO, "special efforts are required during the remaining days of Jun' 2012. Running defaulters/ disconnected defaulters need physical checking for effective recovery."

During audit of PESCO for the year 2011-12, it was revealed that an amount of Rs.45.01 billion was receivable from 501,197 energy defaulters (Government & Private) for a period exceeding from six months i.e. from Dec' 31, 2011 upto more than three years. In this respect, no efforts were made by the management to accelerate the recovery from defaulters. Owing to the increasing trend of receivables, PEPCO was facing financial difficulties in discharging its obligations towards Power Sector Companies (PSC) and Independent Power Producers (IPPs). Non-recovery from energy defaulters resulted in blockage of Rs.45.01 billion.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Jan' 2013. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 651/2013)

15.4.7 Non-removal of electrical equipment and non-recovery of outstanding energy charges - Rs.6.60 billion

Para-3 of Authority's circular dated Apr' 15, 1998 lays down that "disconnections will be effected through removal of meters, transformers, span or any other equipment to ensure that no possibility of loop hole is left for unauthorized use of energy during the period of disconnection". The equipment after having been removed from site was required to be returned to store.

During audit of PESCO for the year 2011-12, it was revealed that eighty four thousand, seven hundred and ninety eight (84,798) consumers defaulted the payment of energy charges. Neither the transformers and other allied equipment valuing Rs.3.851 million were removed nor recovery of outstanding energy dues amounting to Rs.6.59 billion could be made. Non-implementation of Authority's instructions resulted in non-removal of transformers and other allied equipment and non-recovery of outstanding energy dues amounting to Rs.6.60 million (Rs.3.851 million + Rs.6,594.829 million).

The matter was taken up with the management in Aug' and Nov' 2012 and reported to the Ministry in Oct' and Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility and ensure removal of electrical equipment.

(Draft Para No. 119, 157 & 629/2013)

15.4.8 Blockade of Authority's funds - Rs.557.08 million

According to para 5 of Memorandum dated Jan' 17, 1978 on irregularities of purchases of stores and equipments, "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 audit of PESCO for the year 2011-12, it was revealed that the electrical material worth Rs.557.08 million procured during the years 2007-2010 from ADB loan was lying in stores since its purchase. The material was purchased without necessity / demand in violation to the instructions, which lost its value and warranty as the closing date of ADB loan. Non-observance of rules regarding procurement of material and poor planning resulted in blockade of Authority's funds of Rs.557.08 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Nov' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 283/2013)

15.4.9 Non-finalization of inquiry cases - Rs.159.22 million

According to the instructions issued by WAPDA dated Jul' 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 audit of PESCO for the year 2011-12, it was revealed that thirty one (31) inquiry cases involving an amount of Rs.159.22 million on account of financial irregularities i.e. bogus cash postings, theft/misappropriation of material were pending. Neither any disciplinary action was taken against the delinquents nor loss was made good. Non-adherence to the commercial/operational procedures resulted in loss of Rs.159.22 million due to non-finalization of inquiry proceedings.

The matter was taken up with the management in Aug' and Nov' 2012 and reported to the Ministry from Sep' to Dec' 2012. In a meeting held on Dec' 21, 2012, the management replied that to assess the actual loss in shape of cash embezzlement, detailed audit was in hand with Internal Audit. After completion of detailed audit, FIRs and other disciplinary action would be taken accordingly. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-finalization of inquiry proceedings.

(Draft Para No. 45, 591 & 636/2013)

15.4.10 Non-recovery of overcharging from supplier due to cartelization - Rs.150.63 million

PESCO Board of Director in its 69th meeting held on Apr' 26, 2012 resolved to recover the overcharging made by M/s Siemens from 10% to 12% above due to the leniency granted to M/s Siemens in cartelization in procurement contracts with effect from 2008.

During audit of PESCO for the year 2011-12, it was revealed that electrical material worth Rs.157.91 million was procured from M/s Siemens (under ADB Loan No. 2438) during the year 2008 to 2012. As per BOD decision, an amount of Rs.150.63 million @ 10-11% on account of overcharging by M/s Siemens due to cartelization was to be recovered but no recovery has so far been effected. Non-compliance of BOD decision resulted in non-recovery of overcharging of Rs.150.63 million.

The matter was taken up with the management in Sep' and Nov' 2012 and reported to the Ministry in Nov' and Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 232/2013 & 459/2013)

15.4.11 Non-completion of long outstanding works - Rs.87.51 million

According paras 4.1.3 to 4.1.6 of Distribution Rehabilitation Guidelines Sep' 2003, "total time for approval of work, execution and preparation of completion report will be restricted to 130 days".

During audit of PESCO for the year 2011-12, it was revealed that the works of Rs.87.51 million were pending for completion since Jun' 2000 and these were not capitalized due to their non-completion. The status of these works was not sure and chances of theft/misappropriation of material were not ruled out. Non-adherence to distribution rehabilitation guidelines resulted in non-completion of works of Rs.87.51 million.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 392/2013)

15.4.12 Undue favour to the consumers on account of non-regularization of unauthorized extension of load - Rs.87.25 million

According to abridged condition-6 of supply of power, "in case of non-removal/non-regularization of un-authorized extended load, the supply to the consumer shall be disconnected".

During audit of PESCO for the year 2011-12, it was revealed that two hundred and seventy two (272) industrial/tubewell consumers had extended the load of the energy connections without approval of the competent authority. In violation of the abridged condition, the field formations neither disconnected the energy connections nor regularized the un-authorized extended load. Non-regularization of load provided undue favour of Rs.87.25 million to the consumers at the cost of Company's distribution system.

The matter was taken up with the management in Aug' & Oct' 2012 and reported to the Ministry from Sep' to Dec' 2012. In a meeting held on Dec' 21, 2012, the management replied that notices had been issued to the consumers to either remove un-authorized extension of load or get it regularized. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.46/2013, 120/2013, 156/2013, 214/2013, 216/2013&328/2013)

15.4.13 Loss of revenue due to non-finalization of detection charges - Rs.56.54 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, "Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) Efficient application of billing and collection procedures".

During audit of PESCO for the year 2011-12, it was revealed that nine hundred and nine (909) consumers were detected for theft and other metering discrepancies. Out of which only ninety two (92) cases were assessed for debiting of energy charges. Whereas eight hundred and seventeen (817) detected consumer cases were not finalized resulted in loss of revenue of Rs.56.54 million on average basis. Violation of the commercial procedure resulted in loss of revenue of Rs.56.54 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 517/2013)

15.4.14 Non-recovery of energy charges - Rs.56.28 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, "Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) Efficient application of billing and collection procedures".

During audit of PESCO for the year 2011-12, it was revealed that an amount of Rs.56.28 million on account of energy charges was outstanding against one hundred and twenty seven (127) consumers since long. Neither the recovery was made nor any departmental action taken against the defaulters. Non-adherence to the commercial operating procedure resulted in non-recovery of energy charges of Rs.56.28 million.

The matter was taken up with the management in Aug' – Oct' 2012 and reported to the Ministry in Oct' – Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 139, 173, 213, 353 & 363/2013)

15.4.15 Unjustified issuance of material – Rs.48.29 million

According to Section-III-C (1) of Book of Financial Powers, "deposit works shall be undertaken only after getting full amount of sanctioned work estimated deposits with WAPDA, with an undertaking from the depositor to meet any variation."

During audit of PESCO for the year 2011-12, it was found that material amounting to Rs.48.29 million was drawn against various village electrification schemes of PF-65 D.I. Khan during Jun' 2010 without having release of funds against the said schemes in violation of rules. The material was shifted to site on verbal direction of the Chief Executive Officer, PESCO. Non-adherence to rules resulted in irregular issuance of material worth Rs.48.29 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 557/2013)

15.4.16 Loss due to non-recovery of advances from suppliers - Rs.41 million

According to the instructions issued by WAPDA dated Jul' 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 audit of PESCO for the year 2011-12, it was revealed that an amount of Rs.41 million were given to suppliers / contractors as advances for supply of material. The suppliers could not supply the material against advances and their contracts were cancelled / terminated. The amount of security was also forfeited but the advances were not recovered from suppliers. Non-implementation of rules resulted in loss due to non-recovery of advances amounting to Rs.41 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery advances from suppliers besides fixing responsibility.

(Draft Para No. 327/2013)

15.4.17 Blockade of public funds - Rs.39.79 million

According to Para 4.1.3 to 4.1.6 of Distribution and Rehabilitation Guidelines, "total time will be restricted to 130 days (i.e. from approval of proposals, inspection and completion certificate). The officers relating to works of construction / supervision of works will share delay beyond 130 days".

During audit of PESCO for the year 2011-12, it was revealed that funds amounting to Rs.4.46 billion were received from Government of Pakistan during the period 2002 to 2008 against 11,407 schemes under KPP-1/KPP-11/TSP/CMD programs. Forty six (46) schemes amounting to Rs.39.79 million were still incomplete despite having funds received against them. As per record some materials was issued against these schemes but were still in progress. Non-adherence to rules resulted in blockade of funds amounting to Rs.39.79 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 21, 2012, the management replied that on the directives of the PM secretariat, the surplus funds had been adjusted against future new schemes and because of which, the surplus funds were not surrendered. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 598/2013)

15.4.18 Loss due to misappropriation of material - Rs.39.39 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 audit of PESCO for the year 2011-12, it was revealed that material of BOQ items drawn was found missing/not installed at site against thirty nine (39) works orders. Thus, the material amounting to Rs.39.39 million was misappropriated. Non-implementation of rules for safeguarding the assets of the Company resulted in loss due to misappropriation of material worth Rs.39.39 million.

The matter was taken up with the management from Aug' to Sep' 2012 and reported to the Ministry in Oct' and Dec' 2012. In a meeting held on Dec' 21, 2012, the management replied that joint inspection would be carried out with the M/s Barqaab and final reply would be submitted to Audit. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 111/2013 & 391/2013)

15.4.19 Unjustified expenditure on engagement of consultant - Rs.33.78 million

According to rule 21 of PPRA Rules, "the procurement agencies shall engage in open competitive bidding". Further, Clause-3 D (i) (d) of Procurement of Consultancy Services Regulations, 2010, "Single source or direct selection of consultant will be made where only one consultant is qualified or has experience of exceptional worth."

During audit of PESCO for the year 2011-12, it was revealed that the management, in violation to rules, hired M/s BARQAB consultants in 2004 and 2009 to provide consultancy services for Rural Electrification Project (REP), System Augmentation Program (SAP) and Deposit Works by direct contracting despite the fact that nature and scope of work fell within the ambit of the duties of the engineers of the Company and such services were also available from alternative sources. Non-adherence to rules / regulations resulted in un-justified expenditure of Rs.33.78 million due to engagement of consultant.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Oct' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 110/2013)

15.4.20 Non-recovery of excess cost of completed works - Rs.12.95 million

According to Section-III-C(1) of Book of Financial Powers, "Deposit works shall be undertaken only after getting full amount of sanctioned work estimated deposits with WAPDA, with an undertaking from the depositor to meet any variation."

During audit of PESCO for the year 2011-12, it was revealed that an amount of Rs.66.59 million was incurred on one hundred and eighteen (118) works against an estimated cost of Rs.53.64 million. The excess expenditure Rs.12.95 million over deposit amount was incurred without obtaining funds from the Government besides its administrative approval of revised estimates (variation more than 10%) from the competent authority. Non-adherence to rule resulted in non-recovery of excess expenditure of Rs.12.95 million.

The matter was taken up with the management in Aug’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 389/2013)

15.4.21 Non-refund of savings on PSDP works - Rs.12.74 million

According to General Financial rules (GFR)-95 “all anticipated savings should be surrendered to Government immediately they are foreseen but not later than 31st March of each year in any case. Unless they are required to meet excesses under some other unit or units which are definitely foreseen at the time (see paragraph 98). However, savings accruing from funds provided after 31st March shall be surrendered to Government immediately they are foreseen but not later than 30th Jun’ of each year. No savings should be held in reserve for possible future excesses”. Further, “the Public Accounts Committee expressed serious concerns on non-adherence to this provision of GFR duly circulated by Deputy Chief Auditor memo No. DPS/503-Policy/PAC/1883 dated Apr’ 18, 2011 for compliance”.

During audit of PESCO for the year 2011-12, it was revealed that one hundred and twelve (112) schemes of different programs were completed by incurring Rs.60.52 million against estimated cost of Rs.73.259 million. The saving Rs.12.74 million was to be refunded to the Government of Pakistan as per rule which was not done. Non-adherence to rules resulted in non-refund of savings of Rs.12.74 million.

The matter was taken up with the management in Aug’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 390/2013)

15.4.22 Non-energization of completed works - Rs.10.83 million

According to Chapter 4 of Distribution Rehabilitation Guidelines, “total time will be restricted to 130 working days (i.e. from approval of proposal to inspection / completion certificate); the officer will share any delay beyond this.”

During audit of PESCO for the year 2011-12, it was revealed that eighteen (18) water supply schemes of Public Health Engineering (PHE), Malakand valuing Rs.10.83 million were completed during the period 1997 to

2011 but these schemes were not energized. Non-energization of schemes may lead to theft/misappropriation of material. Non-adherence to the Distribution Rehabilitation Guidelines resulted in non-energization of completed works amounting to Rs.10.83 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Oct' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 112/2013)

15.4.23 Loss due to defective work amounting to Rs.8.53 million and non-recovery of liquidated damages – Rs.0.85 million

According to clause GCC 49.1 Section VI read with clause 49.1 Sections V General Condition of contract, "the Contractor shall pay liquidated damages to the Employer for each month @ 2% per month that the completion date is later than the intended completion date. The total amount of liquidated damages shall not exceed 10% of the final contract price.

During audit of PESCO for the year 2011-12, it was revealed that a work amounting to Rs.8.53 million for construction of "Control house building, electrical equipment foundation, transformer bay and switch yard fencing at 132 KV Grid Station Dhobian" was awarded to M/s Wisal Muhammad & Co, on October 05, 2009. The contractor could not complete the work within stipulated period. The work done by the contractor was declared as below specification / poor as reported by the Deputy Manager, Vigilance, PESCO. Further, the Project Director recommended for imposition of liquidated damages @10% of the contract price, rectification of work at contractor's risk and cost alongwith charge sheet to the Overseer and Sub-Divisional Officer on July 13, 2011. Poor management resulted in loss due to defective work amounting to Rs.8.53 million and non-recovery of liquidated damages amounting to Rs.0.85 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 300/2013)

15.4.24 Loss due to non-recovery of penalty from persons at fault - Rs.8.29 million

According to the instructions issued by WAPDA dated Jul' 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 audit of PESCO for the year 2011-12, it was revealed that seventy four (74) officers/officials were held responsible for misappropriation/theft of material and financial irregularities by the inquiry committees and penalties amounting to Rs.8.29 million were imposed on them during the period January 2007 to July 2012. The recovery was still outstanding against delinquent officers/officials. Non-adherence to the recommendations of the inquiry committees and violation of above instructions resulted in loss due to non-recovery of Rs.8.29 million.

The matter was discussed with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 456/2013)

15.4.25 Loss due to payment of interest on un-used funds drawn from ADB loan - Rs.8.07 million

According to loan agreement with ADB, PESCO has to pay interest @ 17% per annum on the principal amount of loan.

During audit of PESCO for the year 2011-12, it was revealed that an amount of US$ 1.00 million and US $0.97 million was drawn as imprest money from ADB Loan No. 2438 on Oct' 09, 2009 and Nov' 15, 2010 respectively. Out of which an amount of US$ 1.97 million was remained un-used for one and half year. Due to non-utilization of funds drawn as imprest money. Poor financial management resulted in loss of Rs.8.07 million due to payment of interest on un-used funds drawn from ADB loan.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 288/2013)

15.4.26 Loss due to levy of commitment charges on un-utilized ADB loan – Rs.7.16 million

According to Article-II, Section 2.03 of the loan agreement with ADB, "the borrower shall pay commitment charges of 0.15% per annum. Such charge shall accrue on the full amount of the loan (less amounts withdrawn from time to time), commencing sixty (60) days after the date of this Loan Agreement."

During audit of PESCO for the year 2011-12, it was revealed that an amount of Rs.14.91 million of ADB Loan No. 2438 remained un-used since the start date of loan agreement i.e. Nov' 29, 2008. Accordingly, commitment charges @0.15% per annum amounting to Rs.7.16 million was levied deducted on the un-spent balance by ADB as per loan agreement. Poor management resulted in loss due to levy of commitment charges on utilized of funds worth Rs.7.16 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 326/2013)

15.4.27 Loss due to non-recovery of cost of damage power transformer - Rs.6.50 million

According to the instructions issued by WAPDA dated Jul' 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 audit of PESCO for the year 2011-12, it was revealed that a 10/13 MVA power transformer installed at 132 KV Grid Station Sakhi Chashma was damaged during 2009-10. As per findings of departmental inquiry committee, the power transformer was damaged due to negligence/carelessness of the staff. A claim was lodged with Director Insurance WAPDA Lahore, which was turned down in the light of the findings of inquiry committee, according to which LS, SSO & AMO were held responsible for damage of power transformer due to negligence and carelessness. Non-adherence to standard operating procedure (SOP) and non-implementation of findings of enquiry committee resulted in loss of Rs.6.50 million.

The matter was brought to the notice of the management in Apr' 2012 and reported to the Ministry in Jun' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery from responsible besides taking action against them.

(Draft Para No.13/2013)

15.4.28 Loss due to procurement of substandard material - Rs.5.89 million

According to bidding documents for Lot-III T&P items, "the material was to be as per WAPDA specification amended to-date with the country of origin European or USA".

