AUDIT REPORT
ON
THE ACCOUNTS OF
WATER AND POWER
DEVELOPMENT AUTHORITY
AUDIT YEAR 2013-14

AUDITOR-GENERAL OF PAKISTAN

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS

ACSR	Aluminum Conductor Steel Re-inforced
ADB	Asian Development Bank
ADP	Annual Development Programme
AEL	Annual Energy Losses
AJ&K	Azad Jammu and Kashmir
ALMs	Assistant Line Mans
ASCOM	Astronomy Common Object Model
ASPT	Army School of Physical Training
BOD	Board of Directors
BOQ	Bill of Quantity
BPCs	Bulk Power Consumers
BPS	Basic Pay Scale
BTU	British Thermal Unit
CAA	Civil Aviation Authority
CAATs	Computed Assisted Auditing Techniques
CCC	Central Contract Cell
CCPP	Combined Cycle Power Plant
CDA	Capital Development Authority
CEO	Chief Executive Officer
CFL	Compact Florescent Lamps
CIF	Cost, Insurance and Freight
COBOL	Common Business Oriented Language
COD	Commercial Operation Date
CP	Commercial Procedure
CPGCL	Central Power Generation Company Limited
CPMC	Central Park Medical College
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
CSD	Customer Services Department
CVT	Capacitors Voltage Transformer
DAC	Departmental Accounts Committee
DG	Director General
DHA	Defence Housing Authority
DISCOs	Distribution Companies
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
EOT	Extension of Time
EPC	Engineering Procurement and Construction
ERO	Equipment Removal Order
ERP	Enterprise Resource Planning
FATA	Federally Administered Tribal Area
FBR	Federal Board of Revenue

FCC	Foreign Currency Component
FCS	Free Consignee Store
FD	Finance Director
FESCO	Faisalabad Electric Supply Company
FIA	Federal Investigation Agency
FIDIC	Federation International Des Ingenieurs-Conseils
FIR	First Information Report
FoB	Freight on Board
FWO	Frontier Works Organization
GENCOs	Generation Companies
GEPCO	Gujranwala Electric Power Company
GHCL	GENCO Holding Company Limited
GM	General Manager
GoP	Government of Pakistan
GPF	General Provident Fund
GPS	Global Positioning System
GSC	Grid System Construction
GSL	Galvanized Steel
GSO	Grid System Operation
GST	General Sales Tax
GTPS	Gas Thermal Power Station
GWH	Gegawatt Hours
GZD	Gomal Zam Dam
HBL	Habib Bank Limited
HEC	Higher Education Commission
HESCO	Hyderabad Electric Supply Company
HFO	High Speed Furnace Oil
HMC	Heavy Mechanical Complex
HP	Horse Power
HPP	Hydro Power Project
HSD	High Speed Diesel
HT	High Tension
IAS	International Accounting Standards
IBRD	International Bank for Reconstruction and Development
IESCO	Islamabad Electric Supply Company
IPC	Interim Payment Certificate
IPPs	Independent Power Producers
ITO	Income Tax Ordinance
JPGCL	Jamshoro Power Generation Company Limited
JV	Journal Voucher
KAPCO	Kot Addu Power Company
KESC	Karachi Electric Supply Company
KIBOR	Karachi Inter Bank Offer Rates
KPK	Khyber Pukhtun Khwa
KPT	Karachi Port Trust
KV	Kilo Volt
KW	Kilo Watt
KWh	Kilo Watt Hours
LAC	Land Acquisition Collector
LC	Letter of Credit
LD	Liquidated Damages
LESCO	Lahore Electric Supply Company
LOIs	Letter of Indents

LOS	Letter Of Support
LPGCL	Lakhra Power Generation Company Limited
LT	Low Tension
M&S	Monitoring and Surveillance
M&T	Metering and Testing
MCB	Muslim Commercial Bank
MD	Managing Director
MDI	Maximum Demand Indicator
MDR	Mangla Dam Raising
MEPCO	Multan Electric Power Company
MFDAC	Memorandum for Departmental Accounts Committee
MIS	Management Information System
MKWH	Million Kilo Watt Hour
MMM	Manager Material Management
MNA	Member of National Assembly
MoU	Memorandum of Understanding
MPG	Mileage Per Gallon
MPS	Management Position Scales
MRN	Material Return Note
MT	Metric Ton
MVA	Mega Volt Ampere
MW	Mega Watt
NAB	National Accountability Bureau
NDP	National Drainage Programme
NEO	Net Electric Output
NEPRA	National Electric Power Regulatory Authority
NGPS	Natural Gas Power Station
NGPS	Natural Gas Power Station
NJHPC	Neelum Jehlum Hydro Power Company
NJS	Neelum Jhelum Surcharge
NPCC	National Power Control Centre
NPGCL	Northern Power Generation Company Limited
NTDC	National Transmission and Despatch Company
O&M	Operation and Maintenance
P&D	Purchase & Disposal/ Planning & Development
P&E	Planning & Evaluation
PAC	Public Accounts Committee
PACRA	Pakistan Credit Rating Agency
PC Poles	Pre-stressed Concrete Poles
PCC	Particular Condition of Contract
PC-I	Planning Commission Proforma-I
PD	Project Director
PDP	Proposed Draft Para
PEPCO	Pakistan Electric Power Company
PESCO	Peshawar Electric Supply Company
PHPL	Power Holding Private Limited
PITC	Power Information Technology Company
PMU	Project Management Unit
POL	Petrol, Oil and Lubricants
PPA	Power Purchase Agreement
PPIB	Pakistan Power Infrastructure Board
PPRA	Public Procurement Regulatory Authority
PPRs	Public Procurement Rules

PSC	Power Sector Companies
PSDP	Public Sector Development Programme
PSO	Pakistan State Oil
PTDC	Pakistan Tourism Development Corporation
PWP	Peoples Works Programme
QESCO	Quetta Electric Supply Company
RBOD	Right Bank Outfall Drainage
RC	Rainee Canal
RCOs	Reconnection Orders
RCPS	Refund Claim Preparation Software
RFO	Residual Furnace Oil
RPP	Rental Power Project
RPW	Residual Power Wing
S&I	Surveillance & Intelligence
SAP	System Augmentation Project
SCARP	Salinity Control and Reclamation Project
SECP	Security and Exchange Commission of Pakistan
SEPCO	Sukkur Electric Power Company
SEPCOL	Southern Electric Power Company Limited
SO	System Operator
SOPs	Standard Operating Procedures
SPP	Small Power Producer
SRO	Statutory Regulatory Order
SS & TL	Secondary System & Transmission Lines
STG	Secondary Transmission Lines and Grids
SVR	Stock Survey Report
T&T	Transformation and Transmission
TBM	Tunnel Boring Machine
TDS	Tariff Differential Subsidy
TESCO	Tribal Areas Electric Supply Company
TFC	Term Finance Certificate
TIBL	Trust Investment Bank Limited
TNO	Transmission Network Operator
TOU	Time of Use
TPS	Thermal Power Station
VO	Variation Order
WAPDA	Water and Power Development Authority
WASC	WAPDA Administrative Staff College
WECHS	WAPDA Employees Co-operative Housing Society
WHT	Withholding Tax
WPPO	WAPDA Power Purchase Organization
XEN	Executive Engineer

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 2012-13 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 2013-14 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.

Most of the observations included in this report have been finalized in the light of discussions in the Departmental Accounts Committee meetings.

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: 26 MAR 2014

(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 sixty one (161) out of two hundred and seventy one (271) formations was conducted by utilizing forty five thousand and sixty three (45,063) man-days incurring expenditure of Rs.190.56 million.

a. Scope of Audit

Total auditable expenditure and revenue budget for the Financial Year 2012-13, under the jurisdiction of Director General Audit WAPDA were Rs.413,999 million and Rs.897,789 million respectively. The Director General Audit WAPDA conducted audit of the above expenditure and receipts upto the amount of Rs.397,482 million (96%) and Rs.861,877 million (96%) respectively on test check basis in accordance with the audit methodology as envisaged in Financial Audit Manual.

b. Recoveries at the instance of Audit

Recovery of Rs.31,898 million was pointed at the instance of Audit. An amount of Rs.1,481.98 million was effected from January, 2013 to December, 2013. Out of the total recoveries, an amount of Rs.389.37 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 results thereof 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 and 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 discussed with the management in current as well as in previous Audit Reports. One of the major issues is the functioning of the Independent Boards of Directors in the corporatized entities of WAPDA (4 GENCOs, NTDC, 10 DISCOs and PEPCO). However, rules, regulations and financial powers have not been approved by the Government of Pakistan. The management agreed to refer the issue to Ministry of Water and Power for taking up the matter with the relevant authorities. Moreover, WAPDA/PEPCO has granted various allowances to its employees without the approval of the Government of Pakistan. The management has agreed to refer the case to Ministry of Water and Power for taking up the matter with Finance Division. The power distribution companies could not collect Rs.401,235.90 million from various defaulters and recovery drive has been launched by various distribution companies after pointing out by Audit. Procurement of material and consultancy services at various WAPDA/PEPCO formations involved violation of PPRA Rules, provision of PC-I and contracts but the management has now inclined towards greater transparency and competitive bidding. The management has taken the initiative of regularizing the illegal extension of load by recovering the additional security and capital cost besides 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 describes that internal control system is deteriorating gradually as there is increase in cases of unauthorized extension of load, non-implementation of EROs, theft of material/energy, violation of PPRA Rules and NEPRA Act.

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. 184 cases of irregular expenditure/unjustified payments and violation of rules amounting to Rs.368,652.73 million. [1]

ii. 09 cases of embezzlement of public money, theft and misuse of funds amounting to Rs.350.58 million. [2]

iii. 02 cases pertaining to accounting errors and misclassification, amounting to Rs.115.67 million. [3]

iv. 06 cases amounting to Rs.5,780.57 million pertaining to weaknesses of internal control systems. [4]

v. 88 cases pertaining to recoveries and overpayments amounting to Rs.572,630.53 million. [5]

---

[1]Para - 1.3.4, 1.3.5, 1.3.6, 1.3.8, 1.3.10, 1.3.13, 1.3.14, 1.3.15, 1.3.16, 1.3.17, 1.3.19, 1.3.21, 1.3.26, 2.3.2, 2.3.4, 2.3.7, 2.3.8, 2.3.9, 2.3.10, 2.3.12, 2.3.14, 2.3.15, 2.3.16, 3.4.1, 3.4.2, 4.1.4, 4.1.7, 5.2.2, 6.3.1, 6.3.2, 6.3.4, 6.3.7, 6.3.8, 6.3.9, 6.3.10, 6.3.12, 6.3.13, 7.3.1, 7.3.3, 7.3.4, 7.3.6, 7.3.7, 7.3.8, 7.3.9, 7.3.11, 7.3.12, 7.3.13, 8.3.1, 8.3.2, 8.3.5, 9.4.2, 9.4.5, 9.4.7, 9.4.8, 9.4.9, 9.4.12, 9.4.14, 9.4.15, 9.4.17, 9.4.18, 10.4.6, 10.4.7, 10.4.9, 10.4.10, 10.4.11, 10.4.12, 10.4.13, 10.4.14, 10.4.15, 10.4.16, 10.4.17, 10.4.18, 10.4.19, 10.4.20, 10.4.24, 10.4.25, 11.4.3, 11.4.6, 11.4.7, 11.4.9, 11.4.10, 11.4.13, 11.4.14, 12.4.3, 12.4.5, 12.4.7, 12.4.9, 12.4.10, 12.4.11, 12.4.14, 13.4.4, 13.4.5, 13.4.7, 13.4.8, 13.4.9, 13.4.10, 13.4.12, 13.4.13, 13.4.14, 13.4.15, 13.4.16, 13.4.18, 13.4.19, 13.4.20, 13.4.22, 13.4.23, 13.4.25, 13.4.26, 13.4.27, 13.4.28, 14.4.1, 14.4.2, 14.4.3, 14.4.4, 14.4.5, 14.4.6, 14.4.7, 14.4.8, 14.4.9, 14.4.12, 14.4.13, 14.4.14, 14.4.15, 14.4.17, 14.4.19, 15.3.6, 15.3.8, 15.3.9, 15.3.10, 15.3.11, 15.3.13, 15.3.18, 15.3.19, 15.3.21, 15.3.22, 15.3.23, 15.3.25, 15.3.27, 15.3.28, 15.3.29, 15.3.31, 15.3.33, 15.3.34, 15.3.35, 15.3.37, 16.3.4, 16.3.6, 16.3.7, 16.3.8, 16.3.9, 16.3.10, 16.3.11, 16.3.12, 16.3.13, 16.3.14, 16.3.16, 16.3.17, 16.3.18, 16.3.19, 16.3.20, 16.3.21, 16.3.25, 16.3.28, 16.3.30, 16.3.31, 16.3.32, 16.3.33, 17.3.4, 17.3.6, 17.3.7, 18.3.1, 18.3.4, 18.3.6, 18.3.7, 18.3.8, 18.3.11, 18.3.12, 18.3.13, 18.3.15, 18.3.16, 20.2.1, 20.2.2, 20.2.5, 20.2.6