During audit of PESCO for the year 2011-12, it was revealed that a bid for European or USA made electrical material having WAPDA specification to date was called for. M/s Lifting Equipment quoted the rate for un-branded China made material having standard equivalent to Europe/Japan. Having disregard to the specification, the bid of supplier was accepted after bidding evaluation by amending the Clause-B of L.O.I that sample must be approved from PESCO technical committee (excluding any representative from NTDC) before issuance of purchase order. After visual approval of the committee, purchase order amounting to Rs.5.89 million was issued on Oct' 30, 2012 (10 months after opening of tender). Hence, the substandard material was procured. Violation of the bidding specification resulted in procurement of substandard material Rs.5.89 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 596/2013)

15.4.29 Improper utilization of ADB loan - Rs.5.6 million

According to Para-10 (i) Chapter-2 of General Financial Rules, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of PESCO for the year 2011-12, it was revealed that a low bed trailer with prime mover valuing Rs.5.6 million was procured from M/s Automobile Corporation of Pakistan, Karachi. The trailer was handed over to Deputy Manager Warehouse Jamrud on Mar' 03, 2012. The trailer could not be used due to its extra ordinary length (85 feet) as it could not enter in most of the grid stations. Poor planning and financial management resulted in improper utilization of resources amounting to Rs.5.6 million.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry in Nov’ 30, 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 284/2013)

15.4.30 Non-recovery of assessed units due to non-debiting to consumers - Rs.5.02 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, “Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) Efficient application of billing and collection procedures”.

During audit of PESCO for the year 2011-12, it was revealed that 629,714 energy units valuing Rs.6.30 million were assessed in ninety one (91) consumers cases on account of theft / discrepancies but the field formations only debited an amount of Rs.1.28 million. Non-adherence to commercial procedure resulted in non-recovery of cost of energy units of Rs.5.02 million.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 458/2013)

15.4.31 Loss due to less billing - Rs.3.50 million

Government vide its SRO No. 510(I)2012, dated May 16, 2012 revised the electricity tariff rate for consumers under the jurisdiction of PESCO with immediate effect.

During audit of PESCO for the year 2011-12, it was revealed that an amount of Rs.3.50 million was less billed to the consumers of various categories during the month of Jun’ 2012 due to application of old rates. The consumers were required to be billed according to the revised rates as notified by the Government but the same was not done. Non-adherence to the electricity tariff resulted in less billing to the consumers amounting to Rs.3.498 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 304/2013)

15.4.32 Loss due to low profit rate on invested amount - Rs.3.24 million

According to Ministry of Finance OM No.F4(1)/2002-BR-II, dated Jul' 02, 2003 in which instructions for depositing surplus funds of Public Sector enterprises/autonomous bodies are conveyed that "in case total working balance exceeds Rs.10 million, not more than 50% of such balance, shall be kept with one bank".

During audit of PESCO for the year 2011-12, it was revealed that an amount of Rs.81.02 million was deposited into ABL, Soikarno Chowk branch Peshawar at the Profit rate of 8% only without any bidding or market comparison of profit rate. Besides violation of above instructions, PESCO sustained a loss of Rs.3.24 million as a difference of profit rate from 8% to 12% per annum.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 301/2013)

15.4.33 Unjustified payment on account of cost of rejected material - Rs.3.17 million

Clauses 8 & 14 of Notification of Award lay down that "the delivery of material shall be completed within 150days from the date of signing of the contract. Delivery period is the essence of the contract and delivery must be completed within the dates specified." and "to cancel the contract in whole or in part at contractors risk and cost in pursuance of clause 35 of General Contract Conditions."

During audit of PESCO for the year 2011-12, it was revealed that a contract for "Procurement of 132 KV Lightning Arresters" was signed with M/s EMCO Industries Limited on Jun' 18, 2010. The supplier could not meet the stipulated delivery date. After the expiry of due date, the contractor could only manage "twenty (20) 132 KV Lightning Arrestors with all accessories" for supply which were rejected by the pre-shipment inspection on Jun' 25, 2012 as these were not according to the specifications. Non-adherence to contractual clauses resulted in unjustified payment of Rs.3.17 million on account of cost of rejected material.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Nov' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 234/2013)

15.4.34 Loss due to transformers damaged under warranty period - Rs.3.15 million

According to Clause-9 (Warranty) of the Purchase Orders, "the material damaged/become defective during warranty period is to be substituted with new ones or get repaired at the cost and expense of the suppliers".

During audit of PESCO for the year 2011-12, it was revealed that ten (10) transformers of various capacities worth Rs.3.15 million were damaged under warranty period. The transformers were sent to the manufacturer for repair/replacement but despite a lapse of more than one year, neither the damaged transformers were repaired nor replaced with the new transformers. Non-adherence to contract clause resulted in loss of Rs.3.15 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 457/2013)

15.4.35 Non-deduction of liquidated damages of Rs.3.01 million and non-forfeiter of performance security – Rs.0.48 million

According to contract clause 27.1, "the maximum amount of liquidated damages shall be ten percent 10% of the contract price".

During audit of PESCO for the year 2011-12, it was revealed that a work amounting to Rs.4.44 million was awarded to contractor for construction of electrical equipment foundation for conversion of existing 66 KV Grid Station Hangu into 132 KV Grid Station with completion period of 120 days. The contractor could not complete the work despite lapse of 3 years, applied for cancellation of work order and release of performance security on Feb' 10, 2012. The management assigned him the left over work for Rs.2.56 million on Jan' 01, 2012 with a completion period of 45 days. The contractor again failed to complete the work within stipulated period. Poor management resulted in non-deduction of liquidated damages amounting to Rs.3.01 million and non-forfeiture of performance security valuing Rs.0.48 million.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 302/2013)

15.4.36 Loss due to unjustified release of liquidated damages -Rs.2.69 million

According to purchase procedure delivery clause 14(3), “extension in delivery period shall not be allowed as a matter of routine as and when demanded by the contractor/supplier. Only in exceptional cases when the delay occur due to delay in inspection”.

During audit of PESCO for the year 2011-12, it was revealed that a purchase order amounting to US $ 781,853 for supply of 132 KV Steel Tubular Poles was issued to supplier on Aug’ 08, 2008 with delivery period upto Apr’ 1, 2010. The firm could not meet with the delivery period and L.D amounting to Rs.2.69 million was deducted. Afterwards the extension of time in delivery period was granted for 152 days without LD. The firms was equally responsible for contributing the delay for holding the passport of PESCO/NTDC inspector deliberately for two months. Violation of purchase procedure resulted in loss of Rs.2.69 million due to unjustified release of LD.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter at higher level besides fixing responsibility.

(Draft Para No. 628/2013)

15.4.37 Loss due to purchase of defective meters - Rs.1.98 million

According to purchase order clause 32, “the supplier will furnish a warranty certificate, certifying that the goods supplied conform exactly to the specifications laid down in the purchase order/ contract and are brand new and in the event of material being found defective or not conforming to the specification governing supply at the time of delivery and for a period of 12 months from the date of completion of supply, the supplier will be held responsible for all losses and that the un-acceptable goods shall be substituted with the acceptable goods at the supplier expense and cost. The material damaged during warranty period is to be substituted with new one or repaired at cost and expenses of the supplier".

During audit of PESCO for the year 2011-12, it was revealed that two hundred and ninety three (293) low tension time of use (LT TOU) meters and one hundred and eighty five (185) 3-Phase energy meters were sent to manufacturer for repair and downloading of data on Oct' 28, 2011. The supplier could only manage to download 183 LT TOU meters while the rest were (110 LT TOU & 185 3-Phase meters) sent with the remarks that these meters could not be down loaded due to lack of technical expertise. The management could neither get the meters repaired nor replaced from suppliers/manufacturers. Poor management resulted in procurement of defective meters valuing Rs.1.98 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 460/2013)

15.4.38 Loss due to award of contract in violation of PPRA Rules - Rs.1.78 million

According clause-38 of PPRA Rules, "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 audit of PESCO for the year 2011-12, it was revealed that tenders for procurement of electrical material under the package ADB-PESCO-02-2011 (Lot-II) were opened on July 04, 2011 where two bidders participated and the contract was awarded to 2nd lowest bidder for Rs.9.56 million instead of to the 1st lowest bidder for Rs.7.78 million. Non-observance of PPRA Rules resulted in loss of Rs.1.781 million (Rs.9.56 million – Rs.7.78 million) due to award of contract by ignoring 1st lowest bidder.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Nov' 2012. In a meeting held on Dec' 21, 2012, the management replied that evaluation committee declared 1st lowest bidder as non-responsive due to some discrepancies and recommended the 2nd lowest bidder for award of contract. The reply was not tenable as no documentary evidence i.e. evaluation committee's report was provided till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No. 233/2013)

15.4.39 Industrial connections running at site without payment of dues - Rs.2.96 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, "Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) Efficient application of billing and collection procedures".

During audit of PESCO for the year 2011-12, it was revealed that twenty two (22) industrial consumers were defaulters for Rs.2.96 million for the period ranging from three (03) months to eight (08) years. Neither the connections were disconnected nor any efforts made to recover the amount of energy charges from the defaulters. Non-adherence to commercial operating procedure resulted in loss of Rs.2.96 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Nov' 12, 2012. It was discussed in Pre-DAC meeting held on December 21, 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 212/2013)

15.4.40 Less recovery of security deposits – Rs.1.73 million

According to notification issue vide No.SRO-04(1)/2011 dated Jun' 03, 2011 and PESCO No.346-32 dated Jan' 21, 2011, "the Government of Pakistan / PESCO has notified the revised rates of security deposits for the connections against various tariff".

During audit of PESCO for the year 2011-12, it was revealed that fifty (50) electricity connections were approved / installed but security deposits amounting to Rs.1.73 million were less charged despite revision of rates. Non-adherence to SRO resulted in less recovery of security deposits of

Rs.1.73 million.

The matter was taken up with the management in Aug’ 2012 and reported to the Ministry in Oct’ 22, 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 169/2013)

15.4.41 Non-recovery of energy charges due to billing at less rates - Rs.1.66 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, “Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) Efficient application of billing and collection procedures”.

During audit of PESCO for the year 2011-12, it was revealed that street light connections running under Tehsil Municipal Officer (TMO), Mansehra were charged at less rates for the period Jul’ 2007 to Sep’ 2009. Non-adherence to the commercial operating procedure resulted in non-recovery of energy charges amounting to Rs.1.66 million.

The matter was taken up with the management in Aug’ 2012 and reported to the Ministry in Oct’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 123/2013)

15.4.42 Loss due to opening of transformers damaged under warranty period - Rs.1.34 million

According to Standard Operating Procedure (SOP), “the damaged under warranty period are required to be returned to stores un-tempered for claiming the replacement / repair from the supplier / manufacturer”.

During audit of PESCO for the year 2011-12, it was revealed that five (5) distribution transformers valuing Rs.1.34 million damaged during warranty period were required to be returned to firms for replacement but the transformers were opened unauthorizedly by LS-I and checked by M&T staff by issuing test results and returned to field store. The firms did not accept the transformers opened during warranty. Violation of operational rules resulted in loss of Rs.1.34 million due to negligence of field staff.

The matter was discussed with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 570/2013)

15.4.43 Blockade of revenue due to non-billing to new industrial consumers – Rs.1.13 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, "Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) Efficient application of billing and collection procedures".

During audit of PESCO for the year 2011-12, it was revealed that seven (7) new industrial connections were running without billing. Non-adherence to the commercial procedures resulted in blockade of revenue amounting to Rs.1.128 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 351/2013)

15.4.44 Loss due to missing of lockout relay panel - Rs.1.00 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 audit of PESCO for the year 2011-12, it was revealed that One tripping & lockout relay was found missing from material supplied by M/s Siemens. The management could neither detect the short supply / missing of material in time nor received from the supplier. Poor management resulted in loss of Rs.1.00 million due to missing of electrical material.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry in Nov’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 281/2013)

CHAPTER-16

QUETTA ELECTRIC SUPPLY COMPANY LIMITED (QESCO)

(339-356)

16. QUETTA ELECTRIC SUPPLY COMPANY LIMITED

16.1 Introduction

Quetta Electric Supply Company Limited (QESCO) started its operations as a Public Limited Company, registered under Companies Ordinance 1984 in May, 1998. The company had obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The company purchases electricity from NTDC and sells it to the consumers of the whole Baluchistan area except Lasbela.
There were only two sources of electricity supply to QESCO. Makran Regional Network which consists of Turbat Division with four sub divisions Turbat, Tump, Gawdar and Panjgur, obtains electricity from Iran while the rest of Baluchistan area except Lasbella feeded from Single 220 KV Transmission Source, which can be divided in to three segments i.e. 220 KV Guddu-Uch-Sibi.

The jurisdiction of QESCO includes three operation circles, one project construction circle, one grid system construction circle and one grid system operation circle

16.2 Comments on Financial Statement

16.2.1 Financial Overview

The financial statements of the Company are required to be approved within four month from the end of financial year. The Company could not issue the approved Annual Report within the time frame stipulated in the Companies Ordinance, 1984. Non-compliance with the relevant provisions of Companies Ordinance, 1984 reflect, the inefficiency on part of management and needed justification.

The Company provided draft/unapproved financial statements to this Directorate. Therefore, reliability of the financial information cannot be ensured as the Company can incorporate significant adjustments into the balances appearing in the draft financial statements. The following comments/analysis was prepared on the unapproved financial statement.

Monthly accounts (Trial Balance and other management information schedules) from 36 accounting units were sent to Finance Director QESCO where these accounts were consolidated and Financial Statements like Balance Sheet, Profit and Loss Account and Cash Flow Statements were prepared. The financial results along-with the financial ratios were as under:

16.2.2 Extracts of the Financial Statements[14]

Balance Sheet as at Jun' 30, 2012

(Rupees in millions)

	2011-12	%	2010-11	%	2009-10
Share capital and reserves					
Accumulated Loss	(42,652.62)	(10.07)	(38,751.66)	9.34	(35,441.15)
Non-current liabilities					
Long term Financing	25,361.71	785.16	2,865.20	60.95	1,780.19
	33,596.23	210.04	10,835.93	23.23	8,793.45
Current liabilities					
Trade and other Payables	107,491.25	23.91	86,751.80	10.39	78,584.01
	110,900.00	**55.54**	**71,301.22**	**10.76**	**64,388.71**
Assets					
Non-current assets					
Operating fixed assets	25,490.75	14.19	22,322.37	15.49	19,327.69
Current assets					
Trade debts	53,437.29	102.22	26,424.88	8.83	24,280.58
Loans and advances	5,893.61	137.69	2,479.53	189.05	857.82
Other receivables	21,752.64	35.71	16,029.30	2.97	15,567.39
Cash and Bank balances	1,605.39	100.65	800.11	(54.97)	1,777.02
	85,357.77	74.44	48,933.55	8.69	45,020.64
	110,900.00	**55.54**	**71,301.22**	**10.74**	**64,388.71**

Profit and Loss Account
For the year ended Jun' 30, 2012

	2011-12	%	2010-11	%	2009-10
Revenue					
Electricity sale	47,123.93	7.25	43,939.22	3.84	42,315.63
Cost of electricity	49,769.59	29.99	38,288.15	3.48	37,001.48
Gross profit/(Loss)	**(2,645.66)**	**(146.82)**	**5,651.08**	**6.34**	**5,314.15**
Operating expanse	3,142.55	(71.39)	10,982.97	34.59	8,160.04
Other income	2,026.65	(6.99)	2,178.85	535.14	343.05
Finance cost	1.78	(97.65)	75.91	(60.83)	193.79
Accumulated loss bought forward	(3,763.34)	(16.55)	(3,228.95)	(19.74)	(2,696.63)
Taxation	137.63	68.77	81.55	122.28	36.69
Profit/(Loss) for the year	**(3,900.96)**	**17.84**	**(3,310.50)**	**21.12**	**(2,733.32)**

16.2.3 Financial Ratios

The summary of ratios calculated for three financial years are as under:

COMPANY		**QESCO**		
YEAR		**2011-2012**	**2010-2011**	**2009-2010**
Profitability Ratios				
Return on Capital Employed	%	-319.93	-17.63	-15.36
Gross Profit Margin	%	-5.61	12.86	12.56

[14] *The analysis is performed on the un audited financial statements provided by the Company.*

Net Profit Margin	%	-8.28	-7.53	-6.46
Asset Turnover Ratio	times	13.94	-2.84	-2.98
Return on Total Assets	%	-3.52	-4.64	-4.25
Short Term Liquidity Ratio				
Current Ratio	times	0.79	0.56	0.57
Working Capital Ratios				
Debtors Turnover Period	days	414	220	209
Creditors Turnover Period	days	788	827	775
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	22.87	4.02	2.76
Gearing Ratio	%	2157.09	-16.03	-10.92
Leverage Ratio	%	-2569.88	147.17	141.14
Interest coverage	%	-2,112.18	-41.53	-12.92

16.2.4 Ratios Analysis

16.2.4.1 Profitability

Profitability ratios of the company showed the worst position ever faced by the company. During the current financial year the gross profit ratio turned to negative whereas the net profit ratios remained negative due to huge loss in the year.

i) Gross profit ratio

Ratio declined significantly i.e. (5.61%) loss as compared to 12.86% profit during the financial year 2010-2011. The Company suffered gross loss of Rs.2,645.66 million during the financial year 2011-12, as against gross profit of Rs. 5,651.15 during the financial year 2010-2011. Financial statements reflected that the electricity sales of the company increased by 7.25%, whereas cost of electricity increased by 30%. The proportionate increase in the cost of sales was higher than the increase in sales, resulting in gross loss for the Company.

The line losses of 46 sub divisions of the Company ranged from 10% to 36.74%, resulting in high cost of electricity.

The abnormal increase in the cost of sales, resulting in significant increase in gross loss of the company needed to be explained.

ii) Net profit Ratio

The company suffered accumulated losses of Rs.42,652.62 million, out of which Rs.3,900.96 million was incurred during the present financial year.

This indicated that the operational efficiency of the Company remained highly unsatisfactory. The operational loss was mainly due to increase in the cost of sales, as referred above and operating expenses.

The Net Profit ratio declined to (8.28%) net loss as compared to net loss of (7.53%) for the financial year 2010-11.

The company could not manage its expenses including line losses due to which the cost of electricity and indirect expenses increased significantly. The expenses increased to such a huge amount that the relative revenue generated from sales and other income could not offset the impact.

iii) Return on total assets

The return on total assets remained negative i.e. (3.52%) negative return of (4.64%) during the financial year 2010-2011. This reflected that the Company was not utilizing its assets efficiently to generate desired rate of return which needs to be explained.

16.2.4.2 Short Term Liquidity

i) Current ratio

The company's current ratio increased to 0.79 from 0.56. The current ratio improved due to increase in trade debts. It is worth mentioning here that the trade debts increase by 102%, due to which the ratio reflected improved results.

The Company did not hold adequate liquid assets required to settle its short term liabilities which needs to be explained.

16.2.4.3 Working Capital Cycle

i) **Debtor turnover period**

The trade receivables increased significantly i.e. by 102% over the previous year. In addition to that, the debtors' turnover period increased to 414 days (220 days in 2010-11 and 209 days in 2009-10). Moreover, the company created a provision for bad debts amounting to Rs266.54 million during the present financial year.

An increase in accounts receivable, debtor's turnover period and creation of provision for doubtful debts with a significant amount reflected inefficient collection procedures and poor administration of trade debts, resulting in loss of revenue to the Company and ultimately worsening liquidity position.

Delays in collection from debtors had trickled own effect on the creditor's turnover period which increased to 788 days (827 days: 2010-2011).

The increase in accounts receivable and accounts payable indicated continuing cash flow shortage that resulted in persistent working capital financing problems for the Company. Poor management of debtors and creditors' turnover period and creation of provision for doubtful debts needs to be explained.

16.2.4.4 Gearing, leverage and interest coverage ratios

The Long term financing of the company increased significantly i.e. by 785.16% over the previous year. The trade and other payables increased by 24% and the creditors' turnover period was 788 days. Significant increase in the non-current and current liabilities reflected that the Company encountered the liquidity problems and the management had not taken adequate remedial action to address the issue.

The financial position of the Company deteriorated during the past few years as depicted in the summary of ratios mentioned above.

The gearing ratio reflected distorted results due to huge amount of accumulated losses suffered by the Company. Significant increase in long term financing and current liabilities reflected liquidity problems which indicated flow risk for the Company. The Company heavily relied on the external sources to finance its operations instead of funding the operations out of resources generated from its operations.

Reliance on borrowings/ loans and payment of huge financial charges was required to be explained.

16.2.5 Recommendations:

The above analysis showed that the profitability, liquidity and solvency position of the Company deteriorated with an exceptionally high rate. In order to finance the operations, Company would heavily rely on financing from external sources which would aggravate the liquidity position. If these conditions would prevailed, the Company would require heavy funding from the Government to maintain going concern status.

In view of the forgoing, the Company should revamp its organizational structure and address operational issues, being the major cause of losses. In addition to that, the Company should also restructure its financial arrangements by funding its operations from cheap sources of finance, resulting in low interest cost.

The line losses, being the major cause of losses is required to be addressed at higher level. There is a dire need to develop a policy to address the heavy line losses and to ensure the inflow of funds in the form of revenue.

The issue of huge receivables from Government and private consumers requires due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

16.3 AUDIT PARAS

16.3.1 Embezzlement of revenue due to bogus posting - Rs.15 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, "Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) Efficient application of billing and collection procedures".

During audit of QESCO for the year 2011-12, it was revealed that credit for Rs.15 million was afforded to two consumers against the payment made from government connections by a Line Superintendent by making forgery/overwriting on reference numbers as was confirmed from the initial inquiry of the department. Neither any detailed high level inquiry was conducted nor any legal action found taken against the responsible to make good the loss caused by forgery in accounting record. Non-adherence to commercial operating procedures resulted in embezzlement of Rs.15 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Nov' 2012. In a meeting held on Dec' 21, 2012, the management replied that the amount credited had been re-debited to concerned consumers and constitution of inquiry committee was in process. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 287/2013)

16.3.2 Loss due to embezzlement of revenue by the Company's officer - Rs.1.15 million

According to the instructions issued by WAPDA dated Jul' 17, 1982 "all losses whether of public money or of store, 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 audit of QESCO for the year 2011-12, it was revealed that an amount of Rs.1.15 million was misappropriated by the XEN Turbat fraudulently in three (3) consumer cases from Jun' to Aug' 2011 as depicted from inquiry report. The XEN Turbat was fully responsible for this embezzlement but the financial loss to the Company was neither recovered nor the disciplinary action was taken against the officer concerned. Poor financial management resulted in loss of Rs.1.15 million due to embezzlement of revenue by the XEN.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 21, 2012, the management replied that the matter was under inquiry/investigation. As and when the findings of the inquiry committee were received the results would be intimated to Audit. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 625/2013)

16.3.3 Loss due to illegal agriculture tube well connections - Rs.137.12 million

According to the instructions issued by WAPDA dated Jul' 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 audit of QESCO for the year 2011-12, it was revealed that six thousand, five hundred and thirty four (6,534) agricultural connections were running at sites illegally which resulted in loss of Rs.137.12 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 21, 2012, the management replied that some cases had been regularized, DNs issued and FIRs lodged while remaining cases were under process for regularization. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.441/2013)

16.3.4 Loss due to theft of electrical material - Rs.1.72 million

According to the instructions issued by WAPDA dated Jul' 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 audit of QESCO for the year 2011-12, it was revealed that in five (5) cases electrical material worth Rs.1.72 million was stolen. FIRs were lodged with the concerned police stations but no administrative action was taken to fix the responsibility of loss and to decide its fate. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs.1.72 million due to theft of material.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Nov' 2012. In a meeting held on Dec' 21, 2012, the management replied that FIRs in five (5) cases had been lodged and in one case, demand notice was issued. Constitution of enquiry committee was under process. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 257/2013)

16.3.5 Huge receivables amount from energy defaulters - Rs.49.63 billion

According to the Office letter No.320-30/GM (C&M)/P/CE(O)/Stat/130 dated Jun' 14, 2012 circulated by General Manager C&M PEPCO, "special efforts are required during the remaining days of Jun' 2012. Running defaulters/ disconnected defaulters need physical checking for effective recovery."

During audit of QESCO for the year 2011-12, it was revealed that an amount of Rs.49.63 billion was receivable from 156,146 energy defaulters (Government & Private) for a period exceeding from six months i.e. from Dec' 31, 2011 upto more than three years. In this respect, no efforts were made by the management to accelerate the recovery from defaulters. Owing to the increasing trend of receivables, PEPCO was facing financial difficulties in discharging its obligations towards Power Sector Companies (PSC) and Independent Power Producers (IPPs). Non-recovery from energy defaulters resulted in blockage of Rs.49.63 billion.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Jan' 2013. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 654/2013)

16.3.6 Non-removal of electrical equipment and non-recovery of outstanding energy charges - Rs.48.65 billion

Para-3 of authority's circular dated Apr' 15, 1998 lays down that "disconnections will be effected through removal of meters, transformers, span or any other equipment to ensure that no possibility of loop hole is left for unauthorized use of energy during the period of disconnection". The equipment after having been removed from site was required to be returned to store.

During audit of QESCO for the year 2011-12, it was revealed that an amount of Rs.48.65 billion was outstanding on account of energy charges against ninety six thousand nine hundred and eighty four (96,984) private and government consumers. Resultantly, Equipment Removal Orders (EROs) were issued but neither the transformers and other allied equipment were removed nor the arrear of energy charges recovered. Non-implementation of Authority's instructions resulted in non-removal of the transformers and allied material from the sites and non-recovery of outstanding energy charges of Rs.48.65 billion.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 21, 2012, the management replied that efforts were geared up to effect EROs as well as recover the outstanding dues. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 566/2013)

16.3.7 Excess payment on account of general sales tax - Rs.3.45 billion

According to Section-39 of Chapter-VI (Special Procedure for Collection and Payment of Sales Tax on Electric Power) o f Sales Tax Special Procedure Rules 2006, "in case of WAPDA and KESC, sales tax levied and collected under Rule-38 during a tax period shall be deposited on 'accrual basis' i.e. the amount of sales tax actually billed to the consumers or purchasers for the tax period."

During audit of QESCO for the year 2011-12, it was revealed that an amount of Rs.4.31 billion was paid to Sales Tax Department on accrual basis as per billed amount. Only Rs.858.51 million was recovered from the consumers on account of GST and remaining amount of Rs.3.45 billion could not be realized from the consumers. Implementation of Special Procedure for collection and payment of sales tax put an extra burden of Rs.3.45 upon the Company.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held in Dec’ 21, 2012, the management replied that the matter had already been taken up with FBR by PEPCO through Ministry of Water and Power. Further progress was not intimated till the finalization of this report.

Audit emphasizes vigourous pursuance of case with FBR besides fixing responsibility.

(Draft Para No561/2013)

16.3.8 Recurring loss due to non-recovery of 30% share of subsidy from Government of Baluchistan - Rs.2.70 billion

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, “Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) Efficient application of billing and collection procedures”.

During audit of QESCO for the year 2011-12, it was revealed that an amount of Rs.3.70 billion was not recovered from the Government of Baluchistan (GOB) on account of 30% share in the subsidy to facilitate the agriculture consumers w.e.f. Sep’ 2006. Non-recovery of long outstanding dues amounting to Rs.3.70 billion was a recurring loss to the company which was required to be investigated/recovered.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held in Dec’ 21, 2012, the management replied that the QESCO management was pursuing the matter with Government of Balochistan and Rs.1 billion remitted to QESCO during the month of November 2012. Recovery of Rs.1 billion was verified and amount of para was reduced to Rs.2.70 billion.

Audit emphasizes expeditious remaining recovery besides fixing responsibility.

(Draft Para No. 577/2013)

16.3.9 Loss due to abnormal line losses beyond the NEPRA’s targets - Rs.1.63 billion

NEPRA determined the targets of energy losses 18 % for the financial year 2011-12 for QESCO.

During audit of QESCO for the year 2011-12, it was revealed that 233.72 million units were lost on thirty eight (38) feeders as against target of (18%) 42.07 million units. Resultantly, 191.65 million units amounting to Rs.1.63 Billion were lost beyond the target fixed by NEPRA.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held in Dec’ 21, 2012, the management replied that NEPRA set the target for the company not for specific division. QESCO trying to manage the losses of various divisions to achieve NEPRA target for distribution losses at company level. The reply was not tenable as in observation feeder wise losses were discussed instead of division and company.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 626/2013)

16.3.10 Blockade of Company’s funds - Rs.218.98 million

According to para 5 of Memorandum dated Jan’ 17, 1978 on irregularities of purchases of stores and equipments, “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 audit of QESCO for the year 2011-12, it was revealed that the electrical material worth Rs.218.98 million procured from Mar’ 2010 to Aug’ 2011 from ADB loan was lying in stores. The material purchased without necessity / demand. Non-observance of rules regarding procurement of material and poor planning resulted in blockade of Company’s funds of Rs.218.98 million.

The matter was taken up with the management in Sep’ 2012 and reported to the Ministry on Nov’ 12, 2012. In a meeting held in Dec’ 21, 2012, the management replied that no unnecessary purchase of material was initiated. Due to the delay in delivery of line hardware, the pace of execution of work was slow, however, efforts were being made to expedite the completion of works. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.205/2013)

16.3.11 Undue favour to the consumers on account of non-regularization of unauthorized extension of load - Rs.18.21 million

According to abridged condition of supply of power, in case of non-removal/non-regularization of un-authorized extended load, the supply to the consumer shall be disconnected.

During audit of QESCO for the year 2011-12, it was revealed that sixty six (66) industrial consumers had extended the load of the energy connections without the approval of competent authority. In violation of the abridged condition, the field formations neither disconnected the energy connections nor regularized the un-authorized extended load. Non-regularization of load provided undue favour of Rs.18.21 million to the consumers at the cost of Company's distribution system.

The matter was taken up with the management in July and Oct' 2012 and reported to the Ministry in Oct' and Nov' 2012. In a meeting held in Dec' 21, 2012, the management replied that notices had been issued to the consumers either to remove un-authorized extended load or get it regularized. Progress / recovery would be intimated to Audit. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 127 & 256/2013)

16.3.12 Loss due to excess/shortage of material - Rs.5.32 million

According to the instructions issued by WAPDA dated Jul' 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 audit of QESCO for the year 2011-12, it was revealed that material worth Rs.2.73 million was found short and material worth Rs.2.59 million was drawn in excess of the estimates against fifteen (15) works as pointed out by the M/s BARQAAB consultants. Neither the departmental inquiry was conducted for fixing responsibility upon the defaulters nor recovery on account of shortage of material was made from them. Non-implementation of inventory management resulted in non-recovery of excess/shortage of material of Rs.5.32 million.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Sep' 2012. In a meeting held in Dec' 21, 2012, the management replied that in cases where material of one work was utilized on other work, it was carried out after fulfilling departmental formalities i.e. MRN/SRs. This resulted in shortage of material in one work and surplus in the other work. Subsequently when the material of the work, which was showing surplus material drawn, it was adjusted on the same principle on MRNs/SRs. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.43/2013)

16.3.13 Loss due to credit adjustment of wrong billing - Rs.5.13 million

According to Section 39 of Special Procedure for Collection and Payment of Sales Tax on Electric Power, "in case of WAPDA and KESC, sales tax levied and collected during a tax period shall be deposited on accrual basis i.e. the amount of sales tax actually billed to the consumer or purchasers."

During audit of QESCO for the year 2011-12, it was revealed that electricity units amounting to Rs.32 million were credited to the various consumers as a result of redressing the consumer complaints regarding excess / wrong billing. On these electricity receivables, the Company had already paid an amount of Rs.5.13 million as 16% GST in advance (i.e. on accrual basis). The amount of GST was neither claimed from Tax Department nor adjusted against fresh accruals. Poor financial management resulted in loss of Rs.5.13 million due to credit adjustment of wrong billing on account of GST.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Dec' 2012. In a meeting held in Dec' 21, 2012, the management replied that the matter would be taken up with FBR for the refund of GST for Rs.5.13 million. Further progress was not intimated till the finalization of this report.

Audit emphasizes vigorous pursuance of case with FBR besides fixing responsibility.

(Draft Para No.324/2013)

16.3.14 Excess payment on account of general sales tax - Rs.3.73 million

According to Section 14 of Chapter III (Special Procedure for Collection and payment of Sales Tax on Electric Power) of Sales Tax Special Procedure Rules 2007, "in case of WAPDA and KESC, sales tax levied and collected under Rule-13 during a tax period shall be deposited on 'accrual basis' i.e. the amount of sales tax actually billed to the consumers or purchaser for the tax period."

During audit of QESCO for the year 2011-12, it was revealed that credit of 0.53 million energy units costing Rs.23.29 million was given to consumers. This amount included GST of Rs.3.73 million which was paid by the company at the time of charging the bill i.e. on accrual basis. Neither the refund of GST was lodged with the FBR nor recovered from the consumers.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Oct' 2012. In a meeting held in Dec' 21, 2012, the management replied that the matter had already been taken up with FBR by PEPCO through Ministry of Water and Power. Further progress was not intimated till the finalization of this report.

Audit emphasizes vigourous pursuance of case with FBR besides fixing responsibility.

(Draft Para No. 128/2013)

16.3.15 Loss due to non-accountal of electrical material - Rs.3.17 million

According to Para 2.2 of Distribution Stores Manual "Sub-Divisions must not draw materials until they are needed. They are not allowed to hold any material which cannot be used immediately".

During audit of QESCO for the year 2011-12, it was revealed that electrical material worth Rs.3.17 million was drawn from stores but the same was not installed at sites. The record regarding consumption of material was not produced to audit as the same seems to had been misappropriated. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs.3.17 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Nov' 2012. In a meeting held in Dec' 21, 2012, the management replied that Mr. Muhammad Khalid (LS-II) and Mr. Sarfraz Ahmed (LS-II) were involved in non-accountal of material. They had been served with letter of explanation and the disciplinary case was under process. Further progress towards departmental action was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.258/2013)

16.3.16 Blockade of funds due to unnecessary procurement of stores - Rs.3.16 million

According to Para-5(a) of Memorandum of WAPDA Authority dated Jan' 17, 1978, "Purchases should be made only of 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 audit of QESCO for the year 2011-12, it was revealed that electrical material worth Rs.3.16 million purchased from Apr' 2007 to Dec' 2011 was lying unused in stores. The material purchased without necessity / demand. Non-observance of rules regarding procurement of material and poor planning resulted in blockade of Company' funds of Rs.3.16 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held in Dec' 21, 2012, the management replied that except energy meters which had become obsolete due to introduction of new technology, most of remaining material had since been utilized. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 565/2013)

16.3.17 Non-replacement of transformers damaged under warranty period - Rs.2.94 million

According to Clause-9 (Warranty) of the purchase orders, "the material damaged/become defective during warranty period is to be substituted with new ones or get repaired at the cost and expense of the suppliers".

During audit of QESCO for the year 2011-12, it was revealed that seven (7) transformers of various capacities worth Rs.2.94 million were damaged/ become defective within the warranty period and sent to manufacturer for replacement but were not received from the suppliers. Non-adherence to the purchase order clause resulted in blockade of company's funds to the tune of Rs.2.94 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held on Dec' 21, 2012, the management replied that inspection certificates of four (04) transformers had been received from the Inspection Directorate which would be collected from manufacturer very soon while remaining inspection certificates were still awaited from Inspection Directorate. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious replacement of transformers from manufacturers besides fixing responsibility.

(Draft Para No562/2013)

16.3.18 Non-recovery of detection bill from independent consumer - Rs.1.68 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, "Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) Efficient application of billing and collection procedures".

During audit of QESCO for the year 2011-12, it was revealed that an amount of Rs.1.68 million was recoverable from independent consumer on account of slowness charges as evident from the initial inquiry report of Sep' 20, 2009. The management could neither recover the amount from the consumer nor finalized the inquiry report despite lapse of three (03) years. Non-adherence to commercial operating procedures resulted in non-recovery of Rs.1.68 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry on Dec' 2012. In a meeting held in Dec' 21, 2012, the management replied that the amount of Rs.1.68 million had been debited to new account number. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.292/2013)

16.3.19 Non-recovery of detection charges - Rs.1.62 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, "Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) Efficient application of billing and collection procedures".