[2]Para - 1.3.2, 4.1.1, 10.4.1, 10.4.26, 11.4.8, 13.4.3, 15.3.1, 16.3.3, 16.3.29

[3]Para - 1.3.9, 1.3.25

[4]Para - 2.3.6, 6.3.3, 9.4.11, 11.4.11, 15.3.12, 15.3.32

[5]Para - 1.3.3, 1.3.7, 1.3.12, 1.3.18, 1.3.20, 1.3.22, 1.3.23, 2.3.3, 2.3.5, 2.3.13, 4.1.2, 4.1.3, 4.1.5, 4.1.8, 4.1.9, 5.2.1, 6.3.5, 6.3.6, 6.3.11, 7.3.2, 7.3.5, 9.4.3, 9.4.4, 9.4.6, 9.4.13, 9.4.16, 10.4.2, 10.4.4, 10.4.5, 10.4.8, 10.4.21, 10.4.22, 10.4.23, 10.4.27, 11.4.1, 11.4.2, 11.4.4, 11.4.5, 11.4.12, 11.4.15, 12.4.2, 12.4.4, 12.4.6, 12.4.8, 12.4.12, 12.4.13, 13.4.2, 13.4.6, 13.4.11, 13.4.17, 13.4.21, 13.4.24, 14.4.10, 14.4.11, 14.4.16, 14.4.18, 15.3.2, 15.3.3, 15.3.7, 15.3.14, 15.3.15, 15.3.16, 15.3.17, 15.3.20, 15.3.24, 15.3.30, 15.3.36, 15.3.38, 16.3.1, 16.3.2, 16.3.22, 16.3.23, 16.3.24, 16.3.26, 17.3.1, 17.3.2, 17.3.3, 17.3.5, 17.3.8, 18.3.2, 18.3.3, 18.3.5, 18.3.9, 18.3.10, 18.3.14, 19.2.2, 20.2.3, 20.2.4

vi. 05 cases amounting to Rs.11,770.99 million pertaining to non-production of record. [6]

vii. 18 cases amounting to Rs.19,526.64 million pertaining to accidents, negligence, etc.[7]

Audit paras for the Audit Year 2013-14 involving procedural violations including internal control weaknesses and irregularities, not considered significant enough to report to the Parliament, have been included in MFDAC (Annexure-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 and strengthen their budgetary and financial controls, e.g. ensure the recovery of arrears through special task force with the help of law enforcement agencies.

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

iii. WAPDA needs to adhere to timelines regarding the construction of major hydel power projects to keep in check the cost of its projects.

iv. The Principal Accounting Officer needs to take steps to stop recurrence of irregularities i.e. illegal extension of load, non-implementation of EROs, theft of material and line losses 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. The management is suggested to devise and implement inventory controls to purchase material in accordance with the actual demand, take appropriate measures to transfer surplus material lying in one DISCO to other DISCOs, if required and dispose off material lying idle in different stores as per the disposal procedures.

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

---

[6]Para - 1.3.1, 2.3.1, 9.4.1, 12.4.1, 13.4.1

[7]Para - 1.3.11, 1.3.24, 2.3.11, 4.1.6, 5.2.3, 7.3.10, 8.3.3, 8.3.4, 9.4.10, 10.4.3, 13.4.29, 15.3.4, 15.3.5, 15.3.26, 16.3.5, 16.3.15, 16.3.27, 19.2.1

SUMMARY TABLES & CHARTS

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*	20	413,999.19	897,789
2	Total formations in audit jurisdiction.	271	413,999.19	897,789
3	Total entities audited	17	397,482.50	861,877
4	Total formations audited	161	**397,482.50	861,877
5	Audit & Inspection Reports	161	-	-
6	Special Audit Report	-	-	-
7	Performance Audit Reports	-	N/A	N/A
8	Other Reports	-	N/A	N/A

* *The Principal Accounting Officer of all the entities is Secretary, Ministry of Water and Power.*

** *The amount is related to total budget of the entity reported by management.*

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

Table 2 Audit Observations regarding Financial Management

Sr. No.	Description	Amount placed under audit observation (Rs. in million)
1	Unsound asset management	350.58
2	Weak financial management	941,283.25
3	Weak internal controls relating to financial management	5,896.24
4	Others	31,297.63
	Total	***978,827.70**

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 2013-14 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	69,761.66	72,492.51	255,228.33	861,877	1,259,359.50	1,166,761.69
2	Amount placed under audit observation/ irregularities of auditee	17,676.04	30,857.44	4,128,053.43	30,849.88	*4,207,436.79	75,182.80
3	Recoveries pointed out at the instance of audit	696.336	9,041.49	3,156.94	19,003.62	31,898.382	8,080.70
4	Recoveries accepted/ established at the instance of audit	18.489	1,428.68	3,005.08	1,086.58	5,538.83	2,090.65
5	Recoveries realized at the instance of audit	0	0.419	0	0.004	**1,481.98	1,097.84

***** *The total audit observations amounting to Rs.4,207,436.79 million includes data of balances of previous years.*

** *Recoveries realized include previous years amount Rs.1,481.56 million.*

Table 4 Table of Irregularities pointed out

Sr. No.	Description	Amount placed under audit observation (Rs. in million)
1.	Violation of Rules and regulations and violation of principle of propriety and probity in public expenditure.	258,900.53
2.	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	4,056.32
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.	123,816.67
4.	Weaknesses of internal control systems.	2,233,599.79
5.	Recoveries and overpayments, representing cases of establishment overpayment or misappropriations of public moneys.	693,713.16
6.	Non-production of record.	1,246.39
7.	Others, including cases of accidents, negligence etc.	892,103.93
	Total	**4,207,436.79**

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.*

Table 5 Cost-Benefit ***(Rupees in million)***

Sr. No.	Description	2013-14	2012-13	2011-12
1	Outlays Audited (Item 1 of Table 3)	1,259,359.50	403,145.18	151,129.76
2	Expenditure on Audit	190.56	141.69	109.03
3	Recoveries realized at the instance of Audit	1,481.98	1,097.84	203.35
	Cost-Benefit Ratio	1:7.78	1:7.75	1:1.87

MINISTRY OF WATER AND POWER

(A) WATER AND POWER DEVELOPMENT AUTHORITY (WAPDA)

CHAPTER-1

WATER WING

(1-19)

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, 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 (1976) Dams 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 tube wells 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 is 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, Sabakzai Dam and Greater Thal Canal Phase-I projects have been completed in June, 2007, June, 2009 and December, 2009 respectively through which 395,500 acres of land is being cultivated. National Drainage Programme in four provinces has been completed in June, 2007.

Work is in progress on Gomal Zam Dam, Satpara Dam (Power House Unit No. 3 &4), Rainee Canal (Phase-I) and Kachhi Canal (Phase-I) Projects and Drainage Schemes in Sindh RBOD-I & III, Civil works of Mangla Dam Raising Project have been completed in December, 2009 whereas resettlement works are scheduled to be completed by September, 2013. Khan Khwar Hydro Power Project (72 MW) is in Commercial Operation since November, 2010. Satpara Dam Units No. 1 and 2 are in Commercial Operation since October, 2007 and December, 2008 respectively. Allai Khwar HPP (121 MW), Jinnah HPP

(96 MW) inaugurated by the President of Pakistan on March 4, 2013 and Darwat Dam Project on March 9, 2013.

The ground breaking ceremony of Diamer Basha Dam (4500 MW) was graced by the Prime Minister of Pakistan on October 18, 2011. The ground breaking ceremony of Naulong Dam was graced by the President of Pakistan on February 28, 2013. 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.

Duber Khwar (130 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 (7,100 MW), Phandar (80 MW), Keyal Khwar (122 MW), Lawi (69 MW), Tarbela 4th extension (1410 MW) and Dasu HPP (4,320 MW) are in progress. Feasibility study of Palas Valley (665 MW), Spat Gah (496 MW), Thakot (2,800 MW), Basho (40 MW), Harpo (34.5 MW) and Patan (2,800 MW) is in progress.

In addition, WAPDA has initiated work on construction of 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 Pakistan on January 01, 02 and 21, 2010 respectively. Ghabir and Nai Gaj Dams are under construction, whereas Darawat Dam is near to completion.

(Source: Monthly Progress Report on Water Sector Projects June, 2013)

1.2 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
Water Wing	1996-97	2	1 (Para No. 9)	-	-
	1999-2000	2	1 (Para No. 1)	-	1 (Para No. 18)
	2000-01	1	-	-	1 (Para No. 117)
	2005-06	3	1 (Para No. 1.2)	1 (Para No. 1.3)	1 (Para No. 1.1)
	2006-07	4	-	1 (Para No. 1.7)	3 (Para No. 1.1, 1.3 & 1.4)
	2008-09	4	2 (Para No. 1.5 & 1.10)	-	2 (Para No. 1.3 & 1.13)

Position of compliance with PAC directives is not satisfactory.

1.3 AUDIT PARAS

1.3.1 Non-production of record - Rs.138.43 million

According to the directives of the Public Accounts Committee issued on June 3, 2004, "make available all information/record to audit as and when required by them. Otherwise disciplinary action will be initiated against person (s) responsible for the delay under Section 14(2, 3) of the Auditor General's Ordinance-2001."

In WAPDA Teaching Hospital Lahore, the medicines valuing Rs.138.43 million were drawn from Store by various WAPDA Dispensaries and departments. The record relating to bonafide consumption of the same was not produced to Audit in spite of verbal/written requests. This resulted in non-production of record relating to consumption of medicines amounting to Rs.138.43 million during 2012-13.

The matter was taken up with management in November, 2013 and reported to the Ministry December, 2013. The management replied that complete record regarding consumption of the medicines was available in the respective WAPDA dispensaries.

DAC directed in its meeting held on February 6-7, 2014 to provide the record with justification for delay in production of record within 15 days.

Audit recommends to investigate the matter for fixing responsibility besides justifying the non-production of record during audit of formation.

(Draft Para No. 1790)

1.3.2 Loss due to theft of vehicles, electrical and other material - Rs.95.38 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".

In WAPDA, five vehicles valuing Rs.3.23 million and electrical and other material worth Rs.92.15 million were stolen in different offices. 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. Violation of rules resulted in loss due to theft of vehicles and other material of Rs.95.38 million upto 2012-13.

The matter was taken up with management in November, 2012 and June to November, 2013 and reported to the Ministry in July, December, 2013 and January, 2014. The management replied that in one case recovery of Rs.1.45 million was made and recoveries/disciplinary proceedings in other cases were under process.

DAC directed in its meeting held on February 6-7, 2014 to provide the recovery record and revised reply along with justification/documentation within 15 days.

Audit recommends that the management needs to provide recovery record, expedite remaining recovery and complete inquiry proceedings for fixing responsibility.