During audit of QESCO for the year 2011-12, it was revealed that surveillance teams pointed-out 0.19 million energy units valuing Rs.1.62 million to be charged against the consumers on account of discrepancies in energy meters. Non-adherence to commercial operating procedures resulted in non-recovery of detection charges worth Rs.1.62 million.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Nov' 2012. In a meeting held in Dec' 21, 2012, the management replied that all the detection units had since been debited to consumers. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 259/2013)

16.3.20 Loss due to levy of commitment charges on ADB loan - Rs.1.59 million

According to section-C of Ministry of Economic Affairs Letter dated Mar' 30, 2009, "the borrower shall pay commitment charges @ 0.15% per annum, on the balance of un-disbursed loan".

During audit of QESCO for the year 2011-12, it was revealed that an amount of Rs1.59 million was levied by ADB as commitment charges on the un-utilized loan of US $ 11.17 million. Had the amount of loan disbursed as per schedule of work done (as stated in PC-I) the commitment charges could have been avoided. Poor financial management resulted in loss due to levy of commitment charges amounting to Rs.1.59 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Nov' 2012. In a meeting held in Dec' 21, 2012, the management replied that the delay was in accordance with the ground realities and no ADB funds could be withdrawn without maturity of tenders and proper receipt of martial in stores. Hence, funds were drawn on actual requirement as such payment of commitment charges were legal and un-avoidable. The reply was not tenable as the commitment charges was paid due to poor inventory management.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.206/2013)

16.3.21 Loss due to unjustified credits afforded to the industrial consumers - Rs.1.25 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, "Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) Efficient application of billing and collection procedures".

During audit of QESCO for the year 2011-12, it was revealed that unjustified credits worth Rs.1.25 million were afforded to the fifteen (15) industrial consumers during Jun' 2012 without fulfillment of codal formalities and against the commercial procedure. The credits given to the consumers were un-justified and caused a huge financial loss to the Company. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs.1.25 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. In a meeting held in Dec' 21, 2012, the management replied that constitution of enquiry committee was under process. After completion of its findings, Audit would be informed accordingly. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 563/2013)

CHAPTER-17

SUKKUR ELECTRIC POWER COMPANY (SEPCO)

(359-375)

17. SUKKUR ELECTRIC POWER COMPANY LIMITED

17.1 Introduction

Sukkur Electric Power Company Limited ("The Company") is a public limited company incorporated in Pakistan in 2011. The Company was established to take over all the properties, rights, assets, obligations and liabilities of Hyderabad Area Electricity Board owned by WAPDA and such other assets and liabilities as agreed. The company has obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The company purchases electricity from National Transmission and Despatch Company (NTDC) and sells it to the consumers within its service territory.

SEPCO received energy from three main sources viz. NTDC, GENCOs situated within the jurisdiction of SEPCO and from Small Power Producers / Captive Power Producers at 11 KV. NTDC provides energy to SEPCO from its two 500 KV Grid Stations Dadu & Jamshoro and three 220 KV Grid Stations situated at Lodra (Shikarpur). SEPCO also receives electricity directly from GENCOs viz. Gas Thermal Power Station (GTPS) Kotri which has installed capacity of 174 MW, Thermal Power Station (TPS) Guddu having installed capacity of 1,600 MW, Lakhra Power House having installed capacity of 150 MW and Liberty Power House having installed capacity of 235 MW.

The jurisdiction of SEPCO includes three Operations, one Grid System Construction and one Grid System Operations Circles.

17.2 Comments on Financial Statement

17.2.1 Financial Overview

The financial statements of the Company were required to be approved within four months from the end of financial year. The Company could not issue the approved Annual Report within the time frame stipulated in the Companies Ordinance, 1984. Non-compliance with the relevant provisions of Companies Ordinance, 1984 reflected, the inefficiency on part of management and needed justification.

The Company provided draft/unapproved financial statements to Audit. Therefore, reliability of the financial information could not be ensured as the

Company could incorporate significant adjustments into the balances appearing in the draft financial statements. The following comments/analysis was prepared on the unapproved financial statement.

Monthly accounts (Trial balance and other management information schedules) from accounting units were sent to Finance Director SEPCO where these were consolidated and financial statements including Balance Sheet, Profit & Loss Account and Cash flow statement were prepared. No information regarding the comparatives was available as it was the first year of operations since its incorporation. The financial results along with the financial ratios are as under:

17.2.2 Extracts of the Financial Statements[15]
Balance Sheet as at Jun' 30, 2012

(Rupees in million)

	2011-12	**2010-11**
Equity and Liabilities		
Accumulated Loss	(7,255.86)	N/A
	(7,255.86)	N/A
Non-current liabilities	17,771.95	N/A
Trade and other payables	68,011.93	N/A
Receipt from Deposit Works	3,647.17	N/A
Current liabilities	68,011.93	N/A
	78,528.03	N/A
Assets		
Non-current assets	14,934.99	N/A
Current assets		
Stores and spares	2,583.12	N/A
Trade debts	41,885.99	N/A
Advances, prepayments and other receivables	16,374.48	N/A
Cash and bank balances	2,749.45	N/A
	63,593.04	N/A
	78,528.03	N/A

[15] *Only balances with significant variations during the current financial year and those against which comments are being incorporated in this analysis are reproduced.*

Profit and Loss Account
For the year ended Jun' 30, 2012

	2011-12	2010-11
Revenue		
Electricity Sale	17,471.27	N/A
Cost of Sale	21,639.12	N/A
Gross profit/(Loss)	(4,167. 85)	N/A
Operational Cost	(3,357.19)	N/A
Finance Cost	(5.81)	N/A
Other income	274.99	N/A
Profit for the year	**(7,255.86)**	**N/A**

17.2.3 Financial Ratios

The summary of ratios calculated for the three financial years is given below:

COMPANY		**SEPCO**		
YEAR		**2011-2012**	**2010-2011**	**2009-2010**
Profitability Ratios				
Gross Profit Margin	%	(25.66)	N/A	N/A
Net Profit Margin	%	(43.23)	N/A	N/A
Asset Turnover Ratio	Times	2.44	N/A	N/A
Return on Total Assets	%	(9.24)	N/A	N/A
Short Term Liquidity Ratio				
Current Ratio	Times	0.89	N/A	N/A
Working Capital Ratios				
Debtors Turnover Period	Days	911	N/A	N/A
Creditors Turnover Period	Days	1147	N/A	N/A
Debt, Gearing and Leverage Ratios				
Interest coverage	%	(1,248)	N/A	N/A

17.2.3 Ratios Analysis

17.2.3.1 Profitability

The Company reported significant losses during the financial year, being the first year of operations. Profitability ratios reflected negative results due to huge gross loss and net loss sustained by the Company.

i) Gross profit

During the financial year 2011-12, electricity sales of the company were Rs. 17,332.44 million. On the other hand cost of electricity was Rs. 21,639.12 million, resulting in gross loss of Rs. 4,167.85 million. The line losses of 72 sub divisions of the Company ranged from 10% to 50.82%, resulting in high cost of electricity.

The abnormal increase in the cost of sales and line losses was the major cause of gross loss which was required to be explained.

ii) Net Profit Ratio

The company suffered net loss of Rs. 7,255.86 million during the present financial year.

This indicated that the operational efficiency of the Company remained highly unsatisfactory. The operational loss was mainly due to significant operating expenses. These expenses included enhancement in pay and allowances and repairs & maintenance. It was further observed that the Company approved certain allowances in respect of various categories of employees as detailed below:

i) Transport subsidy

ii) Special WAPDA allowance

iii) Danger allowance

The grant of above allowances without the approval/concurrence of Ministry of Finance was not in line with the provisions of Government Rules and Regulations and amount paid on account of above allowances was irregular.

In view of the forgoing, the Net Profit ratio is i.e. (43.23%) net loss.

The Company could not manage its expenses including line losses due to which the cost of electricity and indirect expenses increased significantly. The expenses increased to such a huge amount that the relative revenue generated from sales and other income could not offset the impact.

iii) Return on total assets

The return on total asset of (9.24%) loss as company was not utilizing its assets efficiently to generate favorable return.

The Company invested Rs.645.13 million on the non-current assets during the financial year. In addition to the above, the Company held cash reserves of Rs.2,749.46 million. Despite holding such a huge amount of assets, the Company could not generate desired rate of return which was required to be explained.

17.2.2.3 Short Term Liquidity

i) Current ratio

Despite the fact that the Company's current ratio was 0.89 indicating short term financial difficulties in repayment of current liabilities, the

Company did not hold adequate liquid assets required to settle its short term liabilities which was required to be explained.

17.2.2.4 Working Capital Cycle

ii) Debtor / Creditor turnover period

The trade receivables position was worse as significant amount of trade debtors i.e. Rs.41,885.99 million appeared at the end of financial year. In addition to that, the debtors' turnover period was 911 days. Moreover, the company created provision of bad debt amounting to Rs.703.61 million during the present financial year.

A huge amount of accounts receivable, debtor's turnover period and provision of significant amount of debtors as bad debts reflected inefficient collection procedures and poor administration of trade debts, resulting in loss of revenue to the Company and ultimately worsening liquidity position.

Delays in collection from debtors had trickledown effect on the creditor's turnover period which was 1,147 days.

The increase in accounts receivable and accounts payable indicated that there is a continuing cash flow shortage resulting in persistent working capital financing problems for the company. Poor management of debtors and creditors turnover period and creating a provision for the doubtful debts with a significant amount which was required to be explained.

17.2.3 Recommendations:

The above analysis showed that the profitability and short term liquidity position of the company was deteriorating with an exceptionally high rate. In order to finance the operations, Company would heavily rely on financing from external sources which would aggravate the liquidity position. If these conditions prevailed, the Company would require heavy funding from the Government to maintain going concern status.

In view of the forgoing, the Company should revamp its organizational structure and address operational issues, being the major cause of losses. In addition to that, the Company should also restructure its financial arrangements by funding its operations from cheap sources of finance, resulting in low interest cost.

The line losses, being the major cause of losses required to be addressed at higher level. There is a dire need to develop a policy to address the heavy line losses and to ensure the inflow of funds in the form of revenue.

The issue of huge receivables from Government and private consumers requires due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

17.3 AUDIT PARAS

17.3.1 Loss due to embezzellement by Post Master Douletpur - Rs.4.44 million

According to Commercial Procedure 1.3, “the Revenue Officer is responsible for implementing in conjunction with the Executive Engineer the commercial policies laid down from time to time by the Authority, through the Company”.

During audit of SEPCO for the year 2011-12, it was revealed that an amount of Rs.4.443 million was outstanding against Postmaster Douletpur, Shaheed Benazeerabad Division on account of collection of energy dues from the consumers. The pending amount pertained to the period Mar’ 2008 to Mar’ 2009. A period of more than four (4) years had since been elapsed but no recovery effected from the defaulter. Non-adherence to Commercial Procedure resulted in loss of Rs.4.44 million due non-recovery of remittance being pending since 2008.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held on Dec’ 20, 2012, the management replied that FIA was already investigating the matter. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 447/2013)

17.3.2 Non-recovery of embezzled cash - Rs.1.01 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of SEPCO for the year 2011-12, it was found that embezzlement of cash amounting to Rs.1.01 million was made by the officers/officials of XEN (Operation) Larkana-1. An amount of Rs.0.59 million was drawn through stolen cheque whereas an amount of Rs.0.42 million (Rs.0.33

million relating to remittance of WWF and Rs.0.09 million remittance of GLI) were drawn and transferred to private account during Jul' and Sep' 2012. The inquiry committee was constituted by the office of Chief Executive Officer SEPCO on Sep' 18, 2012. The committee was responsible to furnish its report showing facts within seven (07) days. Neither FIR was lodged with the police station nor departmental inquiry report submitted to the high ups within the stipulated period. Non-adherence to rules resulted in non-recovery of Rs.1.01 million due to embezzlement of cash.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious finalization of inquiry besides fixing responsibility and making good the loss.

(Draft Para No. 550/2013)

17.3.3 Misappropriation of material - Rs.1.21 million

According to para 75 of WAPDA Accounting Manual 1978, "On completion of the 'work' the excess materials will be returned to godown or transferred to another 'work'. Where the materials are returned to a godown, the Budget and Accounts Officer will on receipt of the Stores returned to Store-keeper Advice, credit the Materials-at-Site Account and debit the Stores Control Account in the General Ledger, and the relevant stores account in the Subsidiary Ledger. If the excess Materials have been transferred to another 'work' then the Budget and Accounts Officer on receipt of the transfer advice will credit the Materials-at-Site Account of the transfer and debit the Materials-at-Site Account or Work-in-Progress Account, as the case may be of the 'work' which has received the materials".

During audit of SEPCO for the year 2011-12, it was revealed that electrical material in five (5) HTP / LTP works valuing Rs.1.21 million was misappropriated by Line Superintendent-II as evident from Executive Engineer, ELR Construction Division Larkana office memo dated Jun' 05, 2012. Major penalty for recovery of cost of misappropriated material @ Rs.1,830 per month was imposed on the official. Non-adherence to the Standard Operating Procedures (SOP) resulted in misappropriation of material worth Rs.1.21 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. In a meeting held in Dec' 20, 2012, the management replied that according to recommendation of inquiry committee, a penalty of Rs.1.21 million @ Rs.1,830 per month was imposed to recover it from the salary of Mr. Liaqat Ali Mallah, LS-II". The reply was not tenable as no documentary evidence was provided in support of recovery till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 193/2013)

17.3.4 Loss due to theft of electrical material - Rs.6.88 million

According to the instructions issued by WAPDA dated Jul' 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 audit of SEPCO for the year 2011-12, it was revealed that electrical material comprising transformers and conductor worth Rs.6.88 million were stolen. Only FIRs were lodged with the concerned police stations but administrative action was not taken to fix the responsibility of loss and to decide its fate. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs.6.88 million.

The matter was taken up with the management in Aug' to Oct' 2012 and reported to the Ministry in Sep' to Nov' 2012. In a meeting held in Dec' 20, 2012, the management replied that FIRs in all cases had been lodged and constitution of enquiry committees was under process. Further progress was not intimated till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 42, 155 & 218/2013)

17.3.5 Huge receivables amount from energy defaulters - Rs.46.75 billion

According to the Office letter No.320-30/GM (C&M)/P/CE(O)/Stat/130 dated Jun' 14, 2012 circulated by General Manager C&M PEPCO, "special efforts are required during the remaining days of Jun' 2012. Running defaulters/ disconnected defaulters need physical checking for effective recovery."

During audit of SEPCO for the year 2011-12, it was revealed that an amount of Rs.46.75 billion was receivable from 395,358 energy defaulters (Government & Private) for a period exceeding from six months i.e. from Dec' 31, 2011 upto more than three years. In this respect, no efforts were made by the management to accelerate the recovery from defaulters. Owing to the increasing trend of receivables, PEPCO was facing financial difficulties in discharging its obligations towards Power Sector Companies (PSC) and Independent Power Producers (IPPs). Non-recovery from energy defaulters resulted in blockage of revenue of Rs.46.75 billion.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Jan’ 2013. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery of arrears besides fixing responsibility.

(Draft Para No. 653/2013)

17.3.6 Non-removal of electrical equipment and non-recovery of outstanding energy charges - Rs.46.22 billion

According to Para-3 of Authority’s circular dated April 15, 1998 lays down that “disconnections will be effected through removal of meters, transformers, span or any other equipment to ensure that no possibility of loop hole is left for unauthorized use of energy during the period of disconnection. The equipment after having been removed from site was required to be returned to store”.

During audit of SEPCO for the year 2011-12, it was revealed that an amount of Rs.46.22 billion was outstanding on account of energy charges against three lac, two thousand, nine hundred and eighty (302,980) private and government consumers. Non-implementation of Authority’s instructions resulted in non-removal of the transformers and allied material from the sites and non-recovery of outstanding energy charges of Rs.46.22 billion.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility and ensure removal of electrical equipment.

(Draft Para No. 642/2013)

17.3.7 Unjustified utilization of savings - Rs.2.66 billion

The Prime Minister’s Secretariat (Public) vide reference No. 1(1)/Misc.(Pb-1)/PAW/2007/ dated Mar’ 09, 2007 requested the Auditor-General of Pakistan to ensure through an appropriate audit that funds in the interim period are properly kept and accounted for and that if they earn any return that amount accrues to the Government of Pakistan as per rules.

During audit of SEPCO for the year 2011-12, it was revealed that an amount of Rs.2.66 billion was accrued as savings out of allocated amount for completion of 696 and 590 partially electrified villages. The Chief Executive Officer approved to utilize the savings for completion of 200 villages partially electrified which were not approved by the Prime Minister Secretariat under MNA grant. Non-adherence to the Prime Minister's directives resulted in unjustified utilization of savings amounting to Rs.2.66 billion.

The matter was taken up with the management in Sep' & Nov' 2012 and reported to the Ministry in Nov' & Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 221 & 549/2013)

17.3.8 Loss due to unjustified written off bad debts - Rs.703.60 million

According to the instructions issued by WAPDA dated Jul' 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 audit of SEPCO for the year 2011-12, it was revealed that bad debts of Rs.703.60 million were shown as debit balance. This showed that a huge amount was deleted by declaring it as expenses. Bad debts were required to be written off under the order of competent authority. Non-adherence of rules resulted in loss of Rs.703.60 million due to unjustified written off bad debts.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 440/2013)

17.3.9 Loss due to fake billing - Rs.105.93 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, "Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) Efficient application of billing and collection procedures".

During audit of SEPCO for the year 2011-12, it was revealed that fake billing was made by XEN (Operation) Division SEPCO Moro. The fake billing was regularly made to avoid the line losses. As per chief commercial officer SEPCO Sukkur letter dated Nov’ 01, 2011, fake billing during 1st quarter of Jul’ to Sep’ 2011 was for 10.59 million units. The SEPCO had to sustain a loss of Rs.105.93 million. Non-adherence to clause of Commercial Procedure resulted in loss of Rs.105.93 million due to fake billing.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 522/2013)

17.3.10 Non-recovery of income tax - Rs.43.83 million

According to paragraph 153 of Income Tax Ordinance 2001, “income tax will be deducted at source on account of payment made to the supplier”.

During audit of SEPCO for the year 2011-12, it was revealed that electricity was being purchased from the owners of three (03) sugar mills from December, 2011 to June, 2012 and an amount of Rs.876.68 million was paid to mill owners after verification by the P&I SEPCO income tax of Rs.43.83 million was not deducted from the invoices of suppliers. Non-adherence to rules of Income Tax Ordinance, 2001 resulted in non-recovery of income tax of Rs.43.83 million.

The matter was taken up with the management in Nov’ 2012 and reported to the Ministry in Dec’ 2012. In a meeting held in Dec’ 20, 2012, the management replied that consumers were allowed exemption as per the Govt. of Pakistan Notification No. ITJ-1(07)/84.Vol-II dated Jun’ 30, 2000. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery of income tax besides fixing responsibility.

(Draft Para No. 521/2013)

17.3.11 Undue favour to the consumers on account of non-regularization of unauthorized extension of load - Rs.29.80 million

According to abridged condition-6 of supply of power, “in case of non-removal/non-regularization of un-authorized extended load, the supply to the consumer shall be disconnected”.

During audit of SEPCO for the year 2011-12, it was revealed that eighty five (85) industrial consumers had extended the load of the energy connections without the approval of competent authority. In violation of the abridged condition, the field formations neither disconnected the energy connections nor regularized the un-authorized extended load. Resultantly, an amount of Rs.29.80 million remained un-recovered from the consumers on account of cost of equipment, security deposit and rehabilitation charges.

The matter was taken up with the management in Aug' to Nov' 2012 and reported to the Ministry in Sep' to Dec' 2012. In a meeting held in Dec' 20, 2012, the management replied that notices had been issued to the consumer either to remove un-authorized extension of load or get it regularized. Further progress was not intimated till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.40, 219 & 551/2013)

17.3.12 Unjustified purchase in violation of PPRA Rules - Rs.20.36 million

According to rules-42-C(iv) of PPRA Rules, "repeat orders should be given upto fifteen (15) percent of the original procurement".

During audit of SEPCO for the year 2011-12, it was revealed that material valuing Rs.20.36 million was purchased through variation/repeat orders by enhancing quantities upto 25% above the original purchase orders in contradiction to PPRA Rules during Feb' and May 2012. Non-adherence to rules resulted in irregular purchase through violation/repeat orders of Rs.20.36 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 519/2013)

17.3.13 Unauthorized award of contracts in violation of PPRA Rules - Rs.19.73 million

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

During audit of SEPCO for the year 2011-12, it was revealed that three (03) works for construction and extension valuing Rs.19.73 million were awarded without inviting tenders and proper advertisement on PPRA website. Non-observance of PPRA Rules resulted in unauthorized procurement of material worth Rs.19.73 million.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. In a meeting held in Dec' 20, 2012, the management replied that all the three works had been published in local/ National News Papers as per PPRA Rules. The reply was not tenable as no documentary evidence was provided in support of reply till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility for non-observance of PPRA Rules.

(Draft Para No. 373/2013)

17.3.14 Non-recovery of fixed charges due to wrong application of tariff - Rs.16.94 million

SRO 362(1)/2011, "tariff D-I(b) is applicable to scarp and agriculture tube wells having load 5 KW and above and fixed charges are levied on those connections".

During audit of SEPCO for the year 2011-12, it was revealed that the SCARP and agriculture tube wells with sanctioned load beyond 5 KW were charged under tariff D-I(a) instead of tariff D-I(b). Wrong application of tariff deprived the Company of revenue of Rs.16.94 million. Non-adherence to the SRO resulted in non-recovery of fixed charges of Rs.16.94 million.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Sep' 2012. In a meeting held in Dec' 20, 2012, the management replied that the concerned Revenue Officers SEPCO had been directed to debit the proposed amount against the involved consumer's accounts for realizing the payment and CP-22 would be submitted to Audit accordingly. The reply was not relevant to observation.

Audit emphasizes expeditious recovery of fixed charges besides fixing responsibility.

(Draft Para No. 39/2013)

17.3.15 Non-replacement of transformers damaged during warranty period - Rs.14.31 million

According to purchase order clause 32, "the supplier will furnish a warranty certificate, certifying that the goods supplied conform exactly to the specifications laid down in the purchase order/ contract and are brand new and in the event of material being found defective or not conforming to the specification governing supply at the time of delivery and for a period of 12 months from the date of completion of supply, the supplier will be held responsible for all losses and that the un-acceptable goods shall be substituted with the acceptable goods at the supplier expense and cost. The material damaged during warranty period is to be substituted with new one or repaired at cost and expenses of the supplier".

During audit of SEPCO for the year 2011-12, it was revealed that forty one (41) transformers of different capacity worth Rs.14.31 million were found damaged within warranty period but the same were not replaced despite lapse of a period more than one year. Non-adherence to clause of purchase order resulted in non-replacement of transformers for Rs.14.31 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 518/2013)

17.3.16 Un-necessarily purchases of material - Rs.8.02 million

According to Para 5 of memorandum dated 17-1-1978 on irregularities of purchase order of store and equipment. "Purchases should be made only of such items and in such quantities as required for specific work. In no case should these purchases be made for stocking an item for indefinite period"

During audit of SEPCO for the year 2011-12, it was revealed that material worth Rs.8.02 million was purchased from Feb' 2001 to Apr' 2011 and found lying in the store since its receipt. Non-issuance of material indicated that it was purchased un-necessarily. Non-preparation of purchase plan as per field requirement resulted in unnecessary purchase of material wroth Rs.8.02 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 10, 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 548/2013)

17.3.17 Non-recovery on accounts of installment of capital cost - Rs.5.77 million

According to the instructions issued by WAPDA dated Jul' 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 audit of SEPCO for the year 2011-12, it was revealed that an amount of Rs.5.77 million on account of installments of capital cost of tube well connections were outstanding against sixty one (61) consumers. The amount was to be recovered from the consumers within three (03) days. In failure, the connections were to be disconnected and substation equipments removed. Neither recovery was effected by the department nor material removed from the site. Non-adherence to rules resulted in non-recovery of installment of Rs.5.77 million.

The matter was taken up with the management in Nov' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 590/2013)

17.3.18 Non-accountal of material – Rs.5.69 million

According to para 74 of WAPDA Accounting Manual 1978, "to keep a proper account, in such cases, of material received at site or issued from store, it will be advisable to keep Material-at-Site Account for each Overseer, or for each work, whichever procedure is more appropriate. The Budget and Accounts Officer will debit all receipts from supplier direct at site and all issue against requisite slips to the relevant Material-at-Site Account."

During audit of SEPCO for the year 2011-12, it was revealed that Mr. Mumtaz Ali Sohu, Assistant Manager was involved in non-accountal of material worth Rs.5.69 million and pilferage in village electrification and ELR. No appropriate action has been taken against the officer since May 2009. Non-adherence to the accounting manual resulted in non-accountal of material worth Rs.5.69 million.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Dec' 2012. In a meeting held in Dec' 20, 2012, the management replied that the Para did not pertain to Project Director, Construction Division SEPCO, Larkana. The abolished ELR Division was under administrative control of Project Director, Construction HESCO Hyderabad. The matter had already been informed to concerned quarter. The reply was not tenable because the officer was working in Dadu Circle SEPCO. Therefore, recovery be effected from the concerned officer.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 154/2013)

17.3.19 Loss due to non-finalization of disciplinary cases - Rs.4.74 million

According to the instructions issued by WAPDA dated Jul' 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 audit of SEPCO for the year 2011-12, it was revealed that ten (10) disciplinary cases against Line Superintendents involving an amount of Rs.4.74 million were pending. Neither the management could finalize the cases nor any recovery was made. Poor management resulted in loss of Rs.4.74 million due to non-finalization of disciplinary cases.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Nov' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 217/2013)

17.3.20 Loss due to misappropriation of HT/LT PCC Poles, etc by contractor - Rs.3.88 million

According to the instructions issued by WAPDA dated Jul' 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 audit of SEPCO for the year 2011-12, it was revealed that material i.e. HT/LT poles, structures, conductor, etc was issued/handed over to the contractors for village electrification As pointed out by the XEN concerned. The contractors had not installed the material at site. Non-adherence to contract management resulted in loss of Rs.3.88 million due to misappropriation of material.

The matter was taken up with the management in Sep' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No. 525/2013)

17.3.21 Non-recovery from permanently disconnected consumers – Rs.1.48 million

As per Commercial Procedure 14, "a grace period of 15 days to Private Consumers and Government connections is allowed for payment".

During audit of SEPCO for the year 2011-12, it was revealed that an amount of Rs.1.48 million was outstanding against nine (09) permanently disconnected consumers of B-2 connections. Efforts were not made to recover the outstanding amount from permanently disconnected consumers. Non-adherence to commercial procedure resulted in non-recovery of arrears of Rs.1.48 million.

The matter was taken-up with the management in Jul' 2012 and reported to the Ministry in Dec' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 526/2013)

CHAPTER-18

TRIBAL AREAS ELECTRIC SUPPLY COMPANY LIMITED (TESCO)

(379-387)

18. TRIBAL AREAS ELECTRIC SUPPLY COMPANY LIMITED

18.1 Introduction

Tribal Areas Electric Supply Company Limited (TESCO) was incorporated on July 03, 2002 as a public limited company under the Companies Ordinance, 1984 (referred as 'Ordinance'). The Company was formed to acquire/takeover all the properties, rights, assets, obligations and liabilities relating to Federally Administered Tribal Areas (FATA) from Water and Power Development Authority (WAPDA) and such other assets and liabilities as agreed. All such assets and liabilities have been transferred to the Company under the terms and conditions of Business Transfer Agreement dated July 31, 2004. The Company has not yet obtained distribution license.

The Company purchases electricity from NTDC and sells it to the consumers in whole of FATA. The Company receives electricity through PESCO. The jurisdiction of TESCO include one Operation Circle, one Construction Division, one SS&TL Division and one Industrial Division.

18.2 Comments on Financial Statements

18.2.1 Financial Overview

Monthly accounts (Trial Balance and other management information schedules) from 15 accounting units are sent to Finance Director, TESCO, where these accounts are consolidated and financial statements including Balance Sheet, Profit and Loss Account and Cash flow statements are prepared. Financial statement of TESCO were not finalized and approved up-till December 31, 2012. However, Draft/Unapproved financial statements were produced by the Company on December 15, 2012. The following comments/analysis were prepared on these unapproved financial statements. As per Company Ordinance, the financial statements were required to be finalized within four months of the closing of financial year. However, the Company could not finalize the Annual Report within stipulated timeframe. This reflected inefficiency on the part of the management and needs justification.

18.2.2 Extracts of the Financial Statements[16]
Balance sheet as at Jun' 30, 2012

(Rupees in million)

	2011-12	%	2010-11	%	2009-10
Equity and Liabilities					
Share capital and reserves					
Accumulated Loss	(31,348.35)	83.20	(17,111.21)	66.43	(10,281.18)
Non-current liabilities					
Long term Financing	265.85	(11.86)	301.62	(12.51)	344.75
Consumer security deposits	1,210.96	3,901.61	30.26	13.45	26.67
Deferred credit	1,975.88	5.55	1,872.02	7.49	1,741.65
	3,452.69	**56.66**	**2,203.91**	**4.30**	**2,113.07**
Current liabilities		-			
Trade and other Payables	76,829.67	51.75	50,630.56	(57.40)	118,849.65
Current portion of long term loans	200.34	21.74	164.56	34.62	122.24
	77,030.01	**51.65**	**50,795.12**	**(57.30)**	**118,971.90**
	49,389.37	**36.65**	**36,142.84**	**(67.46)**	**111,058.81**
Assets					
Non-current assets					
Operating fixed assets	2,818.83	3.22	2,731.00	2.50	2,664.45
Capital work in progress	2,279.44	24.55	1,830.14	29.91	1,408.82
	5,098.27	**11.78**	**4,561.14**	**11.98**	**4,073.26**
Current assets					
Stores and spares	317.09	66.99	189.89	(45.23)	346.73
Trade debts	34,517.84	40.26	24,610.60	5.78	23,266.82
Short-term advances and other receivables	8,616.32	52.02	5,667.89	(93.11)	82,246.70
Bank balances	834.12	(24.63)	1,106.65	(1.32)	1,121.40
	44,285.38	**40.25**	**31,575.03**	**(70.49)**	**106,981.66**
	49,389.37	**36.65**	**36,142.84**	**(67.46)**	**111,058.81**

Profit and Loss Account
For the year ended Jun' 30, 2012

	2011-12	%	2010-11	%	2009-10
Revenue					
Electricity sale	10,420.91	(23.89)	13,692.20	(9.31)	15,098.43
Rental and service income	936.07	(27.43)	1,289.81	18.89	1,084.84
	11,356.98	(24.20)	14,982.01	(7.42)	16,183.27
Cost of electricity	20,846.42	17.72	17,709.22	6.63	16,608.67

[16] *The analysis is performed on the un audited financial statements provided by the Company.*

Gross profit/(Loss)	(9,489.45)	(247.95)	(2,727.22)	541.08	(425.41)
Amortization of deferred credit	96.29	7.85	89.29	9.42	81.60
	(9,393.15)	(256.08)	(2,637.93)	667.26	(343.81)
Operating cost	4,933.36	37.80	3,580.07	60.47	2,231.03
Other income	150.76	(11.66)	170.66	(18.10)	208.38
Financial and other charges	49.83	(3.39)	51.58	(6.86)	55.37
Loss for the year	**(14,225.58)**	**133.247**	**(6,098.923)**	**151.83**	**(2,421.83)**

18.2.3 Financial Ratios

The summary of ratios calculated for three financial years are as under:

COMPANY		**TESCO**		
YEAR		**2011-2012**	**2010-2011**	**2009-2010**
Profitability Ratios				
Return on Capital Employed	%	-51.29	-41.27	-29.91
Gross Profit Margin	%	-91.06	-19.92	-2.82
Net Profit Margin	%	-136.51	-44.54	-16.04
Asset Turnover Ratio	Times	-0.38	-0.93	-1.91
Return on Total Assets	%	-28.80	-16.87	-2.18
Short Term Liquidity Ratio				
Current Ratio	Times	0.57	0.62	0.90
Working Capital Ratios				
Debtors Turnover Period	Days	1209	656	562
Creditors Turnover Period	Days	1345	1044	2612
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	0.54	0.83	0.31
Gearing Ratio	%	-0.96	-2.06	-4.36
Leverage Ratio	%	112.49	115.04	126.70
Interest coverage	%	-284.49	-117.25	-42.74

18.2.4 Cash Flow Analysis

The Company’s net outflow (Deficit) of cash was Rs.272.52 million (Rs.14.76 million: 2010-11) during the financial year resulting in closing balance of Rs.834.12 million (Rs.1,106.65 million: 2010-11).

Net cash flow from operating activities declined by 219% over the previous year due to losses suffered by the Company. Cash generated from operations decreased by Rs.1,328.48 million (432%) over the previous year causing serious cash-flow problem for the Company. This year company paid less amount on financial charges i.e. Rs.7.19 million (57%) due to decrease in long term financing.

The Company invested Rs.248.86 million on fixed assets (Rs.219.80 million: 2010-11) for the improvement of the power distribution system, however, the Company could not use the assets efficiently and effectively as the return on assets, referred above, dropped significantly.

Moreover, the net cash inflow of Rs.1,180.70 million injected from "consumer security deposits" (Rs.3.59 million: 2010-11).

The retention of 3.50% of financing in the form of cash reserves has dropped to 1.88%, which indicated cash flow problems for the Company. The Company utilized its accumulated cash reserves to manage its operational requirements resulting in significant decline of 24.63% in cash reserves which need to be justified.

18.2.5 Ratios Analysis

18.2.5.1 Profitability

Profitability ratios in terms of gross profit and net profit showed the worst position ever faced by the Company. Both ratios went to negative due to huge loss in the year.

i) **Gross profit** ratio declined significantly i.e. (91.06%) gross loss as compared to (19.92%) gross loss for the financial year 2010-11. The sales decreased by 24.20%, whereas the cost of sales increased by 18%, resulting in gross loss for the Company.

   During the financial year 2011-12, electricity sales of the company decreased to Rs. 10,420.91 million i.e. 24% (Rs.13,692.20 million: 2010-11). Total units 1,735.17 million (2011: 1,756.21 million) at the average rate of Rs. 7.89 (2011: Rs. 8.60) per unit were sold which showed that rate per unit decreased by Rs. 0.71 i.e. 9 %.

   The line losses of all the 16 sub divisions of the Company ranged from 14% to 43.36%, resulting in high cost of electricity.

   The abnormal decrease in sales and increase in the cost of sales, resulting in significant increase in gross loss of the company which needs to be explained.

ii) Net profit Ratio

The company suffered accumulated loss of Rs.31,348.35 million, out of which Rs.14,225.58 million was incurred during the present financial year. The Net Profit ratio of the Company decreased to (136%) net loss from (44.54%) net loss reported during the financial year 2010-2011.

This indicated that the operational efficiency of the Company remained highly unsatisfactory. The operational loss was mainly due to increase in operating expenses by 38% over the previous year which was mainly attributed to enhancement in pay and allowances and increase in repair & maintenance expenses. It was further observed that the Company approved certain allowances in respect of various categories of its employees. The detail of which is mentioned hereunder:

i) Transport subsidy

ii) Special WAPDA allowance

iii) Danger allowance

The grant of above allowances without the approval/concurrence of Ministry of Finance was not in line with the provisions of Government Rules and Regulations and the amount paid on account of above allowances was irregular.

The company could not manage its expenses including line losses due to which the cost of electricity and indirect expenses increased significantly. The expenses increased to such a huge amount that the relative revenue generated from sales and other income could not mitigate the impact.

iii) Return on capital employed

The return declined to (51.29%) from (41.27%), reflecting that the Company could not utilize its resources in an efficient and effective manner.

iv) Return on total assets

The return declined to (28.80%) from (16.87%) as company was not utilizing its assets efficiently to generate favorable return.

The Company invested Rs.248.86 million on the non-current assets during the financial year. In addition to the above, the Company held cash reserves of Rs.834.12 million.

The huge investment on non-current assets could not improve the profitability position of the Company as the return on total assets declined significantly which needs to be explained.