(Draft Para Nos. 1657, 1702, 1729, 1737, 1747 & 1812)

1.3.3 Loss due to non-recovery of water charges from Government departments - Rs.648.75 million

According to minutes of Pre-CDWP and Inter-Ministerial meetings dated April 05, 1997, water charges are to be recovered from the beneficiaries of Khanpur Dam i.e. Irrigation Department of Government of KPK & Punjab and CDA.

In Khanpur Dam Project, an amount of Rs.648.75 million was outstanding against Irrigation Departments of KPK & Punjab and CDA Islamabad (being beneficiaries) on account of water charges. This resulted in loss of Rs.648.75 million due to non-recovery of water charges during 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management replied that the CDA had remitted entire outstanding amount upto December 31, 2013 and efforts were being made to recover the remaining amount of Rs.543.55 million from Govt. of KPK and Punjab.

DAC directed in its meeting held on February 6-7, 2014 to provide recovery record within 15 days and pursue the remaining recovery.

Audit recommends to provide recovery record in respect of CDA and expedite the recovery from Govt. of KPK and Punjab.

(Draft Para No. 1749)

1.3.4 Unjustified payment to the contractor - Rs.567.79 million

Clause-20.1 of the Contract No. GZD-02 deals with the procedure of payment of contractor's claims regarding extension of time (EOT) cases i.e. justification of EOT claims by maintaining supporting documentary evidence in accordance with the contract conditions.

In Gomal Zam Dam Project, D.I Khan, a payment of Rs.567.79 million was made to the contractor against extension of time (EOT) compensation cost claims in October/December, 2012 and March, 2013. The claims were not processed in accordance with the provision of contract clause as requisite record was not maintained to substantiate the claims.

The matter was taken up with the management in May and October, 2013 and reported to the Ministry in November, 2013. The management replied that the payment of entire amount was made to the contractor with the approval of the Authority.

DAC directed in its meeting held on February 6-7, 2014 to provide record in support of reply within one week.

Audit recommends that the matter needs to be inquired for fixing responsibility besides justifying the payment with reference to contract provisions.

(Draft Para No. 1685)

1.3.5 Un-authorized construction of Mangla-Mirpur dual carriage way project - Rs.475.76 million

According to Para-9 of Chapter-2 of General Financial Rules, "as a general rules no authority may incur any expenditure or enter into any liability involving expenditure from public funds until the expenditure has been sanctioned by general or special orders of the President or by an authority". As per PC-I (original/revised), no provision of subject work exists.

In Mangla Dam Raising Project, a cost estimate of Rs.475.76 million was sanctioned for rehabilitation/up-gradation of Mangla-Mirpur Dual Carriageway. A contract under Package-I for construction and up-gradation of existing road from Bohar chowk to Sahab chowk amounting to Rs.170.06 million was awarded on January 17, 2013. The project was neither approved by the ECNEC nor provided in the original/revised PC-I of Mangla Dam Raising Project, which resulted in unauthorized expenditure of Rs.475.76 million during 2012-13.

The matter was taken up with management in June, 2013 and reported to the Ministry in December, 2013. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

Audit recommends that the management needs to inquire the matter for fixing responsibility besides its regularization by the competent forum.

(Draft Para No. 1748)

1.3.6 Unauthorized payment on account of price adjustment - Rs.351.28 million

According to Para-2 (iv) of Attachment-2 of Contract GZD-02, "the current prices of specified elements except labour shall be the prices at the sources indicated in Para-1 prevailing for the corresponding period".

In Gomal Zam Dam Project, D.I Khan, a payment of Rs.351.28 million was made to contractor on account of price adjustment of material by violating the contract provisions as the current prices of specified material were used other than the sources given in the contract. This resulted in unauthorized payment of Rs.351.28 million during 2012-13.

The matter was taken up with the management in May and October, 2013 and reported to the Ministry in November, 2013. The management replied that the procurement of cement from additional source was granted on account of augmentation in quantum of work and to facilitate the contractor to procure cement in bulk, in the best interest of the project.

DAC directed in its meeting held on February 6-7, 2014 to provide comparison of base rate with supplied rate to ascertain the factual position.

Audit recommends that the matter needs to be investigated for fixing responsibility besides recovery of amount involved.

(Draft Para No. 1686)

1.3.7 Non-recovery of mobilization advance - Rs.294.43 million

According to Contract Clause-8 (b) Mobilization Advance, "the advance shall be recovered in installments, first installment at the expiry of third month after the date of payment of first part of advance and the last installment two months before the dates of completion of works".

In Gomal Zam Dam Project, D.I Khan, mobilization advance amounting to Rs.294.43 million was paid to the contractor. The recovery of mobilization advance was due on July 21, 2010 which was not made uptill June, 2013. Violation of contract provisions resulted in non-recovery of mobilization advance of Rs.294.43 million upto 2012-13.

The matter was taken up with management in November, 2012 and reported to the Ministry in November, 2013. The management replied that the case was under progress with high ups for recovery of mobilization advance as the physical progress upto 80% was achieved.

DAC directed in its meeting held on February 6-7, 2014 to expedite the recovery of mobilization advance.

Audit emphasizes expeditious recovery of mobilization advance besides fixing responsibility.

(Draft Para No. 1681)

1.3.8 Unjustified payment of claims due to inefficient contract management - Rs.244.70 million

According to Clause-60.10 of the Contract, “the amount due to the contractor under any Interim Payment Certificate issued by the Engineer pursuant to this clause, or to any other term of the contract, shall subject to Clause-47, be paid by the Employer to the contractor within 42 days after such Interim Payment Certificate has been delivered to the Employer”.

In Rainee Canal Project, the Contract RC-7 could not be completed due to non-payment of certified amount of Rs.139.14 million within the stipulated period i.e. October 20, 2009. The contractor served a notice to the Employer for the termination of contract in pursuance of Sub-Clause-69.1 and lodged different claims due to non-payment by the Employer which were not accepted by the Engineer. Resultantly, the contractor had gone into arbitration. The arbitrator and the umpire gave decision in favour of the contractor. WAPDA filed a civil suit which was withdrawn as a result of amicable settlement in June, 2013 in which the claims of Rs.534.84 million were admitted and the payment of Rs.244.70 million made to contractor. Inefficient contract mismanagement resulted in unjustified payment of Rs.244.70 million during 2012-13

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management replied that the amicable settlement on this issue was made in the best interest of the Authority.

DAC directed in its meeting held on February 6-7, 2014 to provide copy of Authority’s decision regarding amicable settlement along with details of claims.

Audit recommends that the management needs to inquire into the matter for fixing responsibility for delay of certified payment.

(Draft Para No. 1721 & 1725)

1.3.9 Non-recognition of interest accrued on loan – Rs.114.66 million

According to Para-4 of Policy for WEPS, "Special Protection Cell will collect all necessary information and data in connection with formulation of an astute investment plan yielding the highest profitability for surplus fund from schedule banks, National Savings Centre and WAPDA Bonds etc".

In GM Finance (Water) WAPDA, a loan of Rs.850 million was obtained from GM Insurance & Pension WAPDA @ 13.50% interest payable on monthly basis in July, 2011. Out of total loan, an amount of Rs.450 million was returned in September, 2011 but neither any interest was paid nor recognized in the financial statements as interest payables. Thus, the financial statements were not depicting true and fair view of accounts. This resulted in non-recognition of interest accrued on loan worth Rs.114.66 million during 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management replied that during current financial year, the loan along with interest would be repaid if total PSDP allocation was released by Finance Division.

DAC directed in its meeting held on February 6-7, 2014 to pursue the case vigorously with Finance Division GoP for release of PSDP funds.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 1791)

1.3.10 Undue favour to contractor due to unjustified payment of escalation - Rs.62.99 million

According to Appendix-C to tender of the Contract MDR-24, "adjustment of increase/decrease in price shall only be admissible for the materials listed in the schedule of specified materials i.e. ordinary port land cement, steel reinforcement and high speed diesel".

In Mangla Dam Raising Project, the Contract MDR-24 was awarded in April, 2005 with completion upto July, 2007. The contract was not completed within stipulated period whereas an additional payment of Rs.62.99 million was made to the contractor on account of escalation in bitumen rates (during the period June, 2010 to July, 2011) without provision of contract. Resultantly, undue favour was given to contractor as the additional payment was made instead imposing LD for the delayed period in completion of contract.

The matter was taken up with management in December, 2011 and reported to the Ministry in July, 2013. The management replied that the escalation on bitumen was paid after getting approval of the Authority.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

Audit recommends to investigate the matter for fixing responsibility and effecting recovery of amount involved.

(Draft Para No. 1653)

1.3.11 Illegal encroachment of WAPDA land - Rs.45.70 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".

In Tarbela Dam Project, the Ghazi-Faqirabad Road was constructed for transportation of various machinery and construction material required for dam. The local people constructed shops and houses within the right of way of the road through illegal encroachment but no action was taken to vacate the illegal encroachment of WAPDA land worth Rs.45.70 million.

The matter was taken up with the management in November, 2013 and reported to the Ministry in December, 2013. The management replied that the efforts were being made to remove the illegal encroachment with the help of civil administration.

DAC directed in its meeting held on February 6-7, 2014 to pursue the case for removal of illegal encroachment through Ministry.

Audit recommends to investigate the matter for fixing responsibility besides retrieving the land from illegal occupants.

(Draft Para No. 1765)

1.3.12 Non-recovery of rent - Rs.36.78 million

According to Para-d of the Director Finance (Regulation), WAPDA Lahore clarification dated January 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." As per Service & Estate Directorate WAPDA House, Lahore Office Order dated July 18, 2008, "the rates of office accommodation at Islamabad were revised @ Rs.30 per sft. plus 25% extra rent was also admissible for high rise centrally air conditioned building / electricity charges".

In three formations of WAPDA, an amount of Rs.36.78 million was outstanding against M/s ASPT Abbotabad, M/s ACE, M/s NDC, NJHPC, IESCO and WAPDA employees on account of room rent, standard rent and water charges of residential/office accommodation. This resulted in non-recovery of Rs.36.780 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management replied that the recovery of Rs.0.55 million and Rs.2.38 million was made from employees of GM (South) Hyderabad and IESCO respectively whereas efforts were being made to recover the remaining amount.

DAC directed in its meeting held on February 6-7, 2014 to provide recovery record and finalized the pending action within 15 days.

Audit recommends to produce recovery record and expedite the recovery process for remaining amount besides fixing responsibility.

(Draft Para No. 1744, 1750, 1797 & 1798)

1.3.13 Unauthorized/irregular variation order - Rs.25 million

According to Rule-20 of PPRA Rules-2004, "the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works". As per original/revised PC-I of MDR Project, "no provision exists for construction of Lake View Parks along with Mirpur By-Pass Road".

In Mangla Dam Raising Project, a contract valuing Rs.598.33 million for construction of remaining works of public buildings in New City Package-2 was awarded to a contractor against the Contract MDR-29A in October, 2009. Subsequently, a variation order for a new/separate work for construction of Lake View Parks along with Mirpur By-Pass Road valuing Rs.25 million was also included without calling open competitive bidding and against the provision of original / revised PC-I of the project and PPRA Rules-2004.

The matter was taken up with management in June, 2013 and reported to the Ministry in December, 2013. The management replied that no violation of PPRA Rules-2004 had been made by the Authority. The reply was not tenable as the contract was awarded without competitive bidding as well as the same was not covered under PC-I.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

Audit recommends to investigate the matter for fixing responsibility besides its regularization by the competent forum.

(Draft Para No. 1708)

1.3.14 Irregular procurements in violation of PPRA Rules-2004 – Rs.22.35 million

According to Rule-42 (a) of PPRA Rules-2004, "procuring agencies may provide for petty purchases where the object of the procurement is below the financial limit of twenty five thousand rupees. Such procurement shall be exempt from the requirements of bidding or quotation of prices". As per Rule-12 (1) of PPRA Rules-2004, "procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website 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".

In Cadet College Tarbela, procurement of different items amounting to Rs.22.35 million comprising construction materials, steel cupboard, doors, tables and chairs, mess items, books & laboratory equipment for library were made without observing the above PPRA Rules-2004 which resulted in irregular procurements of Rs.22.35 million.

The matter was taken up with the management in September, 2013 and reported to the Ministry in December, 2013. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

Audit recommends to investigate the matter for fixing responsibility for violation of PPRA Rules-2004.

(Draft Para No. 1780)

1.3.15 Loss due to delay in payment of land compensation to the real owner - Rs.17.84 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".

In Lower Indus Right Bank Irrigation & Drainage Project (RBOD-I) Sukkur, a land of 192 acres was acquired for the construction of Hamal Channel. An amount of Rs.4 million was paid to M/s Hidayatullah and Akhtar Ali through their power of attorneys against agreed amount of Rs.6 million while the actual amount of award was Rs.21.25 million. Later on, these powers of attorneys were challenged in the Honourable Sindh High Court, Karachi and the Court ordered to make payment to the petitioner namely Mr. Kanyaa Lal as the powers of attorneys were fake. Accordingly, payment of Rs.35.10 million including the cost of land Rs.7.68 million, additional amount Rs.19.58 million and interest Rs.7.83 million was paid to Mr. Kanyaa Lal. Had the payment been made to the real owner i.e. Mr. Kanyaa Lal instead of irrelevant persons Mr. Hidayatullah and Mr. Akhtar Ali Kambrani on illegal power of attorneys, the loss of Rs.17.84 million could have been avoided.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management admitted that the payment of Rs.4 million was made directly to holder of fake Power of Attorney instead of making through LAC.

DAC directed in its meeting held on February 6-7, 2014 to constitute the inquiry at Authority level to probe into the matter within 30 days.

Audit recommends to expedite the inquiry process for fixing responsibility of loss besides effecting recovery of amount involved.

(Draft Para No. 1723)

1.3.16 Loss due to change of alignment of canal - Rs.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".

In Rainee Canal Project Guddu, the alignment of canal was changed at RD 357+480 to RD 367+752 on the recommendations of the consultant. Resultantly, authority sustained a loss of Rs.12 million on account of cost of land acquisition already paid to the land owners.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management replied that due to technical grounds, the change in alignment of the canal was inevitable, the change occurred during the execution of work.

DAC directed in its meeting held on February 6-7, 2014 to constitute the inquiry at Authority level to probe into the matter within 30 days.

Audit recommends to expedite the inquiry process for fixing responsibility besides effecting recovery of amount involved.

(Draft Para No. 1722)

1.3.17 Loss due to unjustified appointment of advisors - Rs.10.86 million

According to the Supreme Court Order of Suo Motu Case No.24 of 2010, decided on March 01, 2011 that a committee has already been constituted to look into the cases of persons who were appointed on contract basis are not allowed to be continued in terms of Section-14 of the Civil Servants Act-1973 and the policy unless the conditions specified therein are satisfied. As per Guidelines of Establishment Division issued on January 25, 2002 and dated June, 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 dated January 28, 1989".

In WAPDA, four officers were re-appointed as advisors to Authority after superannuation on contract basis. Incurrence of expenditure of Rs.10.86 million on account of pay and allowances was not justified. The detail of expenditure is as under:-

Sr. No.	DP No.	Name of Formation	Name of Officer M/s	Period	Amount involved (Rs. in million)
1	1734	NJHPC	Syed Ali Raza Shah	June, 2013 to September, 2013	0.72
2	1767	TDP, Tarbela	Purdil Khan	March, 2011 to December, 2013	4.08
3	1807	WTHC, Lahore	Tariq Hamid Khan	March, 2012 to June, 2013	2.67
4	1807	-do-	Zaheer-ul-Islam	June, 2012 to October, 2013	3.39
				TOTAL	**10.86**

The matter was taken up with management in October & November, 2013 and reported to the Ministry in December, 2013 & January, 2014. The management replied that the appointments were made by the WAPDA Authority as per policy of GoP for re-employment of retired officers whose services remained brilliant in the past.

DAC directed in its meeting held on February 6-7, 2014 to refer the case to Ministry of Water and Power for clarification within 15 days.

Audit recommends to implement directives of the DAC expeditiously.

(Draft Para No. 1734, 1767 & 1807)

1.3.18 Non-recovery of security deposit and extra rent - Rs.9.09 million

According to the Clause-4 of Lease Agreement, "the lessee shall deposit cash security equals to three months' rent of rented premises at the time of agreement". As per Clause-7 of Lease Agreement, "the lessee will have to pay 25% extra rent, if he desires to construct mezzanine floor in the rented premises."

In the office of GM Finance (B&C) WAPDA, an amount of Rs.5.48 million was not recovered from 5 tenants on account of cash security deposit including interest thereon from 2005-06 to 2012-13. Moreover, an amount of Rs.3.61 million was also not recovered from seven tenants on account of extra rent for construction of mezzanine floor from July, 2012 to June, 2013. This resulted in non-recovery of Rs.9.09 million from tenants on account of security including interest and extra rent.

The matter was taken up with the management in September, 2013 and reported to the Ministry in December, 2013. The management replied that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to add 25% rent for mezzanine floor at the time next renewal of lease agreements with tenants.

Audit recommends to investigate the matter for fixing responsibility besides implement the directives of the DAC expeditiously.

(Draft Para No. 1803)

1.3.19 Loss to the public exchequer on account of 75% rebate allowed to the doctors/officers - Rs.4.71 million

According to Clause-43 (d) of the Income Tax Ordinance-2001 and WAPDA Tax Memorandum 2012 "rebate @ 75% of gross tax payable is admissible to full time teacher or researcher employed in non-profit education or research institution duly recognized by HEC, a Board of Education or University recognized by HEC including Government/ Training and Research Institution".

In WAPDA Teaching Hospital, Lahore, rebate @ 75% of gross tax payable amounting to Rs.4.71 million was allowed to the various doctors and officers/officials from July, 2011 to June, 2013. The rebate was irregular as the said employees were neither full time teachers nor employees of any non-profit educational institution. Non-observance to Income Tax Ordinance resulted in loss of Rs.4.71 million to public exchequer due to allowing 75% rebate to the doctors/officers upto 2012-13.

The matter was taken up with management in October, 2012 and November, 2013 and reported to the Ministry in September & December, 2013. The management replied that WAPDA Hospital, Lahore was registered as WTHC by the PMDC as it was affiliated with the CPMC. Hence, the rebate in income tax availed by the declared and designated faculty members of WTHC was considered in order.

DAC directed in its meeting held on February 6-7, 2014 to get clarification of availing rebate in income tax from FBR within 15 days.

Audit recommends to expedite the recovery of less deduction of income tax besides fixing responsibility.

(Draft Para Nos. 1662 & 1786)

1.3.20 Non-recovery of proportionate amount of escalation - Rs.3.81 million

According to Contract Clause-60.8 (b), "after giving credit to the Employer for all amounts previously paid by the Employer and for all sums to which the Employer is entitled other than under Clause-47, the balance, if any, due from the Employer to the Contractor or from the Contractor to the Employer as the case may be."

In Rainee Canal Project Guddu, an overpayment of Rs.15.88 million was made to the contractor in previous IPCs due to excessive measurements of quantities of work done which was deducted in the final payment certificate of the Contract RC-7. The proportionate amount of escalation of Rs.3.81 million paid on the value of excessive work done in previous IPCs was not deducted in final payment certificate.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management agreed the audit point of view and admitted recovery of escalation paid to contractor.

DAC directed in its meeting held on February 6-7, 2014 to effect recovery from contractor within 30 days.

Audit recommends to effect recovery of overpayment and investigate the matter for fixing responsibility.

(Draft Para No. 1712)

1.3.21 Non-disposal of off road vehicles - Rs.2.20 million

As per Chapter-XI Section-1 and Clause-1.4 of the WAPDA Disposal Procedure, "unserviceable vehicles and material/equipment are to be disposed off timely".

In WAPDA, four unserviceable off road vehicles and old parts/dismantled material of Rs.2.20 million had not been disposed off since 2006. The vehicles were kept in the open yard and exposed to the adverse environmental effects, which resulted in deterioration and decrease in value with the passage of time. Non-adherence to rules resulted in non-disposal of off road vehicles and old parts/dismantled material worth Rs.2.20 million during 2012-13.

The matter was taken up with the management in July and October, 2013 and reported to the Ministry in December, 2013 & January, 2014. The management replied that request was submitted to Transport Directorate for transfer of unregistered vehicles and disposal off other vehicles, was under progress.

DAC directed in its meeting held on February 6-7, 2014 to pursue the matter vigorously for early disposal.

Audit recommends to investigate the matter for non-registration of vehicles besides expeditious disposal of unserviceable vehicles/material.

(Draft Para Nos. 1751 & 1810)

1.3.22 Recoverable amount from tenant - Rs.2.10 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".

In the office of GM Finance (B&C) WAPDA, an amount of Rs.2.10 million was recoverable from M/s Salloos Restaurant, the tenant, on account of rent. M/s Salloos filed the case which was decided in favour of WAPDA by the session court but no recovery was made.

The matter was taken up with the management in September, 2013 and reported to the Ministry in December, 2013. The management replied that the tenant was expired and cases for recovery from legal heirs were subjudice with Court of Law.

DAC directed in its meeting held on February 6-7, 2014 to pursue the case vigorously.

Audit recommends to pursue the case for recovery vigorously besides fixing responsibility.

(Draft Para No. 1802)

1.3.23 Overpayment on account of maintenance charges of V-Wireless phone - Rs.1.28 million

According to BOQ Item-5.35 of the Contract RC-7, "10 Thuraya Satellite Mobile phone connection and sets having GPS facility @ Rs.0.05 million per set are to be provided by the contractor". As per BOQ Item-5.36 of Contract RC-7, "maintenance and servicing of equipment supplied under Item-5.35 @ Rs.0.05 million per month for 32 months are to be provided by the contractor."

In Rainee Canal Project Guddu, 10 V-wireless phone sets @ Rs.0.01 million per set were provided by the contractor at the cost of Rs.0.1 million along with maintenance charges of Rs.1.6 million @ Rs.0.05 million per set for 32 months against the provision of BOQ. The maintenance charges of 10 Thuraya Satellite mobile phone connections were made instead of V-wireless phone sets. Violation of contractual provisions resulted in overpayment of Rs.1.28 million to the contractor during 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management replied that recovery would be effected and intimated to Audit.

DAC directed in its meeting held on February 6-7, 2014 to provide recovery record to Audit by the end of March, 2014.

Audit recommends to expedite the recovery besides fixing responsibility for overpayment.

(Draft Para No. 1724)

1.3.24 Loss due to fire incident - Rs.1.10 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".

In Tarbela Dam Project, a fire incident took place on March 02, 2013. A departmental inquiry was conducted to investigate the cause of incident and damage to record/office building. According to committee's report, many T&P items were burnt in the incident and three officials were declared responsible for fire incident in May, 2013. However, no disciplinary/departmental action was taken against them. Non-adherence to the Authority's instructions for safeguarding the assets of the Authority resulted in loss of Rs.1.10 million due to fire incident.

The matter was taken up with the management in November, 2013 and reported to the Ministry in December, 2013. The management replied that the incident of fire had been investigated through an inquiry committee and action was initiated against the responsible officers/officials in line with findings of the inquiry committee.

DAC directed in its meeting held on February 6-7, 2014 to provide copy of inquiry committee and expedite action initiated against the delinquents within 30 days.

Audit emphasizes to implement the directives of the DAC expeditiously.

(Draft Para No. 1753)

1.3.25 Excess payment on account of escalation - Rs.1.01 million

According to Contract Clause-60.8 (b), "after giving credit to the Employer for all amounts previously paid by the Employer and for all sums to which the Employer is entitled other than under Clause-47, the balance, if any, due from the Employer to the contractor or from the Contractor to the Employer as the case may be".