18.2.5.2 Short Term Liquidity

i) Current ratio

The ratio declined to 0.57 time from 0.62 time indicating short term financial difficulties in repayment of current liabilities.

The Company did not hold adequate liquid assets required to settle its short term liabilities which needs to be explained.

18.2.5.3 Working Capital Cycle

ii) Debtor's turnover period

The trade receivables increased significantly i.e. by Rs.9,907.24 million (40%) over the previous year. In addition to that, the debtors' turnover period increased to 1,209 days (656 days in 2010-11 and 562 days in 2009-10).

Moreover, the company has written off an amount of Rs.2,754.11 million as bad debts during the present financial year.

An increase in accounts receivable, debtor's turnover period and writing off a significant amount of debtors as bad debts reflect inefficient collection procedures and poor administration of trade debts, resulting in loss of revenue to the Company and ultimately worsening liquidity position.

Delays in collection from debtors had trickledown effect on the creditor's turnover period which increased to 1,345 days from 1,044 days.

The increase in accounts receivable and accounts payable indicated continuing cash flow shortage resulted in persistent working capital financing problems for the Company. Poor management of debtors and creditors' turnover period and writing off significant amount as bad debts needs to be explained.

18.2.5.4 Gearing, leverage and interest coverage ratios

The non-current liabilities of the company increased by 57% over the previous year. The trade and other payables increased by 52% and the creditors' turnover period increased to 1,345 days. Significant increase in the non-current and current liabilities reflected that the Company encountered liquidity problems and the management has not taken adequate remedial action to address the issue.

The financial position of the Company deteriorated during the past few years as depicted in the summary of ratios mentioned above. The gearing position of the Company remained negative i.e. (0.96%) during the financial year 2011-12 as compared to (2.06%) during the financial year 2010-11. The gearing ratio reflected abnormal results due to huge amount of accumulated losses. The Company heavily relied on the external sources to finance its operations instead of funding the operations out of resources generated from its operations.

Reliance on borrowings/ (loans) and payment of huge financial charges needs to be explained.

18.2.6 Recommendations:

It is evident from the above analysis that the profitability, liquidity and solvency position of the Company will have to be with an exceptionally high rate. In order to finance the operations, Company would heavily rely on financing from external sources which would aggravate the liquidity position. If these conditions prevail, the Company would require heavy funding from the Government to maintain going concern status.

In view of the forgoing, it is recommended that Company should revamp its organizational structure and address operational issues, being the major cause of losses. In addition to that, the Company should also restructure its financial arrangements by funding its operations from cheap sources of finance, resulting in low interest cost.

The line losses, being the major cause of losses are required to be addressed at higher level. There is a dire need to develop a policy to address the heavy line losses and to ensure the inflow of funds in the form of revenue.

The issue of huge receivables from Government and private consumers also require due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

18.3 AUDIT PARAS

18.3.1 Loss due to snatching of vehicles - Rs. 8.14 million

According to the instructions issued by WAPDA dated Jul’ 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 audit of TESCO for the year 2011-12, it was revealed that seven (07) vehicles valuing Rs.5.14 million were snatched during the years 2005-06 to 2011-12. In one case FIR was lodged but no departmental inquiry was conducted to fix the responsibility and decide the fate of loss. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs.8.14 million.

The matter was taken up with the management in Oct’ 2011& Aug’ 2012 and reported to the Ministry in Apr’ & Oct’ 2012. Neither any relevant reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit requires inquiry in the matter besides fixing responsibility.

(Draft Para No.03 & 109/2013)

18.3.2 Non-removal of electrical equipment and non-recovery of outstanding energy charges - Rs.31.28 billion

Para-3 of authority’s circular dated Apr’15, 1998 lays down that “disconnections will be effected through removal of meters, transformers, span or any other equipment to ensure that no possibility or loop hole is left for unauthorized use of energy during the period of disconnection. The equipment after having been removed from site is required to be returned to store”.

During audit of TESCO for the year 2011-12, it was revealed that an amount of Rs.31.28 billion was outstanding on account of energy charges against four lac, twenty eight thousand and forty one (428,041) private and government consumers. Non-implementation of Authority’s instructions resulted in non-removal of the transformers and allied material from the sites and non-recovery of outstanding energy charges of Rs.31.28 billion.

The matter was taken up with the management in Oct’ 2012 and reported to the Ministry in Dec’ 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery of arrears besides fixing responsibility and ensures removal of electrical material.

(Draft Para No. 643/2013)

18.3.3 Huge receivables amount from energy defaulters - Rs.30.72 billion

According to the Office letter No.320-30/GM (C&M)/P/CE(O)/Stat/130 dated Jun’ 06, 2012 circulated by General Manager C&M PEPCO, “special efforts are required during the remaining days of Jun’ 2012. Running defaulters/ disconnected defaulters need physical checking for effective recovery.”

During audit of TESCO for the year 2011-12, it was revealed that an amount of Rs.30.72 billion was receivable from 433,372 energy defaulters (Government & Private) for a period exceeding from six months i.e. from Dec' 31, 2011 upto more than three years. In this respect, no efforts were made by the management to accelerate the recovery from defaulters. Owing to the increasing trend of receivables, PEPCO was facing financial difficulties in discharging its obligations towards Power Sector Companies (PSC) and Independent Power Producers (IPPs). Non-recovery from energy defaulters resulted in blockage of Rs.30.72 billion.

The matter was taken up with the management in Oct' 2012 and reported to the Ministry in Jan' 2013. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 655/2013)

18.3.4 Non-recovery of arrears due to illegal shifting of load - Rs.2.34 million

According to policy for shifting of industrial and tube well connections, "the load would be shifted only after the approval of Chief Executive Officer and there should be no arrear outstanding against the connection".

During audit of TESCO for the year 2011-12, it was revealed that sites of two (2) industrial consumers were shifted from 11 KV Fata Industrial feeder to Shah Kass Fort feeder without prior approval of competent authority. The estimates were not got sanctioned and cost thereof was also not recovered from the consumers also without recovery of arrears. Non-observance to standing operating procedures resulted in non-recovery of arrears for Rs.2.34 million.

The matter was taken up with the management in Aug' 2012 and reported to the Ministry in Oct' 2012. Neither any reply was submitted nor DAC meeting was convened till the finalization of this report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No.117/2013)

CHAPTER-19

PRIVATE POWER AND INFRASTRUCTURE BOARD (PPIB)

(391-402)

19. PRIVATE POWER AND INFRASTRUCTURE BOARD (PPIB)

19.1 Introduction

The Private Power and Infrastructure Board (PPIB) was created on Aug' 2, 1994 under Ministry of Water and Power, Islamabad as "One Window Facilitator" to promote private sector participation in the power sector of Pakistan. PPIB facilitates investors in establishing private power projects and related infrastructure, executes Implementation Agreement (IA) with Project Sponsors and issues sovereign guarantees on behalf of Government of Pakistan.

Main functions of PPIB are to implement the power policies, award projects to sponsors or private power companies, prepare all necessary or appropriate documentation, execute any of such documentation with private power companies, their sponsors, lenders and, whenever necessary or appropriate.

PPIB comprises on the following members:

1.	Federal Minister for Water & Power		Chairman
2.	Secretary, Water & Power/Chairman PEPCO		Member
3.	Secretary, Ministry of Finance		Member
4.	Secretary, Ministry of Petroleum & Natural Resources		Member
5.	Chairman, Federal Board of Revenue		Member
6.	Secretary, Planning Commission		Member
7.	Chairman, WAPDA		Member
8.	Managing Director, PPIB Member/Secretary		
9.	Mr. Zahid Rafique,	(Private Member)	Member
10.	Mr. Amir Naseem	(Private Member)	Member

In addition to above Provincial Chief Secretaries and other departmental heads are included as Board Members (as and when required) for such meetings where items/projects pertinent to the particular Province/AJ&K form part of the agenda for board meetings.

Fourteen (14) thermal power projects having 2,898 MW capacities were launched by Independent Power Producers (IPPs) under Power Policy 1994 and twelve (12) IPPs having capacity of 2,409 MW were inducted under Power Policy 2002 by the PPIB.

Special audit of the PPIB accounts was entrusted to the Director General Audit, WAPDA by the Auditor General of Pakistan. Audit was conducted by the Audit Team of the Director General Audit WAPDA from (of the financial years of 1994-95 to 2010-11) Nov’ 2011 to Feb’ 2012. The main audit findings are included in the Audit Report.

19.2 AUDIT PARAS

19.2.1 Loss of due to unjustified power purchase agreement between GENCO-IV and Karkey Karadenized Rental Power Project - Rs.25.78 billion

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

During audit of PPIB for the year 2011-12, it was revealed that letter of award (LOA) was issued on Nov’ 6, 2008 to M/s Karkey Karadenized for installation of project within the jurisdiction of KESC Karachi to provide electricity to KESC and rental service contract was made between M/s Karkey Karadenized and PEPCO/GENCO-IV on Apr’ 23, 2009. Another agreement was made between PEPCO/NTDC and KESC to purchase the electricity produced by Karkey Karadenized by KESC from NTDC. As per agreement PEPCO/ GENCO-IV purchased electricity produced by M/s Karkey @ Rs.9.72/kwh (calculated at 2008 reference price of fuel and monthly rental charges) and sold it to KESC through NTDC at the basket rate of Rs. 7/kwh. Hence, the difference of Rs.2.73/kwh was an extra burden on PEPCO which was ultimately borne by the consumers of DISCOs. Total financial impact of such difference as a result of such deal would be Rs.25.78 billion (calculated at 2008 reference prices) during the five years of contract from Apr’ 07, 2010 to Apr’ 06, 2015. Non-adherence to PPRA Rules resulted in loss of Rs.25.78 billion to PEPCO and extra burden on the consumers.

The matter was taken up with the management in Mar’ 2012 and reported to the Ministry in May 2012. It was replied that as per decision of the Supreme Court of Pakistan Mar’ 30, 2012, the contracts of all the RPPs were ordered to be rescinded forthwith and all the persons responsible for the same are liable to be dealt with for civil and criminal action in accordance with law. Further progress was not intimated till the finalization of this report.

DAC in its meeting held on Dec’ 18, 2012 directed that the matter would be discussed in PAC.

Audit requires PAC may decide fate of the para.

(Draft Para No. 662/2013)

19.2.2 Development of Rental Power Projects in violation of Power Policy 2002, PPRA Rules and Guidelines for determination of tariff for IPPs

Para 1.6(16) of the Power Policy, 2002 states that; “the basis for selection of the successful bidder in each case will be the minimum levelized tariff, either through International Competitive Bidding (ICB) for solicited proposals or through negotiations/ICB for proposals on raw sites, i.e. locations whereof no feasibility study has been initiated”. Further, rule-38 of PPRA Rules provides that, “the bidder with the lowest evaluated bid, if not 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”.

The Guidelines for Determination of Tariff for IPP states that;

Para 1.9 Tariff through Competitive Process

The bidding process may be structured on either of the following two options;

i) Bidding for a tariff,

ii) Offering a up-front benchmark tariff and bidders to quote a discount on the benchmark price.

Para 1.10 It is proposed that once a tariff has been arrived at through competitive bidding based on either of the processes mentioned at Para 1.9 above, it should not be subjected to further review by NEPRA. The bidding process be structured and administered by PPIB (Ministry of Water and Power) in consultation with the power purchaser (WAPDA/NTDC), Ministry of Finance and NEPRA. The bidding documents (including various formula, formats, etc.), alongwith evaluation criteria, be also finalized by PPIB in consultation with the same agencies. The lowest evaluated levelized tariff would be recommended to the GOP for acceptance.

During audit of PPIB for the year 2011-12, it was revealed that three international competitive biddings (ICBs) were conducted during May, Sep’ and Dec’ 2008 to implement IPPs and rental power projects to mitigate the power shortage (4000 MW to 4500 MW) in the Country. No up-front tariff was prepared /offered for bidding and bidding was made under Para 1.9(a) referred above. It was further observed that PPIB instead of accepting the lowest bidder's tariff, issued LOA to the 1st and 2nd lowest bidder in 1st and 2nd ICB. Similarly, LOA was issued from 1st lowest to 5th lowest in case of 3rd ICB. Non-adherence to Power Policy, 2002, PPRA Rules and policy guidelines for determination of tariff for IPPs resulted in development of rental power plants on excessive cost.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in May 2012. It was replied that as per decision of the Supreme Court of Pakistan, Mar' 30, 2012, the contracts of all the RPPs ordered to be rescinded forthwith and all the persons responsible for the same are liable to be dealt with for civil and criminal action in accordance with law.

DAC in its meeting held on Dec' 18, 2012 directed that the matter would be discussed in PAC

Audit requires PAC may decide fate of the para.

(Draft Para No. 663/2013)

19.2.3 Extra financial burden on the consumers due to implementation of rental power plants at higher rates - Rs.319.85 billion

As per Economic Coordination Committee (ECC) of the Cabinet's decision dated 15.2.2008 relating to Rental Power Plants the:

i) Proposal for rental power plants will be based on dual fuel (Gas and RFO) / single fuel RFO will be implemented in shortest possible time.

ii) Rental Power Plants will be arranged for a period of 3+1 years.

iii) Efforts be made that the tariff of Rental Power Plants is lower than the tariff allowed to the IPPs based on similar technology for their first 10 years.

During audit of PPIB for the year 2011-12, it was revealed that three International Competitive Biddings (ICBs) were conducted during May, Sep' and Dec 2008 to implement IPPs and rental power projects to mitigate the power shortage (4000 MW to 4500 MW) in the Country. The above instructions of the ECC were not kept in view. RPPs were inducted on single fuel residual furnace oil (RFO) for a period of five (5) years instead of maximum up to 4 years. The tariff allowed to the Rental Power Plants was higher than the tariff of IPPs for first 10 years on similar technology. Hence, excess cost of electricity amounting to Rs.319.85 billion would ultimately be borne by the consumers of the DISCOs through higher tariff.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in May 2012. It was replied that as per decision of the Supreme Court of Pakistan, Mar' 30, 2012, the contracts of all the RPPs were ordered to be rescinded forthwith and all the persons responsible for the same are liable to be dealt with for civil and criminal action in accordance with law.

DAC in its meeting held on Dec' 18, 2012 directed that the matter would be discussed in PAC

Audit requires PAC may decide fate of the para.

(Draft Para No. 664/2013)

19.2.4 Non-achievement of economic benefit due to bad planning

i) NEPRA Act, Para-7(6) says, "in performing its functions under this Act, the Authority shall, as far as practicable, protect the interest of consumers and Companies, providing electric power service". **ii)** One of the main objectives of the Power Generation Policy, 2002 is, "to provide sufficient capacity for power generation **at least cost,** and to avoid capacity shortfalls".

During audit of PPIB for the year 2011-12, it was revealed that a meeting of secretaries of the ministries was held in Prime Minister Secretariat on Mar' 27, 2008 to adopt urgent measures for additional power generation. As per decision of the said meeting, Prime Minister Secretariat directed to get 2200 MW of electricity in the system by Apr' 2009. Accordingly, the Cabinet in its meeting held on May 14, 2008, approval was accorded to implement the IPPs/RPPs under "fast track power generation projects through ICB". There were so many IPPs/GENCOs which were either stalled or not fully utilized according to their contracts, due to a range of issues such as contractual and administrative reasons, shortage of gas supply and non-payment of dues of the generation companies. The shortage of gas increase the cost of power by increasing dependence on RFO, and lowing efficiency and capacity for plants designed to run on gas. As per ADB report on rental power projects there was a total of 1,508 MW (inclusive KESC System) stalled capacity which was not utilized due to contractual and administrative reasons and gas supply constraints. In so many cases, the plant factor of IPPs remained below the maximum contractual power factor during the year 2009. 1,298 MW electricity could be provided by using the maximum contractual power factor (P.F) without any cost. Whereas Private Power & Infrastructure Board (PPIB)/Ministry of Water and Power did not consider the said least cost criteria to meet the shortage of electricity in the Country. Non-adherence to the Power Policies, 2002 and NEPRA Act caused non-utilization of full capacity of existing GENCOs/IPPs to meet the power shortage which resulted in extra burden on the economy in kind of costly Rental Power Plants.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in May 2012. It was replied that as per decision of the Supreme Court of Pakistan, Mar' 30, 2012, the contracts of all the RPPs ordered to be rescinded forthwith and all the persons responsible for the same are liable to be dealt with for civil and criminal action in accordance with law.

DAC in its meeting held on Dec' 18, 2012 directed that the matter would be discussed in PAC

Audit requires PAC may decide fate of the para.

(Draft Para No. 665/2013)

19.2.5 Loss due to granting extension without doubling the amount of performance guarantees - Rs.921.40 million

According to clause J para (IV) of Power Policy 1994, "on receipt and acceptance of performance guarantee by PPIB, a letter of support will immediately be issued to sponsors. The guarantee will be encashed in case the sponsors are unable to achieve the Financial Close within one year of issue of letter of support. Under normal circumstances no extension will be granted. However, if on the sponsors' request for extension, PPIB satisfied that delays are due to the factors beyond the control of the sponsors and Financial Close will be achieved very shortly, an extension of maximum of three months will be given against extending the validity period of the guarantee and raising the guarantee amount by 100% i.e Rs. 200,000 per MW."

During audit of PPIB for the year 2011-12, it was revealed that the financial close date of three (3) sponsors was extended more than one time without obtaining the additional 100% performance guarantee. Subsequently, either the performance guarantee was encashed or the sponsor failed to achieve the financial close within the extended period. Non-implementation of the power policy resulted in loss of Rs.921.40 million due to non-doubling the performance guarantees.

The matter was taken up with the management in Mar’ 2012 and reported to the Ministry in May 2012. It was replied that increase in amount of performance guarantees as suggested by the Audit was unprecedented, impracticable and excessive. The reply was not tenable because non-doubling of performance guarantees was clear violation of power policy and needs justification.

DAC in its meeting held on Dec’ 18, 2012 directed that the matter be investigated at the level of Ministry of Water and Power and report be submitted by Jan’ 10, 2013. Further progress was not intimated till the finalization of this report.

Audit requires expeditious implementation of DAC directives.