In Rainee Canal Project Guddu, an amount of Rs.46.96 million was paid to the contractor instead of Rs.45.95 million in IPCs 17 to 21 under Contract No. RC-7 due to incorrect calculation of escalation which resulted in excess payment of Rs.1.01 million to the contractor.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

Audit recommends to investigate the matter for fixing responsibility besides recovery of amount involved.

(Draft Para No. 1719)

1.3.26 Wasteful resources due to non-utilization of Hemodialysis Machine - Rs.1 million

According to agreement made between WAPDA Hospital and Central Park Medical College on January 26, 2010, “the CPMC was responsible to provide three Hemodialysis Machines to WAPDA Hospital Lahore”.

In WAPDA Teaching Hospital Lahore, one Hemodialysis Machine valuing Rs.1 million was received in July, 2010 but neither the said machine was installed nor used for the purpose for which dialysis machine received from the donor. Moreover, the warranty period of Hemodialysis Machine was also expired. This resulted in wasteful resources amounting to Rs.1 million due to non-utilization of the Hemodialysis Machine.

The matter was taken up with management in November, 2013 and reported to the Ministry in December, 2013. The management replied that the administration of CPMC had provided only one dialysis machine to WTHC Lahore which remained idle due to non-availability of infrastructure and expertise.

DAC directed in its meeting held on February 6-7, 2014 to complete the process as per agreement and expedite the process for hiring of Nephrologists.

Audit recommends to implement the directives of the DAC expeditiously.

(Draft Para No. 1794)

CHAPTER-2

WAPDA HYDRO ELECTRIC POWER
(23-34)

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).

Non-completion/finalization of Financial Statements

The WAPDA Hydro Electric Power did not submit the financial statements for 2012-13 till the finalization of this Audit Report, therefore, this office is unable to offer comments thereupon.

2.2 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
WAPDA HYDRO ELECTRIC (Power Wing)	1996-97	3	3 (Para No. 6, 45 & 61)	-	-
	1999-2000	4	3 (Para No. 5, 16 & 34)	-	1 (Para No. 36)
	2000-01	1	1 (Para No. 108)	-	-
	2006-07	3	-	-	3 (Para No. 3.4, 3.6 & 3.7)
	2008-09	1	-	-	1 (Para No. 4.7)

Position of compliance with PAC directives is not satisfactory.

2.3 AUDIT PARAS

2.3.1 Non-production of record of compensation for land acquisition and damages to properties - Rs.68.95 million

According to Clauses 14-C, 14 (2&3) of the Auditor General's (Functions Powers and Terms and Conditions of Service) Ordinance-2001, "it is obligatory of all Government departments to provide record to Audit on demand".

In Golen Gol Hydropower Project Chitral, funds amounting to Rs.68.95 million were transferred to District Officer Revenue & Estate/Collector

(DOR&E) for the payments of compensation of land acquisition and damages to properties. The record relating to the said payments was not provided to Audit despite repeated reminders. Hence, authenticity of payments could not be ascertained. Violation of the Auditor General's Ordinance, 2001 resulted in non-production of record of Rs.68.95 million during 2011-12.

The matter was taken up with management in July and December, 2012 and reported to the Ministry in July, 2013. The management replied that adjustment account of Rs.6.24 million was received from DOR Chitral, an amount of Rs.29.27 million was transferred to G.M. Finance (Power) and remaining amount was lying with Project Director.

DAC directed in its meeting held on February 6-7, 2014 to provide the record with justification for delay in production of record within 15 days.

Audit recommends to investigate the matter for fixing responsibility besides justifying the non-production of record during audit of formation.

(Draft Para No. 1652)

2.3.2 Unrealistic/unjustified provision of O&M cost in variation order - Rs.5,242.30 million

According to Clause-52.1 of the Contract "if the contract does not contain any rates or prices applicable to the varied work, the rates and prices in the Contract shall be used as the basis for valuation so far as may be reasonable, failing which, after due consultation by the Engineer with the Employer and the Contractor, suitable rates or prices shall be agreed upon between the Engineer and the Contractor".

In Neelum Jhelum Hydro Electric Project, VO No. 037 for supply, installation, testing, commissioning and operation & maintenance of High Speed Furnace Oil (HFO) generators by WARTSILA at sites was prepared by the Engineer for Rs.6,475.61 million and the payment of Rs.957.87 million made to the contractor upto IPC-54. The O&M cost of the generators of Rs.5,242.30 million for estimated period of 4 years by considering the utilization 23.5 hours per day and 330 days per year was included in variation order. Tariff per KW Rs.10.73 was applied and the provisional sum for escalation Rs.1,747.43 million were also added to calculate the VO's cost. Utilization of generators for 23.5 hours in a day and 330 days in a year at three sites was not justified.

The matter was taken up with management in October, 2013 and reported to the Ministry in December, 2013. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within fifteen days.

Audit recommends to investigate the matter for fixing responsibility besides reviewing the VO to provide a realistic cost for O&M of generators.

(Draft Para No. 1695)

2.3.3 Excess payment in violation of the provision of cost of variation orders - Rs.1,246.95 million

According to Clause-52.1, “all variations referred to in Clause-51 and any additions to the contract price which are required to be determined in accordance with Clause-52, shall be valued at the rates and prices set out in the contract if, in the opinion of Engineer, the same shall be applicable. If the contract does not contain any rates or prices applicable to the varied work, the rates and prices in the contract shall be used as the basis for valuation so far as may be reasonable, failing which, after due consultation by the Engineer with the Employer and the Contractor, suitable rates or prices shall be agreed upon between the Engineer and the Contractor”.

In Neelum Jhelum Hydroelectric Project, an amount of Rs.1,990.51 million was paid upto IPC-54 for the month of January, 2013 against the estimated cost of variation orders amounting to Rs.743.56 million. Thus, an amount of Rs.1,246.95 million was paid to the contractor in excess of the cost of variation orders approved by the Engineer.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management replied that VOs were based on the estimated quantities. However, upon completion of work the engineer would submit the revised VOs for approval of the Employer.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within fifteen days.

Audit recommends to investigate the matter for fixing responsibility besides effecting recovery from the contractor.

(Draft Para No. 1693)

2.3.4 Unjustified payment on account of price adjustment - Rs.1,136.21 million

According to Clause-70.1 of the Contract, "the amounts payable to the contractor, pursuant to Sub-Clause-60.1(a) and (b) at base prices, shall be adjusted in respect of the rise or fall in the cost of labour, maintenance of contractor's equipment, materials and other inputs to the works, by applying the formula prescribed in this clause." As per Clause-70.5 of the Contract, "the base cost indices or prices shall be those applying to the day 28 days prior to the latest date for submission of tenders. Current indices or prices shall be those applying to the day 28 days prior to the last day of the period to which a particular interim payment certificate is related."

In Neelum Jhelum Hydroelectric Project, an amount of Rs.1,136.21 million was paid to the contractor on account of price adjustment through IPC No. 52, 53 and 54. The base and current indices/prices on the basis of which the amount of price adjustment worked out were neither available in Appendix-C to tender of the contract nor in support of IPCs/payment vouchers. Resultantly, unjustified payment of Rs.1,136.21 million was made to contractor on account of price adjustment.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply within fifteen days.

Audit recommends to investigate the matter for fixing responsibility and ensure production of record in support of payment.

(Draft Para No. 1692)

2.3.5 Loss due to non-recovery of loan along with interest - Rs.595.74 million

According to Para-3 of Supplementary Agreement No.1 between WAPDA and Dongfang Electric Corporation of China (DEC), "the contractor shall repay the loan provided by the employer as per schedule given in the agreement. In case the contractor delays any installment from the specified date, the employer shall charge the interest on daily basis @ KIBOR+3% per annum as applicable on the date when interest shall be charged".

In Jinnah Hydro Power Project, 4th to 8th installments of loan US$ 5 million due on September 15, 2012, October 15, 2012, December 15, 2012, January 31, 2013 and March 15, 2013 were not recovered from the contractor along with interest amounting to Rs.595.74 million. This resulted in loss of Rs.595.74 million during 2012-13.

The matter was taken up with the management in May, 2013 and reported to the Ministry in December, 2013. The management replied that the contractor committed in monthly coordination meeting that the outstanding amount along with interest would be paid after settlement of claims against WAPDA.

DAC directed in its meeting held on February 6-7, 2014 to pursue the matter for recovery of loan along with interest from contractor vigorously.

Audit emphasizes expeditious recovery of loan along with interest from the contractor besides fixing responsibility.

(Draft Para No. 1706)

2.3.6 Loss due to illegal occupation of WAPDA land - Rs.160.83 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".

In Small Hydel Power Stations Mangla, 1,020 kanals of WAPDA land of various power stations valuing Rs.160.83 million was illegally occupied by some private person(s) and government department since April, 1994. The cases were pending in courts but nothing had been achieved so far. This resulted in illegal occupation of land valuing Rs.160.83 million during 2012-13.

The matter was taken up with the management in July, 2013 and reported to the Ministry in October, 2013. The management replied that cases for recovery of land from illegal occupants were lodged in different courts.

DAC directed in its meeting held on February 6-7, 2014 to pursue the court cases vigorously.

Audit emphasizes for expeditious pursuance of court cases besides fixing responsibility.

(Draft Para No. 1668)

2.3.7 Un-justified provision of variation order - Rs.101.66 million

According to the special provisions Part-E Clause-13.2.6 of the contract, "the arrangement and location of the crushing and screening facilities is the Contractor's responsibility provided that the relevant provisions of the contract are adhered to. The location and arrangement shall be approved by the Engineer." As per BOQ Item-1.1.2.1 and 1.1.2.4 of Contract Lot C-1, "there are provisions of Rs.33.81 million for contractor's camps, offices, workshops, store, crushing, screening and batching - mixing facilities, plus other plant and equipment and Rs.13.29 million for all lay down and plant areas required for the works".

In Neelum Jhelum Hydro Electric Project, a VO No. 003 regarding development of Nausada Nullah area for use as plant site establishment complete was prepared and approved by the Engineer/Employer for Rs.101.66 million in April, 2013. The VO was not justified as the development of site/area for the establishment and use of plant was the contractor's responsibility.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management replied that Nusada Nullaha site was developed for plant establishment by contractor and payment to contractor was regularized through VO and detailed cost calculations of VO would be provided to Audit.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within fifteen days.

Audit recommends to investigate the matter for fixing responsibility besides regularization from competent authority.

(Draft Para No. 1694)

2.3.8 Unjustified expenditure charged to Neelum Jhelum Hydro Electric Project on account of demurrage - Rs.12.08 million

According to FIDIC's Para-54.3 on customs clearance, "the Employer will use his best endeavors in assisting the contractor, where required, in obtaining clearance through the customs of contractor's equipment, materials and other things required for the works".

In Neelum Jhelum Hydro Electric Project, an expenditure of Rs.12.08 million was charged to the project on account of demurrage/container detention charges during 2012-13. Charging of expenditure of Rs.12.084 million to NJHE Project's account was not justified as it was liability of the supplier / contractor under the contract agreement.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management replied that the engineer had recommended recovering this amount from supplier in next IPC.

DAC directed in its meeting held on February 6-7, 2014 to expedite the recovery of demurrage / container detention charges.

Audit emphasizes expeditious recovery of demurrage/detention charges from the contractor besides fixing responsibility.

(Draft Para No. 1699, 1700 & 1704)

2.3.9 Unjustified payment to the contractor against appropriation request and variation order – Rs.7.28 million

According to BOQ Item-1.1.2.3 of Contract Lot C-I a lump sum provision of Rs.14.44 million was made in the contract for construction of all temporary road works within the site not covered by separate bill items in bill No.2.1 “Site Roads”. As per BOQ Item-1.1.2.10 & 1.1.2.9 of the Contract C-I, C-2 & C-3, “the lump sum provisions of Rs.10.73 million, Rs.17.56 million and Rs.17.77 million respectively were made for power supply to the Engineer and the Employer”.