(Draft Para No.656/2013)

19.2.6 Loss due to non-encashment of performance guarantee - Rs.234.14 million

According to Para J.1.iv of Power Policy 1994, “the Guarantee will be encashed in case the Sponsors are unable to achieve Financial Close within one year of the issuance of the LOS. Under normal circumstances no extensions will be granted. However, if on the Sponsors' request for extension, PPIB is satisfied that delays are due to the factors beyond the control of the Sponsors and Financial Close will be achieved very shortly, an extension of a maximum of three months will be given against extending the validity period of the Guarantee and raising the Guarantee amount by 100% i.e. Rs.200,000 per MW.”

During audit of PPIB for the year 2011-12, it was revealed that letter of Support (LOS) was issued to three (3) sponsors of IPPs to achieve the financial close on the dates fixed in the LOS. Inspite of frequent extensions the sponsors could not achieve the desired financial close at the required dates. The performance guarantees submitted by the sponsors were required to be encashed as per power policy by the PPIB, but it could not encash the performance guarantees because of undue favour extended to the sponsors. In some cases conditional acknowledgement of financial close was given which could not be accepted later on. Non-implementation of the power policy resulted in loss of Rs.234.14 million due to non-encashment of performance guarantees.

The matter was taken up with the management in Mar’ 2012 and reported to the Ministry in May 2012. It was replied that the Company had otherwise fulfilled all the requirements for achieving the financial close under the Implementation Agreement (IA), therefore, PPIB issued conditional acceptance of financial close. In the other case, a full and final settlement between the parties had been signed on the basis of Lahore High Court Judgment. The reply was not tenable because non-encashment of performance guarantees was clear violation of power policy and needs justification.

DAC in its meeting held on December 18, 2012 directed that the matter would be investigated at the level of Ministry of Water and Power and report would be submitted by Jan' 10, 2013. Further progress was not intimated till the finalization of this report.

Audit requires expeditious implementation of DAC directives.

(Draft Para No.657/2013)

19.2.7 Loss due to grant of extension in letter of interest without doubling the amount of performance guarantees - US$ 1.13 million

According to clause 4.2 para 41 of Power Policy 2002, "Initial validity of the LOI will be between 12-24 months, and will depend on the size of the project. In case the Panel of Experts (POE) is satisfied that the Sponsor's progress during conduct of the feasibility study is satisfactory and the feasibility study is likely to be completed shortly, a one-time extension may be granted by the Committee up to a maximum period of 180 days. Submission of a bank guarantee in double the original amount and valid beyond six months of the extended LOI period will be mandatory to qualify for extension in validity of the LOI.

During audit of PPIB for the year 2011-12, it was revealed that contrary to the above mentioned clause of power policy, extension for feasibility study was granted to four (4) sponsors of IPPs without submission of bank guarantees of double amount. Subsequently these sponsors had not completed the feasibility studoes even within the extended period. Non-implementation of the power policy resulted in loss of US$ 1.13 million due to non-encashment of the performance guarantees.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in May 2012. It was replied that this was a "force majeure" situation under which the parties were excused from the performance under Sections 56 and 63 of the Contract Act, 1872. Hence, the encashment of performance guarantees had no legal grounds and PPIB extended the LOI because of force majeure and hence, doubling the amount of performance guarantees was not applicable. The reply was not tenable because non-encashment of performance guarantees was clear violation of power policy and needs justification.

DAC in its meeting held on Dec' 18, 2012 directed that the matter be investigated at the level of Ministry of Water and Power and report be submitted by Jan' 10, 2013. Further progress was not intimated till the finalization of this report.

Audit requires expeditious implementation of DAC directives.

(Draft Para No. 659/2013)

19.2.8 Undue favour to the companies by granting unjustified extension in letter of support – US$ 4.64 million

According to point 38 of Power Policy, 2002, "On the Sponsors' request, if the Committee is satisfied that delays are due to factors beyond reasonable control of the Sponsors and the Financial Closing can be achieved shortly, a one-time extension of up to a maximum period of six months will be given against extending the validity period of the Performance Guarantee (by the Sponsors) and increasing the guarantee amount by 100%."

During audit of PPIB for the year 2011-12, it was revealed that letter of support (LOS) was issued to various sponsors to achieve the financial close at the scheduled dates as per Power Policy 2002. Later on the financial close dates of the said companies were extended by the PPIB without obtaining the additional 100% performance guarantee. Hence, undue favour to the sponsors companies was granted by violating the provisions of the power policy. Non-implementation of the power policy resulted in loss of US$ 4.64 million to the Government due to undue favour to the sponsors companies.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in May 2012. It was replied that after due consultation with all stakeholders (Power Purchaser/NTDC, NEPRA, Provincial/AJK governments), the PPIB Board enhanced the time period of the LOS up to 36 months for all hydropower projects in private sector to complete all activities upto financial close smoothly. Since, no extension in the LOS was granted therefore the question of the doubling the Performance Guarantee did not arise. The reply was not tenable because non-doubling of performance guarantees was clear violation of power policy and needs justification.

DAC in its meeting held on Dec' 18, 2012 directed that the matter be investigated at the level of Ministry of Water and Power and report be submitted by Jan' 10, 2013. Further progress was not intimated till the finalization of this report.

Audit requires expeditious implementation of DAC directives.

(Draft Para No. 660/2013)

19.2.9 Loss due to late encashment of performance guarantees – Rs.49.37 million

i) According to Para J.1.iv of Power Policy, 1994, "On receipt and acceptance of Performance Guarantee by the PPIB, a Letter of Support will immediately be issued to the Sponsors. The IA and PPA will be initialed /signed within a period of six weeks of the issuance of the LOS. The Guarantee will be en-cashed in case the Sponsors are unable to achieve Financial Close within one year of the issuance of the LOS. Under normal circumstances no extensions will be granted. However, if on the Sponsors' request for extension, PPIB is satisfied that delays are due to the factors beyond the control of the Sponsors and Financial Close will be achieved very shortly, an extension of a maximum of three months will be given against extending the validity period of the Guarantee and raising the Guarantee amount by 100% i.e. Rs.200,000 per MW". **ii)** Further, Para 42 of Power Policy, 2002 provides that, "the LOI will require the Sponsors to carry out a complete feasibility study to be monitored by a POE appointed by the PPIB. The Sponsors will have to meet the standards and milestones stipulated in the LOI. If the POE confirms that the Sponsors have failed to meet the relevant milestones / standards, PPIB will terminate the LOI and encash the bank guarantee. The Sponsors will have no claim for compensation against the GOP or Provincial/ AJK Governments and / or any of the GOP / Provincial / AJK agencies in such case. i**ii)** Letter of Support lays down that "the complex shall be commissioned (as defined in PPA) and achieve the Commercial Operation Date failing which the Performance Guarantee may be encashed on a pro rata basis over the period of ninety (90) days depending upon the extent of the actual delay in achieving the Commercial Operation Date without any notice to or demand up the Project Company by PPIB".

During audit of PPIB for the year 2011-12, it was revealed that the performance guarantees of various sponsors/IPPs were required to be encashed at certain dates but PPIB could not encash the said guarantees in time. Had theses guarantees been encahsed at proper time, PPIB would have received an amount of Rs.49.37 million in shape of interest. Non-implementation of the policies resulted in loss of Rs.49.37 million to the Government due to late encashment of performance guarantees.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in May 2012. It was replied that there was no mechanism for recovery of interest for delay in the encashment of the performance guarantees under the LOS, IA or the performance guarantees. Moreover, any such recovery would be unlawful and contrary to Section 55 of the Contract Act, 1872. The reply was not tenable because non-encashment of performance guarantees was clear violation of power policy and needs justification.

DAC in its meeting held on Dec' 18, 2012 directed that the matter would be discussed in PAC.

Audit requires PAC may decide fate of the para.

(Draft Para No. 658/2013)

19.2.10 Loss due to non-development of 1100 MW Kohala Hydropower Project in accordance with the Power Generation Policy, 2002 and PPRA Rules - US$ 344.32 million

According to Para 16 of the Policy for Power Generation Projects, 2002 and subsequent amendments through ECC decision dated Sep' 01, 2005, "For raw hydel and coal site projects, expression of interest will be invited through advertisement in press and the sponsors who submit the best proposal as decided by the PPIB, will be issued LOI for feasibility study. Similarly, all projects for which feasibility has been prepared would be offered to private sector on ICB basis". Further, Rules 20 of PPRA Rules provides that "all procuring agencies shall use open competitive bidding, as the principal method of procurement for the procurement of goods, services and works".

During audit of PPIB for the year 2011-12, it was revealed that PC-II Performa for preparation of 'feasibility study, detailed engineering design and preparation of tender documents of 1100 MW Kohala Hydropower Project' was approved by the ECNEC at a cost of Rs.545.73 million in its meeting held on Aug' 23, 2006, for development of the project in public sector through WAPDA. Accordingly, a consultancy agreement was signed on Jun' 26, 2007 between WAPDA and a Joint Venture firm and a draft feasibility study was completed and submitted to WAPDA in Nov' 2008 and final feasibility was to be completed by Jan' 2009. The Project was required either to be completed in public sector or to be awarded in private sector by conducting international competitive bidding (ICB) as per rules. Therefore, a Memorandum of Understanding (MOU) was signed on Oct' 16, 2008 between Ministry of Water and Power (MWP) and China International Water & Electric Power Corporation (CWE) and Private Power & Infrastructure Board (PPIB), Islamabad issued Letter of Interest (LOI) on Jan' 15, 2009 to implement 1100 MW Kohala Hydropower Project to M/S CWE on BOT basis. The project cost worked out by CWE at US$ 2,498.87 million was higher by US$ 344.32 million than the cost worked out by WAPDA, which would also result in higher tariff. Non-implementation of PPRA Rules and non-adherence to Power Policy, 2002 resulted in loss of US$ 344.32 million due to extra expenditure.

The matter was taken up with the management in Mar' 2012 and reported to the Ministry in May 2012. It was replied that (a) Interim Constitution 1974 and the AJK Council has the competence, powers and jurisdiction to exercise 'Executive Authority' in relation to the subject of electricity. (b) Public Procurement has been defined under Section 2(1) of PPRA Rules to mean acquisition of goods, services, or construction of any works financed wholly or partly out of the public fund, unless excluded otherwise by the Federal Government. This project was not financed either wholly or partly out of public funds as no taxpayer's money or sovereign financial guarantees were involved for its financing. Moreover, the PPRA's Board under Section 5(2)(c) of PPRA Ordinance, 2002 in its meeting held on Feb' 12, 2008 decided that PPRA Ordinance, 2002 would not be applicable on: "PPP projects in which the Federal Government did not have any equity of ownership and procurements were made by the private party". The reply was not tenable because the views of the WAPDA which was the main stakeholder were not kept in view. NEPRA and Cabinet Division also recommended the award of the project under PPRA Rules 2004. In a similar case of Bunji Hydropower Project, the Finance Division and Planning & Development Division also recommended to develop the project under PPRA Rules and Government of Pakistan decided to implement the project under ICB.

DAC in its meeting held on Dec' 18, 2012 directed that the matter would be discussed in PAC

Audit requires PAC may decide fate of the para.

(Draft Para No. 661/2013)

ANNEXURE

(405-415)

ANNEXURE-I

AUDIT PARAS, NOT CONSIDERED SIGNIFICANT ENOUGH TO REPORT TO THE PARLIAMENT, INCLUDED IN MFDAC

(Amount in million)

Sr. No	Name of Formation	Ind. No.	PDP No.	Subject	Rupees	US $	EURO
1	WAPDA	1	1532	Non-disposal of unserviceable vehicles - Rs. 4.05 million	4.05		
2	WAPDA	2	1535	Non-disposal of dismantled material - Rs. 23.77 million	23.77		
3	WAPDA	3	1538	Loss of Rs. 450.35 million due to increase in contingency provision	450.35		
4	WAPDA	4	1539	Excess payment of Rs. 9.60 million on account of pay and allowances to the security staff	9.60		
5	WAPDA	5	1541	Non-renewal of bank guarantees worth Rs. 1049.61 million resulting undue favour to contractor worth Rs. 6.72 million	6.72		
6	WAPDA	6	1542	Over payment of Rs. 9.98 million to the contractor on account of excess rate of conversion of US $	9.98		
7	WAPDA	7	1543	Non-deduction of income tax from contractors Rs. 11.35 million	11.35		
8	WAPDA	8	1544	Excess payment of Rs.0.93 million due to applying higher exchange rate in FC	0.93		
9	WAPDA	9	1545	Non-remittance of interest to Govt. Treasury - Rs.24.70 million	24.70		
10	WAPDA	10	1550	Non-deduction of income tax at source Rs. 1.03 million	1.03		
11	WAPDA	11	1553	Undue favour to contractor due to non-obtaining the insurance cover against a contract - Rs.2087.66 million	2,087.66		
12	WAPDA	12	1554	Irregular award of contract - Rs.0.87 million	0.87		
13	WAPDA	13	1564	Non-recovery of shortage of material Rs. 0.15 million	0.15		
14	WAPDA	14	1571	Blockade of authority’s funds due to unnecessary procurement of medicine – Rs.14.64 million	14.64		
15	WAPDA	15	1572	Loss due to non-insertion of penalty clause in the agreement – Rs.3.27 million	3.27		
16	WAPDA	16	1573	Un-justified expenditure on civil works through variation orders - Rs.267.20 million	267.20		

17	WAPDA	17	1576	Undue financial favour to contractor - Rs.16.88 million	16.88		
18	WAPDA	18	1579	Un-justified excess payment against a day working item Rs.14.27 million	14.27		
19	WAPDA	19	1581	Mis-appropriation of WAPDA moveable property (trees) - Rs.51.19 million	51.19		
20	WAPDA	20	1582	Irregular expenditure on account of POL charges and purchase of motor vehicles for chairman WAPDA - Rs.20.66 million	20.66		
21	WAPDA	21	1586	Loss due to irregular appointment on contract basis - Rs. 0.68 million	0.68		
22	WAPDA	22	1588	Irregular payment to the Contractor M/S Dongfang Electric Corporation - US$ 2.00 million		2.00	
23	WAPDA	23	1593	Avoidable loss of Rs. 13.21 million on account of compensation on delayed payments (MDR 26A)	13.21		
24	WAPDA	24	1595	Violation of recruitment policy resulting in irregular expenditure of Rs. 14.70 million (approximate) on account of appointment of daily wages staff	14.70		
25	WAPDA	25	1596	Irregular expenditure of Rs.531.68 million	531.68		
26	WAPDA	26	1597	Irregular expenditure of Rs. 19.17 million on account of land acquired through lease agreements	19.17		
27	WAPDA	27	1598	Non-deduction of income tax at source - Rs. 27.35 million	27.35		
28	WAPDA	28	1599	Loss of Rs.17.50 million due to illegal encroachment of WAPDA land	17.50		
29	WAPDA	29	1600	Loss of Rs.1.60 million due to excess appointment of non-technical/work charged staff beyond the provisions of consultancy services contract.	1.60		
30	WAPDA	30	1601	Non-recovery/adjustment of advances and receivables amounting to Rs. 3,509 million	3,509.00		
31	WAPDA	31	1603	Excess payment of Rs. 4.37 million on account of out of pocket expenses for expatriates	4.37		
32	WAPDA	32	1604	Heavy loss of Rs. 1279.00 million (approx) due to non-adoption of standard procedure and formula of escalation devised by the Pakistan Engineering Council	1,279.00		
33	WAPDA	33	1612	Unjustified expenditure of Rs. 1.22 million	1.22		

34	WAPDA	34	1614	Misuse of funds amounting to Rs. 2,549.57 million	2,549.57		
35	WAPDA	35	1615	Irregular reimbursement of Rs. 0.92 million on account of family accommodation house rent to the consultants.	0.92		
36	WAPDA	36	1616	Non/less deduction of income tax Rs. 0.67 million from rental payments	0.67		
37	WAPDA	37	1617	Loss due to damage of payment record Rs. 11.38 million	11.38		
38	WAPDA	38	1618	Irregular allotment of option-I cars to directors/managers-Rs. 2.60 million	2.60		
39	WAPDA	39	1619	Non-recovery from employee on account of misappropriation of funds Rs. 0.39 million	0.39		
40	WAPDA	40	1622	Unjustified payment of Rs. 45.29 million on account of house rent allowance and conveyance allowance to consultant's staff posted at site offices	45.29		
41	WAPDA	41	1624	Irregular payment of Rs. 1.20 million on account of insurance coverage in respect of contract No. MDR-37	1.20		
42	WAPDA	42	1626	Loss of Rs. 1704.35 million due to shifting of responsibility of income tax from contractor to employer	1,704.35		
43	WAPDA	43	1627	Unjustified payment on account of compulsory acquisition of land and interest charges - Rs.44.24 million	44.24		
44	WAPDA	44	1628	Unjustified enhancement of land acquisition cost - Rs.132.13 million	132.13		
45	WAPDA	45	1629	Extra expenditure Rs. 170.03 million due to delay in award of compensation	170.03		
46	WAPDA	46	1630	Excess payment of Rs.1.40 million to consultants on account of education allowance	1.40		
47	WAPDA	47	1631	Non-adjustment of advances against land acquisition officer and other departments-Rs. 938.76 million	938.76		
48	WAPDA	48	1642	Loss of Rs. 2.05 million due to non-recovery of proportionate amount of escalation on the amount of work done recovered from the contractor	2.05		
49	WAPDA	49	1645	Unauthorized expenditure on account of salaries to badraggas - Rs.6.10 million	6.10		

50	WAPDA	50	1650	Undue favour to the contractor worth Rs.65.96 million	65.96		
51	PEPCO	1	583/2013	Irregular expenditure due to illegal appointment of staff officer-Rs. 1.18 million	1.18		
52	GENCO-II	1	394/2013	Less deduction of income tax – Rs. 14.00 million	14.00		
53	GENCO-II	2	1635	Un-realistic/unjustified clause for credit insurance premium resulting into extra financial burden-Rs. 3,872.52 million	3,872.52		
54	GENCO-III	1	494/2013	Non-recovery/adjustment of advances worth Rs. 21.45 million	21.45		
55	NTDC	1	143/2013	Loss due to sabotage activities - Rs.11.14 million	11.14		
56	NTDC	2	146/2013	Non-recovery of shortage of material for Rs.0.89 million and non-accountal for surplus material - Rs. 3.38 million	4.27		
57	NTDC	3	174/2013	Non-recovery from M/s Reliance Weaving Mills on account of special repair of approach road-Rs.1.21 million	1.21		
58	NTDC	4	184/2013	Loss due to sabotage activities - Rs.27.84 million	27.84		
59	NTDC	5	203/2013	Irregular payment of enhanced rent of accommodation to third party - Rs.1.20 million	1.20		
60	NTDC	6	263/2013	Un-authorized/un-justified payment of Rs.651.07 million to M/s. Japan Power Generation Limited on account of Capacity Payment during ceased period of plant	651.07		
61	NTDC	7	270/2013	Loss due to damage of breaker - Rs.7.00 million (approx)	7.00		
62	NTDC	8	553/2013	Unjustified written off loss due to theft of vehicles - Rs.0.45 million	0.45		
63	NTDC	9	555/2013	Loss due to extending undue facilities/benefits to contract employee Rs.1.01 million	1.01		
64	NTDC	10	585/2013	Recoverable amount of general sales tax from FBR - Rs.6.26 million	6.26		
65	NTDC	11	587/2013	Irregular expenditure of Rs. 15.09 million on quotation basis instead of tenders	15.09		
66	NTDC	12	631/2013	Loss on account of fraudulent payment to contactor - Rs.1.45 million	1.45		
67	NTDC	13	632/2013	Loss due to fire incident at ware house - Rs.5.11 million	5.11		
68	FESCO	1	104/2013	Loss due to sabotage activities - Rs.3.02 million	3.02		

69	FESCO	2	105/2013	Loss due to non-provision of substation - Rs.0.50 million	0.50		
70	FESCO	3	161/2013	Non-imposition of liquidated damages - Rs.5.89 million	5.89		
71	FESCO	4	164/2013	Non-recovery from consumer - Rs.0.37 million	0.37		
72	FESCO	5	165/2013	Loss due to non-recovery of energy charges from dead defaulters - Rs.2.64 million	2.64		
73	FESCO	6	166/2013	Recoverable amount from contractors - Rs.2.56 million	2.56		
74	FESCO	7	252/2013	Non-recovery of energy charges from dead defaulters - Rs.4.64 million	4.64		
75	FESCO	8	482/2013	Undue favour to the consumer for Rs.0.63 million by revision of estimate	0.63		
76	FESCO	9	528/2013	Loss due to re-award of contract to the same contractor at higher rates- Rs 5.60 million	5.60		
77	FESCO	10	630/2013	Loss due to non-return of dismantled/unconsumed material - Rs.0.60 million	0.60		
78	GEPCO	1	01/2013	Recoverable amount of Rs. 0.55 million against deposit works.	0.55		
79	GEPCO	2	02/2013	Loss due to theft of vehicle - Rs. 0.60 million	0.60		
80	GEPCO	3	79/2013	Loss due to sabotage activities - Rs.30.00 million	30.00		
81	GEPCO	4	80/2013	Non-recovery of shortage of material for Rs.0.35 million and non-accountal for surplus material - Rs. 0.62 million	0.97		
82	GEPCO	5	133/2013	Loss due to sabotage activities - Rs.10.00 million	10.00		
83	GEPCO	6	137/2013	Loss due to non-recovery of fixed charges– Rs.0.96 million	0.96		
84	GEPCO	7	138/2013	Excess recovery on account of security deposits - Rs.1.25 million	1.25		
85	GEPCO	8	159/2013	Less /non-recovery of capital cost - Rs.1.17 million	1.17		
86	GEPCO	9	208/2013	Loss due to sabotage activities - Rs.0.11 million	0.11		
87	GEPCO	10	209/2013	Non-recovery of liquidated damages and cost of material from contractor - Rs.0.50 million	0.50		
88	GEPCO	11	224/2013	Loss due to sabotage activities Rs. 27.00 million	27.00		
89	GEPCO	12	249/2013	Un-justified electrification of private colony - Rs.1.93 million	1.93		
90	GEPCO	13	250/2013	Loss due to damage of 11KV cable - Rs.2.00 million (approx.)	2.00		

91	GEPCO	14	341/2013	Non-recovery of supply charges against temporary connections - Rs.0.14 million	0.14		
92	GEPCO	15	347/2013	Non-recovery of shortage of material for Rs.0.08 million and non-accountal for surplus material - Rs. 0.11 million	0.19		
93	GEPCO	16	465/2013	Loss due to sabotage activities - Rs.56.21 million	56.21		
94	GEPCO	17	467/2013	Misappropriation of material - Rs.1.21 million	1.21		
95	GEPCO	18	509/2013	Loss due to sabotage activities – Rs. 9.46 million	9.46		
96	GEPCO	19	579/2013	Loss due to non-execution of Surety Bond for liquidated damages - Rs.0.50 million	0.50		
97	GEPCO	20	604/2013	Less recovery of market rent - Rs.0.62 million	0.62		
98	GEPCO	21	607/2013	Incorrect estimate of relocation of HT/LT lines and transformers for dualization in widening of Narowal- Shakargarh Road (Phase-II) - Rs.8.26 million	8.26		
99	GEPCO	22	634/2013	Undue favour in financial benefits in salary package on contract appointmentRs.1.04 million	1.04		
100	HESCO	1	113/2013	Non-recovery of fixed charges Rs. 0.34 million	0.34		
101	HESCO	2	179/2013	Irregular award of work - Rs.7.50 million	7.50		
102	HESCO	3	192/2013	Recoverable amount of dismantled material from contractor - Rs. 0.29 million	0.29		
103	HESCO	4	275/2013	Loss due to non-imposition of liquidated damages - Rs.12.05 million	12.05		
104	HESCO	5	405/2013	Irregular payment of pay and allowances due to up gradation - Rs.9.36 million.	9.36		
105	HESCO	6	406/2013	Unjustified payment on account of license fee & PITC - Rs. 10.60 million	10.60		
106	HESCO	7	407/2013	Loss due to detection billing - Rs.4,357.46 million.	4,357.46		
107	HESCO	8	489/2013	Non-recovery of fixed charges from Bulk Supply Consumers - Rs. 0.86 million	0.86		
108	HESCO	9	491/2013	Loss due to installation of additional transformer - Rs. 0.79 million	0.79		
109	HESCO	10	492/2013	Loss due to hiring of private vehicle - Rs. 0.27 million	0.27		
110	SEPCO	1	41/2013	Loss due to heavy rains and flood-Rs.9.69 million	9.69		
111	SEPCO	2	135/2013	Misappropriation of energy meters - Rs.0.45 million	0.45		

112	SEPCO	3	180/2013	Irregular expenditure on account of maintenance - Rs.12.57 million	12.57		
113	SEPCO	4	220/2013	Loss due to less recovery of security deposit - Rs.0.21 million	0.21		
114	SEPCO	5	285/2013	Non-replacement of electrical material under warranty period – Rs.42.02 million	42.02		
115	SEPCO	6	286/2013	Non-imposition of liquidated damages - Rs.3.41 million	3.41		
116	SEPCO	7	520/2013	Losses of Rs.293.42 million due to flood	293.42		
117	SEPCO	8	523/2013	Irregular expenditure of Rs.1.38 million on quotation basis instead of tenders	1.38		
118	SEPCO	9	524/2013	Non-recovery of fixed charges of Rs.0.55 million from scarp and agriculture consumers due to wrong application of tariff	0.55		
119	IESCO	1	56/2013	Recoverable amount from independent consumers on energy losses beyond permissible limit - Rs.3.85 million	3.85		
120	IESCO	2	57/2013	Non-recovery of storage charges - Rs.0.38 million	0.38		
121	IESCO	3	59/2013	Non-removal of electrical equipment - Rs.1.80 million	1.80		
122	IESCO	4	60/2013	Loss due to sabotage activities - Rs.78.23 million	78.23		
123	IESCO	5	61/2013	Recoverable amount from independent consumers on energy losses beyond permissible limit - Rs.92.69 million	92.69		
124	IESCO	6	65/2013	Non-recovery of detection charges amounting to Rs.2.07 million	2.07		
125	IESCO	7	136/2013	Non-recovery of supply charges against temporary connections - Rs.0.03 million	0.03		
126	IESCO	8	186/2013	Non-removal of electrical equipment Rs.0.47 million	0.47		
127	IESCO	9	242/2013	Non-return of surplus material to store - Rs.0.41 million	0.41		
128	IESCO	10	277/2013	Loss due to non-recovery of storage charges - Rs.0.43 million	0.43		
129	IESCO	11	280/2013	Non-recovery of supply charges against temporary connections - Rs.1.04 million	1.04		
130	IESCO	12	289/2013	Irregular expenditure due to splitting-up procurement – Rs.0.98 million	0.98		
131	IESCO	13	329/2013	Loss due to theft of vehicle - Rs.0.30 million	0.30		

132	IESCO	14	331/2013	Un-justified payment of escalation charges – Rs.5.50 million	5.50		
133	IESCO	15	332/2013	Un-justified booking on account of overhead - Rs.165.94 million	165.94		
134	IESCO	16	374/2013	Loss due to theft of vehicle - Rs.0.55 million	0.55		
135	IESCO	17	496/2013	Avoidable expenditure due to change of design - Rs.8.13 million	8.13		
136	LESCO	1	15/2013	Non-recovery of store shortages - Rs. 0.79 million	0.79		
137	LESCO	2	86/2013	Non-recovery of testing fee from contractor - Rs.0.63 million	0.63		
138	LESCO	3	93/2013	Non-recovery of supply charges against temporary connections - Rs.0.15 million	0.15		
139	LESCO	4	151/2013	Non-insertion of standard clause for performance security in work orders - Rs.5.78 million	5.78		
140	LESCO	5	182/2013	Non-return of dismantled material - Rs.6.55 million	6.55		
141	LESCO	6	294/2013	Non-recovery from employees - Rs.0.04 million	0.04		
142	LESCO	7	295/2013	Irregular expenditure on account of serving meal to members of board of directors -Rs.0.47 million	0.47		
143	LESCO	8	297/2013	Unjustified payment on account of license fee to PITC - Rs.4.97 million.	4.97		
144	LESCO	9	318/2013	Irregular payment of insurance charges of Rs.1.41 million	1.41		
145	LESCO	10	320/2013	Irregular expenditure on pay and allowances of players-Rs 23.96 million	23.96		
146	LESCO	11	322/2013	Excess expenditure against deposit works - Rs.0.44 million	0.44		
147	LESCO	12	323/2013	Installation of material against the works without its drawl from store - Rs.2.70 million	2.70		
148	LESCO	13	346/2013	Un-economical / un-justified expenditure of repair and POL of vehicles of Rs. 37.13 million	37.13		
149	LESCO	14	358/2013	Non-recovery of supply charges against temporary connections - Rs.0.77 million	0.77		
150	LESCO	15	361/2013	Loss due to sabotage activities - Rs. 0.80 million	0.80		
151	LESCO	16	379/2013	Un-justified payment on account of inland transportation charges- Rs.6.60 million	6.60		
152	LESCO	17	450/2013	Short receipt of material - Rs.16.92 million	16.92		
153	LESCO	18	451/2013	Loss due to non-installation of capacitor banks at Grid Station - Rs.21.63 million	21.63		

154	LESCO	19	500/2013	Loss to Authority on wasteful expenditure - Rs.1.80 million	1.80		
155	LESCO	20	534/2013	Receipt of material without documents - Rs.201.17 million	201.17		
156	MEPCO	1	05/2013	Blockage of company's funds- Rs. 6.34 million	6.34		
157	MEPCO	2	32/2013	Unjustified recovery on account of sign board/burgee charges – Rs. 31.41 million	31.41		
158	MEPCO	3	33/0213	Irregular expenditure on village electrification - Rs.6.13 million	6.13		
159	MEPCO	4	66/2013	Loss due to less recovery of security deposits - Rs. 1.07 million	1.07		
160	MEPCO	5	76/2013	Non-recovery of capital cost amounting to Rs. 0.50 million	0.50		
161	MEPCO	6	96/2013	Loss due to sabotage activities - Rs.11.77 million	11.77		
162	MEPCO	7	99/2013	Loss due to less recovery of security deposits - Rs. 0.17 million	0.17		
163	MEPCO	8	100/2013	Non-recovery of supply charges against temporary connections - Rs.0.10 million	0.10		
164	MEPCO	9	130/2013	Irregular / un-justified credit to consumers - Rs.30.58 million	30.58		
165	MEPCO	10	194/2013	Non-return of dismantled material - Rs.1.18 million	1.18		
166	MEPCO	11	228/2013	Non-replacement of electrical material under warranty period – Rs.0.70 million	0.70		
167	MEPCO	12	334/2013	Non-accountal of spare parts and special tools amounting to Rs. 16.23 million, Euro 0.15 million and US $ 0.17 million	16.23	0.17	0.15
168	MEPCO	13	335/2013	Unauthentic payment of crops compensation claims-Rs. 10.05 million	10.05		
169	MEPCO	14	337/2013	Loss of Rs.0.62 million due to dacoity at 132KV grid station, Jail Road, Multan	0.62		
170	MEPCO	15	338/2013	Non-encashment of security / performance bond -Rs.0.12 million	0.12		
171	MEPCO	16	345/2013	Loss due to less/non-return of rent from cable operators - Rs.0.31 million	0.31		
172	MEPCO	17	415/2013	Loss of Rs.46.53 million due to flood	46.53		
173	MEPCO	18	419/2013	Loss of Rs 0.42 million due to bogus drawl of pay and allowances and misappropriation of material by a fake employment	0.42		

174	MEPCO	19	424/2013	Non-recovery of Rs 0.13 million on account of irregular drawl of conveyance allowance	0.13		
175	MEPCO	20	430/2013	Recoverable amount on account of standard rent-Rs. 0.43 million	0.43		
176	MEPCO	21	432/2013	Non-recovery from industrial consumers on account of construction of 11 KV dedicated feeders Rs.0.88 million	0.88		
177	MEPCO	22	433/2013	Unjustified payment on account of license fee to PITC - Rs.25.36 million	25.36		
178	MEPCO	23	435/2013	Loss due to heavy wind storm - Rs.1.48 million	1.48		
179	MEPCO	24	449/2013	Un justified expenditure of Rs.1.76 million on account of adjustment of Staff.	1.76		
180	MEPCO	25	512/2013	Loss of Rs 16.09 million due to damage by a violent mob's attack on Vehari Circle building	16.09		
181	MEPCO	26	514/2013	Irregular purchase of electrical material in violation of PPRA Rules-Rs.1,174.42 million	1,174.42		
182	PESCO	1	04/2013	Loss due to flood effected material - Rs. 67.36 million	67.36		
183	PESCO	2	06/2013	Loss of Rs. 166.64 million due to misuse of energy through illegal connections	166.64		
184	PESCO	3	07/2013	Non-return of dismantled / removed material amounting to Rs. 1.76 million in flood/emergency	1.76		
185	PESCO	4	11/2013	Loss of Rs. 450.75 million due to damage of transmission lines and grid stations	450.75		
186	PESCO	5	12/2013	Loss due to snatching of vehicles alongwith electrical material - Rs. 1.18 million	1.18		
187	PESCO	6	14/2013	Loss of Rs. 9.79 million due to damage of equipment at 132 KVA Grid Station Mattni	9.79		
188	PESCO	7	121/2013	Irregular expenditure on account of repair of transformers - Rs.5.42 million	5.42		
189	PESCO	8	158/2013	Less recovery of rehabilitation charges – Rs.0.74 million	0.74		
190	PESCO	9	168/2013	Non-return of dismantled material – Rs.4.76 million	4.76		
191	PESCO	10	170/2013	Less recovery of installation charges – Rs.0.57 million	0.57		
192	PESCO	11	191/2013	Illegal storage/dumping of material Rs.35.79 million	35.79		
193	PESCO	12	231/2013	Loss due to non-provision of insurance coverage by the suppliers - Rs.1.74 million	1.74		

194	PESCO	13	352/2013	Loss due to damage of material by heavy storm – Rs.1.54 million	1.54		
195	PESCO	14	354/2013	Irregular expenditure on account of repair of transformers - Rs.4.04 million	4.04		
196	PESCO	15	393/2013	Non-return of dismantled/unutilized material amounting to Rs 11.80 million in flood/emergency	11.80		
197	PESCO	16	455/2013	Loss due to excessive use of HT Poles in estimates - Rs.1.64 million	1.64		
198	PESCO	17	516/2013	Non-recovery of liquidated damages - Rs.5.67 million	5.67		
199	PESCO	18	556/2013	Illegitimate approval of work orders due to un-authorized enhanced/revised financial powers by BOD - Rs.24.07 million	24.07		
200	PESCO	19	592/2013	Excess provision of installation charges in HT/LT proposals under ADB -Rs. 1.16 million	1.16		
201	PESCO	20	595/2013	Defective Purchase order for procuring of material amounting to Rs. 1.79 million	1.79		
202	PESCO	21	627/2013	Blockage of company's funds - Rs 9.88 million	9.88		
203	QESCO	1	44/2013	Irregular expenditure on account of maintenance - Rs.1.35 million	1.35		
204	QESCO	2	129/2013	Non-recovery of supply charges against temporary connections - Rs.0.30 million	0.30		
205	QESCO	3	141/2013	Loss due to bomb blast and various incidents - Rs.3.21 million	3.21		
206	QESCO	4	260/2013	Non-recovery of supply charges against temporary connections - Rs.0.13 million	0.13		
207	QESCO	5	564/2013	Loss due to damage of transformers - Rs.2.96 million	2.96		
208	QESCO	6	578/2013	Loss due to repair of damaged transformers with substandard material-Rs. 82.99 million	82.99		
209	QESCO	7	624/2013	Wasteful expenditure due to installation of sub standard material-Rs. 0.95 million	0.95		
210	TESCO	1	537/2013	Loss due to damage of material by heavy rain/wind storm and bomb blasts - Rs.0.51 million	0.51		
Total amount of PDPs					**26,685.16**	**2.17**	**0.15**