In Neelum Jhelum Hydropower Project, payments of Rs.7.28 million were made to two contractors on account of widening of the existing narrow strip access passing through Nauseri village and provision of “Power Supply to the Engineer and the Employer” respectively. The said items of work were already covered under lump sum amount in BOQ Items. This resulted in unjustified payments of Rs.7.28 million to the contractors upto 2012-13.

The matter was taken up with management in June, 2013 and reported to the Ministry in October, 2013. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply within fifteen days.

Audit recommends to investigate the matter for fixing responsibility upon the persons at fault besides ensuring recovery from contractor.

(Draft Para No. 1671)

2.3.10 Irregular award of work without competitive bidding - Rs.4.76 million and loss due to higher rates - Rs.0.46 million

According to Rule-12 (2) of PPRA Rules-2004, “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."

In Hydel Power Station, Tarbela, a work order for manufacturing and supply of relief valve seals for Unit No. 5-8 was awarded to M/s Heavy Mechanical Complex, Taxila at a contract price of Rs.4.76 million without inviting tenders in June, 2013. Besides, in the first offer given by the supplier, the rates were Rs.0.15 million and Rs.0.09 million for manufacturing of body seat ring and sleeve seat ring for Unit No.5-8 but the work order was not issued to the supplier. Later on the supplier revised/increased the rates of Rs.1.34 million and Rs.1.04 million for the same items and the purchase order was issued to him in June, 2013 which resulted in loss of Rs.0.46 million.

The matter was taken up with the management in November, 2013 and reported to the Ministry in December, 2013. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

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

(Draft Para No. 1768)

2.3.11 Loss due to damage of material – Rs.3.02 million

According to Clause-2.11.3 of Purchase Order, "if the contractor fails to intimate the shipment particulars in time, the goods will remain un-insured & all losses/damages during transit will be recovered from contractor".

In Hydel Power Station, Tarbela, a purchase order for procurement of three units of 500 KV capacitors voltage transformer (CVT) worth US$ 95,580 was placed with M/s Trench Limited Canada on December 12, 2012. The material was received at Tarbela which was jointly inspected in the presence of Insurance Surveyor and one capacitor voltage transformer costing US$ 31,860 equal to Pak Rs.3.02 million was found completely damaged. Neither the material was replaced from supplier nor cost recovered. This resulted in loss of Rs.3.02 million due to damage of material upto 2012-13.

The matter was taken up with the management in November, 2013 and reported to the Ministry in December, 2013. The management replied that the material was inspected at Tarbela and was found damaged. The case was under correspondence with DG Insurance, WAPDA and final status would be intimated to Audit.

DAC directed in its meeting held on February 6-7, 2014 to pursue the case with DG Insurance vigorously.

Audit recommends to investigate the matter for fixing responsibility besides ensuring recovery of loss.

(Draft Para No. 1756)

2.3.12 Loss due to procurement of electrical material at higher rates - Rs.2.93 million

According to Rule-4 of PPRA Rules-2004, "procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical".

In Hydel Power Station, Tarbela, the tenders for supply of capacitor voltage transformers for switch yard were called for in September, 2010. The evaluation committee recommended to purchase the required material from M/s Trench Limited, Canada through M/s Siemens Pakistan, Lahore for total FOB value US$ 70,950 equal to Pak Rs.6.14 million, but the Chief Engineer (Power) ordered to proceed for re-tendering. Later on, it was recommended that the procurement order be issued to M/s Trench Limited Canada through proforma invoice worth US$ 95,580 equal to Pak Rs.9.07 million in October, 2012. Thus, the procurement was made at higher rate and Authority sustained a loss of Rs.2.93 million.

The matter was taken up with the management in November, 2013 and reported to the Ministry in December, 2013. The management replied that the stock position was "Nil" and time consumed in re-tendering could not be affordable. Therefore, it was decided to procure the material through proforma invoice.

DAC directed in its meeting held on February 6-7, 2014 to investigate the matter at WAPDA level for fixing responsibility within 30 days.

Audit recommends to investigate the matter for fixing responsibility besides recovery of loss from the responsible.

(Draft Para No. 1759)

2.3.13 Non-recovery of risk and cost from the defaulting contractor - Rs.2.70 million

According to the standard Clause-of contract agreement, if the contractor fails to complete the work within stipulated time the contract would be terminated and the work would be re-awarded at the risk and cost of the contractor.

In Small Hydel Power Stations, Nandipur, a work order valuing Rs.9.53 million for construction of 17 Quarter C-V was issued to M/s Global Tech on April 03, 2010. The contractor failed to complete the work and his contract was terminated on August 03, 2011. However, the contractor managed to get the performance guarantee released. The remaining work was re-awarded to M/s Gravity Engineer vide work order on October 26, 2011 at a cost of Rs.7.29 million at the risk and cost of the defaulting contractor. The amount of Rs.2.70 million was still recoverable from the defaulting contractor on account of risk and cost.

The matter was taken up with the management in July, 2013 and reported to the Ministry in January, 2014. The management replied that the case was being pursued to recover the amount of Rs.2.70 million from the contractor with the consent of Director Litigation.

DAC directed in its meeting held on February 6-7, 2014 to initiate the action against the delinquents as per procedure laid down by the Authority.

Audit emphasizes expeditious recovery from the contractor besides fixing responsibility for releasing performance guarantee.

(Draft Para No. 1811)

2.3.14 Loss due to short supply of material - Rs.2.46 million

According to Clause-2.14 of Purchase Order, "the supplier is entirely responsible for the successful execution of the contract in all respects".

In Hydel Power Station, Tarbela, a purchase order amounting to US$ 48,224 for purchase of spares for HVAC & DC system of barrage of Power Station was placed with M/s Xj International Engineering Corporation China on August 17, 2012. During inspection of consignment spares of US$ 23,440 equal to Rs.2.46 million were found short. This resulted in loss of Rs.2.46 million due to short supply of material during 2012-13.

The matter was taken up with the management in November, 2013 and reported to the Ministry in December, 2013. The management replied that in some cases the short items had been supplied by the firm and efforts were being made to recover remaining items.

DAC directed in its meeting held on February 6-7, 2014 to provide record of completed actions within 15 days and finalized the pending actions.

Audit recommends to investigate the matter for fixing responsibility besides ensuring the recovery of short material.

(Draft Para No. 1739)

2.3.15 Unauthorized expenditure for security of TBMs - Rs.1.24 million

According to Clause-V 22-1.2.03 of VO-22, "the contractor is responsible for inland transportation of TBMs from port of entry to project site".

In Neelum Jhelum Hydroelectric Project, 24 security personnel were deployed for transportation of TBMs from Karachi port to project site. TA/DA amounting to Rs.1.24 million was paid to them out of projects funds, which was violation of the provision of VO as the contractor was responsible for all the arrangements including safe transportation of TBM.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management replied that the personnel were deployed to provide additional security in current vulnerable safety for such very expensive and important equipment. The reply was not tenable as the payment was made against the provision of VO.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

Audit recommends to inquire into the matter for fixing responsibility besides effecting recovery from contractor.

(Draft Para No. 1782)

2.3.16 Defective planning and cost estimation of Neelum Jhelum Hydro Electric Project due to non-provision of transmission line in original/revised PC-I

According to PC-I, "Neelum Jhelum Hydro Electric Project would generate about 969 MW with an annual energy of about 5,150 Gwh. The development of this project will help in achieving the objective of alleviating the power shortage in the country by adding cheap and cost effective energy to the national grid".

In Neelum Jhelum Hydro Electric Project, a revised PC-I was approved for the cost of Rs.274,882 million by the ECNEC including the cost of all the component of works of the project except transmission line. The cheap electrical energy to be produced upon completion of project would not be added to the system until and unless the required transmission line was constructed. Non-provision of construction of transmission line in original/revised PC-1 resulted in defective planning and cost estimation of the project of Rs.274,882 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management replied that the issue did not fall in preview of NJHPC, NTDC was handling it.

DAC directed in its meeting held on February 6-7, 2014 to transfer the matter to NTDCL for final reply.

Audit recommends to investigate the matter for fixing responsibility besides revising the PC-I by incorporating the cost of transmission line.

(Draft Para No. 1701)

CHAPTER-3

(B) PAKISTAN ELECTRIC POWER COMPANY (PEPCO)

(37-41)

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 and manpower transition programme and tariff determination process of corporate entities of WAPDA (Power Wing).

PEPCO is responsible for the management of a National Transmission and Dispatch Company (NTDC) and ten (10) Distribution Companies (DISCOs). These companies are working under independent Board of Directors.

3.2 Comments on Financial Statements

3.2.1 Financial Overview

As per Companies Ordinance, 1984 the financial statements of the Company are required to be approved within four month from the end of financial year. The Company has failed to issue the approved Annual Report for the year 2012-13 within the time frame stipulated in Section-158 of the Companies Ordinance, 1984. Non-compliance with the relevant provisions of Companies Ordinance, 1984 reflect the inefficiency on part of management and needs justification.

Company is not considered as a going concern, therefore, the financial statements have been prepared on basis other than going concern.

The following comments/analysis was prepared on the approved financial statements of 2011-12.

3.2.2 Extracts of the Financial Statements[1]

Balance Sheet as at June 30, 2012

(Rupees in million)

	2011-12	**%**	**2010-11**
Share capital and reserves			
Issued, subscribed and paid-up capital	7.10	-	7.10
Unappropriated Loss	-	-	-
Current liabilities			
Differed liabilities			
Employee benefits-unfunded	2.83	(18.22)	3.46

[1]*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	1.66	(46.65)	3.12
Income Tax payables net of advance tax	1.05	(18.37)	1.29
	5.54	(83.23)	7.86
	12.64	(15.50)	14.96
ASSETS			
Current assets			
Property and Equipment	1.63	(44.32)	2.92
Trade debts	-	(100.00)	2.67
Other receivables	0.75	116.52	0.35
Loans and advances	0.11	1,485.71	0.01
Short term prepayments	-	(100.00)	0.01
Cash and bank balances	10.15	12.79	9.00
	12.64		14.96

Profit and Loss Account
For the year ended June 30, 2012

(Rupees in million)

	2011-12	**%**	**2010-11**
Revenue	53.81	(35.47)	83.38
Administrative expenses	(53.69)	(33.05)	(80.19)
Finance cost	(0.004)	-	(0.004)
	(53.69)		(80.20)
Other operating income	1.07	41.74	0.76
Profit before taxation	1.19	(69.76)	3.94
Provision for taxation	1.19	(11.38)	1.35
Profit/(Loss) for the year	-		2.60

3.2.3 Financial Ratios

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

COMPANY		**PEPCO**	
YEAR		**2011-12**	**2010-11**
Profitability Ratios			
Return on Capital Employed	%	16.79	55.52
Gross Profit Margin	%	0.22	3.82
Net Profit Margin	%	0.00	3.11
Average Asset Turnover Ratio	Times	7.58	11.75
Return on Total Assets	%	0.00	17.36
Short Term Liquidity Ratio			
Current Ratio	Times	2.28	1.90

3.2.4 Cash Flow Analysis

The Company's net inflow of cash was Rs.1.15 million (Rs.0.67 million: 2010-11) during the financial year resulting in closing balance of Rs.10.15 million (Rs.9 million: 2010-11).

The Company is a management company, therefore, is not involved in the revenue generating activities or operations.

3.2.5 Ratios Analysis

3.2.5.1 Profitability

The main source of revenue of the Company is management fees charged from the above referred entities. During the financial year, there was neither profit nor loss whereas in 2010-11, the Company earned net profit of Rs.2.60 million which was adjusted to write off the accumulated losses. The return on capital employed decreased to 16.79% from 55.52% in 2010-11 which reflected persistent deterioration in the performance of the Company.

3.2.5.2 Short Term Liquidity

Current ratio

The Company current ratio improved to 2.28 from 1.90 which shows that the Company held adequate liquid assets required to settle its short term liabilities.

3.2.6 Recommendations:

Persistent losses and failure to achieve the core objective for which company was established adversely affected the status of the Company, resultantly the Company was not considered as a going concern.

The Company was established for the management of power sector, persistent decline in the power sector reflected poor policies and practices and failures in the management of the operations of power sector entities owned and controlled by PEPCO. These failures resulted in present energy crisis which have hampered the entire economy of the country.

Furthermore, it is evident from the above analysis that the profitability, position of the Company deteriorated with an exceptionally high rate. In order to finance the managerial operations, Company would heavily rely on financing from external sources which will aggravate the liquidity position. In view of the forgoing, it is recommended that Company should revamp its organizational structure and address managerial 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.

3.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
PEPCO (Various DISCOs)	1996-97	1	-	3 (Para No. 7)	-
	2005-06	3	1 (Para No. 12.4)	-	2 (Para No. 12.1 & 12.2)
	2006-07	3	-	-	3 (Para No. 3.8, 19.2 & 19.3)

Position of compliance with PAC directives is not satisfactory.

3.4 Audit Paras

3.4.1 Loss due to splitting up of purchase order in violation of PPRA rules - Rs.43.85 million

According to the Rule-9 of PPRA Rules-2004, "save as otherwise provided and subject to the regulation made by the Authority, with the prior approval of the Federal Government, 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. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website".

In PMU PEPCO, procurement of 30 million Compact Florescent Lamps (CFLs) under National Compact Fluorescent Lamp Project funded by ADB/AFD Lahore was approved by splitting up into two Packages I &II. The bids of Package-II for 20 million CFLs was opened in July, 2011 and purchase order of Rs.2,800 million @ Rs.140/CFL was placed in March, 2012 on the 2nd lowest bidder M/s Philips Electrical Industries by ignoring the 1st lowest bid of Rs.138.2185/CFL offered by M/s Beauty Shadow Co. China Ltd. In Package-I the bids for 10 million CFLs were opened in November, 2011 and purchase order of Rs.1,390.400 million @ Rs.139.04/CFL was placed in February, 2012 on M/s Beauty Shadow Co. China Ltd. This resulted in loss of Rs.43.85 million to the public exchequer due to splitting of purchase order and ignoring of lowest bid upto 2012-13.

The matter was taken up with the management in May, 2013 and reported to the Ministry in November, 2013. The management replied that the procurement of 30 million CFLs had been made under Rules 20, 21 & 36 of PPRA rules. As procurement of Package-1 of 10 million CFLs and Package-2 of 20 million CFLs was made independently, therefore, the price of Package-1 could not be compared with Package-II. The reply was not tenable as the Rule-9 of PPRA

Rules-2004 was violated and procurement under Package-II was made on higher rates by ignoring 1st lowest bidder.

DAC was not convened by the department till the finalization of the report.

Audit recommends that the matter needs to be inquired by constituting a high level committee for fixing responsibility besides making good the loss.

(Draft Para No. 312/2013-14)

3.4.2 Irregular contract appointment - Rs.23.01 million

According to Establishment Division O.M. dated May 06, 2000 regarding policy guidelines for contract appointments Para (iii) (b), "vacancies should be advertised in the leading national and regional newspaper" and Para (iii) (c) "selection should be made through regularly constituted selection committees/ boards". As per the Finance Division O.M dated August 18, 1998 and April 11, 2007, "specifying Management Position Scales (MPS) for salary and perquisites package for contract employment".

In PEPCO, a Senior General Manager (Technical & Planning) was appointed on contract basis for two years on September 14, 2007 without advertisement and recommendations of selection committees/board. The salary package was approved higher than the minimum of MP scales specified by the Finance Division. Non-adherence to the instructions of Establishment Division resulted in irregular payment of pay and allowances of Rs.23.01 million due to irregular appointment of Senior General Manager upto 2012-13.

The matter was taken up with the management in July, 2013 and reported to the Ministry in October, 2013. The management replied that it was primarily re-employment made by BOD PEPCO. The initial selection was made by consultants along with other Executive Directors PEPCO. The reply was not tenable as the appointment of the officer was irregular as the same was against the Government instructions/rules and regulations.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter of irregular contract employment and fix the responsibility upon the persons at fault.

(Draft Para No. 175/2013-14)

CHAPTER-4

COMMON ISSUES REGARDING GENCOs, NTDC & DISCOs

(45-53)

4. COMMON ISSUES REGARDING GENCOs, NTDC & DISCOs

4.1.1 Loss due to theft of electrical material and vehicles - Rs.232.48 million

According to the instructions issued by WAPDA dated July 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”.

In DISCOs and NTDC, electrical material and vehicles valuing Rs.232.48 million was stolen by the culprits. FIRs were lodged with the concerned police station(s) but no administrative inquiry/action was carried out to fix the responsibility. This resulted in loss of Rs.232.48 million during 2012-13.

Sr. No.	Name of Company	Draft Para No.	No. of Cases	Amount (Rs. in million)
1	FESCO	27, 54, 81, 253, 469 & 472/2013-14	119	18.41
2	GEPCO	116, 132, 156 & 271/2013-14	139	25.14
3	HESCO	14, 101, 596, 608 & 668/2013-14	18	3.51
4	IESCO	01, 19, 66, 126, 281, 296, 301, 327 & 415/2013-14	196	64.11
5	MEPCO	07, 24, 42, 49, 448, 450, 453, 670, 675, 678 & 771/2013-14	135	15.53
6	PESCO	115, 191, 198, 226, 241, 244, 368 & 382/2013-14	143	46.10
7	NTDC	651 & 794/2013-14	10	4.57
8	LESCO	72, 106, 227, 234, 240, 260, 283, 332, 589 & 686/2013-14	124	29.73
9	QESCO	34, 82, 84, 314, 433, 558 & 573/2013-14	11	5.59
10	SEPCO	20, 150, 502, 506, 697 & 703/2013-14	67	19.79
		TOTAL	**962**	**232.48**

The matter was taken up with management during July to October, 2013 and reported to Ministry during September to December, 2013. The management replied that departmental and legal action was in process to decide the fate of loss and majority of the cases had been finalized.

DAC directed in its meetings held on December 4-5 & 30-31, 2013 and February 6-7, 2014 to produce relevant record relating to finalized cases and expedite the action in remaining cases as per guidelines issued by the department. DAC regarding MEPCO was not convened till the finalization of the report.

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

4.1.2 Non-removal of electrical equipment - Rs.139,310.33 million

According to Para-3 of Authority's circular dated April 15, 1998, "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.

In DISCOs, 734,465 consumers of all categories were defaulted the payment of energy charges. The equipment removal orders (EROs) were issued which were partially executed as only meters were removed instead of whole electrical equipment. This resulted in non-removal electrical equipment and non-recovery of energy charges amounting to Rs.139,310.33 million upto 2012-13 as detailed below:

Sr. No.	Name of Company	Draft Para No.	No. of EROs	Amount (Rs. in million)
1	FESCO	80/2013-14	03	1.15
2	GEPCO	135, 161 & 532/2013-14	2,085	2,576.52
3	HESCO	15/2013-14	19	52.50
4	IESCO	17, 297 & 328/2013-14	653	49.77
5	LESCO	69, 77, 235, 236, 331 & 636/2013-14	3,273	395.30
6	PESCO	196, 203 & 355/2013-14	300,935	25,976.64
7	QESCO	446 & 539/2013-14	118,374	75,547.73
8	SEPCO	722/2013-14	309,070	34,693.42
9	TESCO	276/2013-14	53	17.30
		TOTAL	**734,465**	**139,310.33**

The matter was taken up with the management during July to October, 2013 and reported to Ministry during September to December, 2013. The management replied that connections were lying permanently disconnected. In some cases, material had been removed while in remaining cases, action was under process.

DAC directed in its meetings held on December 4-5 & 30-31, 2013 and February 6-7, 2014 to implement the EROs in respect of all cases beyond 180 days of issuance of EROs and remove/return the material to store within 30 days.

Audit recommends to implement the DAC directives besides fixing the responsibility for non-implementation of EROs.

4.1.3 Huge receivables amount from dead defaulters - Rs.246,900.89 million

According to instructions dated June 14, 2012 circulated by General Manager C&M PEPCO, “special efforts are required during the remaining days of June, 2012 and running defaulters/disconnected defaulters need physical checking for effective recovery.”

In DISCOs, an amount of Rs.246,900.89 million was recoverable from energy defaulters (Government and private) for a period exceeding from two months to 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 (PSCs) and Independent Power Producers (IPPs). This resulted in non-recovery from energy defaulters of Rs.246,900.89 million during 2012-13 as detailed below:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1	FESCO	470/2013-14	39.24
2	HESCO	607/2013-14	29.22
3	LESCO	577/2013-14	40,344.14
4	PESCO	356/2013-14	60,058.18
5	QESCO	95, 96, 182, 183, 437, 439, 440 & 540 /2013-14	86,103.15
6	SEPCO	716/2013-14	60,156.00
7	TESCO	274 & 275/2013-14	170.96
		TOTAL	**246,900.89**

The matter was taken up with the management during July to October, 2013 and reported to the Ministry during September to December, 2013. The management replied that it was a continuous process and efforts were being made to recover the amount.

DAC directed in its meetings held on December 4-5 & 30-31, 2013 and February 6-7, 2014 to provide data of receivables along with age analysis and expedite the recovery process.

Audit emphasizes expeditious recovery of Government arrears at source through adjuster and private arrears by accelerating departmental efforts besides fixing the responsibility.

4.1.4 Loss of revenue due to abnormal line losses beyond NEPRA's targets - Rs.35,863.60 million

NEPRA's fixed targets of energy losses for the financial year 2012-13 in respect of all DISCOs.

In DISCOs, the percentages of line losses on feeders were more than the targets of losses set by the NEPRA. Hence, 3,514.57 million units were lost beyond the NEPRA's target which resulted in loss of revenue amounting to Rs.35,863.60 million during 2012-13 as detailed below:-

Sr. No.	Name of Company	Draft Para No.	NEPRA's target of line losses	Units lost beyond target (in million)	Amount (Rs. in million)
1	FESCO	538/2013-14	10.83%	34.77	365.13
2	GEPCO	117/2013-14	11.05%	33.50	334.95
3	HESCO	601/2013-14	22%	440.45	4,404.51
4	IESCO	279,298,325 & 334/2013-14	9.5%	766.39	5,984.02
5	LESCO	779/2013-14	11%	418.25	4,914.48
6	MEPCO	06,46 & 624/2013-14	15%	302.32	3,819.73
7	PESCO	208 & 381/2013-14	28%	1110.55	11,225.74
8	QESCO	541/2013-14	18%	56.57	555.08
9	SEPCO	715/2013-14	28%	351.77	4,259.96
			TOTAL	**3,514.57**	**35,863.60**

The matter was taken up with the management during July to October, 2013 and reported to Ministry during October to December, 2013. The management replied that the high losses on feeders were due to (i) shifting of load from one feeder to another during unforeseen situations, (ii) late allotment of feeder code and (iii) lengthy feeders in the rural areas.

DAC directed in its meetings held on December 4-5 & 30-31, 2013 and February 6-7, 2014 to carry out analysis of ten feeders of the highest losses in order to determine the percentage of actual losses within 30 days. DAC regarding MEPCO was not convened till the finalization of the report.

Audit recommends to implement the DAC directives besides fixing the responsibility.

4.1.5 Non-recovery of energy charges from running defaulters - Rs.30,496.79 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”.

In DISCOs, an amount of 30,496.79 million was recoverable from 555,149 consumers of all categories including AJK Government on account of energy charges, fuel price adjustment and detection charges etc. but no recovery was made. This resulted in non-recovery of energy charges from running defaulters amounting to Rs.30,496.79 million during 2012-13 as detailed below:-

Sr. No.	Name of Company	Draft Para No.	No. of consumers	Amount (Rs. in million)
1	FESCO	78, 419, 423 & 473/2013-14	08	273.86
2	GEPCO	162, 270 & 548/2013-14	186	9.13
3	HESCO	673/2013-14	210	18.44
4	IESCO	125, 127, 299 & 329/2013-14	34 + 01 (AJK)	15,374.53
5	LESCO	70, 322, 578 & 640/2013-14	30,181	393.69
6	MEPCO	12, 45, 63, 315, 456 & 618/2013-14	220	57.41
7	QESCO	438, 543 & 572/2013-14	28	11,702.75
8	SEPCO	706/2013-14	524,281	2,666.98
		TOTAL	**555,149**	**30,496.79**

The matter was taken up with the management during July to October, 2013 and reported to the Ministry during September to December, 2013. The management replied that the recovery from 596 consumers amounting to Rs.10.78 million had been effected while remaining cases were under process either in court of law or with department.

DAC directed in its meetings held on December 4-5 & 30-31, 2013 and February 6-7, 2014 to provide the recovery record to Audit and finalize the pending actions within 15 days. DAC regarding MEPCO was not convened till the finalization of the report.

Audit recommends to implement the DAC directives besides fixing the responsibility.

4.1.6 Loss due to damage of electrical equipment - Rs.16,747.27 million

According to the instructions issued by WAPDA dated July 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".

In DISCOs, NTDC & GENCO-II, electrical equipment comprising of distribution & power transformers, grid station/power house installation and allied material valuing Rs.16,747.27 million were damaged during 2012-13. This resulted in loss of Rs.16,747.27 million due to damage of electrical equipment as detailed below:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1	GENCO-II	139, 142/2013-14	16,009.19
2	NTDC	650, 38, 709 & 816/2013-14	328.36
3	GEPCO	121 & 286/2013-14	82.31
4	HESCO	664/2013-14	15.08
5	IESCO	393/2013-14	1.43
6	MEPCO	59, 60, 570, 676, 677 & 681/2013-14	44.41
7	PESCO	200, 202 & 338/2013-14	116.43
8	QESCO	181,424, 557/2013-14	59.88
9	SEPCO	151 & 508/2013-14	90.18
		TOTAL	**16,747.27**

The matter was taken up with the management during July to October, 2013 and reported to Ministry during September to December, 2013. The management replied that the matter had been inquired through high level inquiry committee and all remedial measures had been adopted in letter and spirit to minimize the rate of damaging of transformers.

DAC directed in its meetings held on December 4-5 & 30-31, 2013 and February 6-7, 2014 to calculate the actual amount of loss, provide revised reply and inquiry report and get it regularized from the competent authority within 30 days. DAC regarding MEPCO & GENCO-II was not convened till the finalization of the report.

Audit recommends to expedite the inquiry proceedings besides making good the loss.

4.1.7 Undue favour to the consumers on account of non-regularization of unauthorized extension of load - Rs.1,034.52 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".

In DISCOs, 2,578 industrial consumers 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.1,034.52 million remained un-recovered from consumers on account of security deposit, feeder rehabilitation charges and substation cost upto 2012-13 as detailed below:-

Sr. No.	Name of Company	Draft Para No.	No. of Cases	Amount (Rs. in million)
1	FESCO	26, 53, 79 & 465/2013-14	76	54.60
2	GEPCO	118, 133, 160 & 268/2013-14	320	127.32
3	HESCO	97, 598, 602, 613 & 662/2013-14	264	83.70
4	IESCO	16, 122, 278 & 280/2013-14	286	197.38
5	LESCO	71, 214, 254, 256, 258, 330 & 683/2013-14	816	332.47
6	MEPCO	08, 25, 43, 50, 58, 451, 454, 457 & 620/2013-14	319	83.15
7	PESCO	195, 199, 215, 220, 224 & 245/2013-14	378	96.40
8	QESCO	83, 179, 436, 442 & 542/2013-14	55	37.94
9	SEPCO	22, 504 & 730/2013-14	64	21.56
		TOTAL	**2,578**	**1,034.52**

The matter was taken up with the management during July to December, 2013 and reported to Ministry during September to December, 2013. The management explained that in majority of cases the illegal extension of load had been regularized and in the remaining cases notices had been issued to remove the illegal extension of load. In case of non-removal of illegal extensions their connections would be disconnected.

DAC directed in its meetings held on December 4-5 & 30-31, 2013 and February 6-7, 2014 to complete the pending actions within 15 days and provide the record in support of reply to Audit. DAC regarding MEPCO was not convened till the finalization of the report.

Audit recommends to regularize the connections as per SOP besides fixing the responsibility.

4.1.8 Recoverable amount from independent consumers on account of energy losses beyond permissible limit - Rs.811.48 million

According to Distribution Rehabilitation Guidelines issued by the General Manager (Operation) WAPDA, Lahore on September 24, 2003, "the maximum voltage drop and Annual Energy Losses (AEL) for HT circuit (HT feeders) is 3% for rural/urban areas".

In DISCOs, the annual energy losses of 156 independent feeders were 3.1% & 100% instead of the permissible limit of 3% which entailed loss of 75.04 million units costing Rs.811.48 million. The losses above the permissible limit were either due to illegal extension of load or the conductor was incapacitated to withstand running load. This resulted in loss of Rs.811.48 million due to line losses beyond permissible limit during 2012-13 as detailed below:-

Sr. No.	Name of Company	Draft Para No.	No. of Feeders	Units lost beyond 3% (in million)	Range of percentages	Amount (Rs. in million)
1	FESCO	458, 460 & 468/2013-14	22	11.76	3.7 to 32.6	121.94
2	GEPCO	273/2013-14	07	5.91	18.5 to 32.6	70.95
3	HESCO	663/2013-14	02	0.34	89.9 to 100	3.45
4	IESCO	129, 250 & 326/2013-14	15	10.69	3.1 to 74.3	104.99
5	LESCO	775/2013-14	79	32.91	3.2 to 100	377.50
6	MEPCO	10, 44, 51, 62 & 452/2013-14	12	1.60	3.5 to 81.1	14.05
7	PESCO	211, 225 & 243/2013-14	13	2.68	3.7 to 74.9	26.98
8	QESCO	91 & 434/2013-14	04	5.72	7 to 55	57.19
9	TESCO	277/2013-14	02	3.43	28.2 to 100	34.43
TOTAL			**156**	**75.04**		**811.48**

The matter was taken up with the management in July to December, 2013 and reported to Ministry during September to December, 2013. The management replied that the high losses on independent feeders were due to (i) shifting of load from one feeder to another during unforeseen situations, (ii) late allotment of feeder code and (iii) lengthy feeders in the rural areas.

DAC directed in its meetings held on December 4-5 & 30-31, 2013 and February 6-7, 2014 to carry out analysis of ten feeders of the highest losses in order to determine the percentage of actual losses within 30 days. DAC regarding MEPCO was not convened till the finalization of the report.

Audit recommends to implement the DAC directives besides fixing the responsibility.

4.1.9 Loss due to non-recovery from consumers of kunda connections – Rs.595.62 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".

In DISCOs, an amount of Rs.595.62 million was charged to 13,176 consumers involved in theft of energy through direct hooks (kunda connections) but the same was not recovered/realized. This resulted in loss due to non-recovery of Rs.595.62 million from the illegal consumers during 2012-13 as detailed below:-

Sr. No.	**Name of Company**	**Draft Para No.**	**No. of Consumers**	**Amount (Rs. in million)**
1	HESCO	100/2013-14	187	46.11
2	MEPCO	61/2013-14	1,151	11.78
3	PESCO	222, 242, 337/2013-14	11,434	416.61
4	QESCO	92 & 178/2013-14	368	114.88
5	SEPCO	505/2013-14	36	6.24
		TOTAL	**13,176**	**595.62**

The matter was taken up with the management during July to August, 2013 and reported to the Ministry during September to November, 2013. The management replied that in some cases, the connections/transformers had been disconnected and the consumers were being advised to get regularized the connection. As regards the remaining cases, the connections pertained to Government of Sindh were under dispute.

DAC directed in its meetings held on December 4-5 & 30-31, 2013 and February 6-7, 2014 to disconnect all the connections immediately and get them regularized within 30 days. DAC regarding MEPCO was not convened till the finalization of the report.

Audit emphasizes expeditious recovery from consumers besides fixing the responsibility.

CHAPTER-5

JAMSHORO POWER GENERATION COMPANY LIMITED (GENCO-I)

(57-59)

5. JAMSHORO POWER GENERATION COMPANY LIMITED

5.1 Introduction

The Jamshoro Power Generation Company Limited (JPGCL) is a subsidiary of GENCO Holding Company Limited (GHCL). 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, all the assets and liabilities relating to Lakhra Power Station were transferred back to WAPDA since July, 2002.

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. The Company has installed capacity of 1,024 MW and de-rated capacity of 840 MW. Profile of JPGCL is tabulated below for better understanding of its operations:

5.2 AUDIT PARAS

5.2.1 Non-recovery of penalties imposed on employees - Rs.22.25 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".

In Jamshoro Power Generation Company (GENCO-I), Chief Executive Officer imposed penalty for recovery of Rs.22.25 million from two employees of the Company on account of financial embezzlement in January, 2010 and August, 2011 but not a single penny was recovered despite lapse of period more than twenty months.

The matter was taken up with management in September, 2013 and reported to Ministry in December, 2013. The management replied that finance department had been advised for recovery from the salaries of personnel from the month of December, 2013.

DAC directed in its meeting held on December 30-31, 2013 to provide copy of inquiry report and intimate what action was taken against supervisory officers fall under hierarchy of management.

Audit recommends to expedite the recovery of embezzlement and take disciplinary action against the supervisory officers.

(Draft Para No. 725/2013-14)

5.2.2 Loss due to consumption of excess heat rate than NEPRA standard - Rs.1,364.27 million

Heat rates of 10,656 for Unit-1 and 12,272 for Units 2 to 4 BTU per KWH were fixed by NEPRA for the Jamshoro Power Company Limited (GENCO-I).

In Jamshoro Power Generation Company (GENCO-I), heat rate i.e. 11,790.79 for Unit-1 and 13,093 for Unit-4 BTU per KWH was used instead of permissible limit of 10,656 and 12,272 BTU per KWH respectively fixed by NEPRA. As a result of excess heat rate, 74.17 million units were less generated and the Company had sustained a loss of Rs.1,364.27 million.

The matter was taken up with the management in September, 2013 and reported to Ministry in December, 2013. The management replied that the rehabilitation of units were carried out during first half of financial year resulting in average annual heat rate affected and exceeded from NEPRA standard.

DAC directed in its meeting held on December 30-31, 2013 to conduct energy audit and submit its report to Audit/Ministry.

Audit recommends to produce energy audit report besides fixing responsibility of loss.

(Draft Para No. 710/2013-14)

5.2.3 Loss due to forced stoppage of power plant – Rs.802.89 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”.

In Jamshoro Power Generation Company (GENCO-I), power plants at Jamshoro and Kotri were remained stopped for four thousands, one hundred and three (4,103) hours and two thousands four hundred and twenty nine (2,429) hours respectively during 2012-13 due to serious faults i.e. economizer tube leakage, leakage in boiler and high frequency. Resultantly, the Company sustained a loss of revenue to the tune of Rs.802.89 million due to forced stoppages without scheduled programme.

The matter was taken up with management in September, 2013 and reported to Ministry in December, 2013. The management replied that normally ten percent forced outages was allowable for scheduled repair and maintenance during one year. The forced outages ratio increased in case of Unit No. II & IV was during the first half of the year before rehabilitation. The reply was not tenable as no documentary evidence regarding ten percent forced outages allowance duly approved by NEPRA was produced.

DAC directed in its meeting held on December 30-31, 2013 to conduct fact findings inquiry within 30 days and make efforts for improving efficiency of the plant.

Audit recommends to produce the findings of the inquiry committee besides fixing the responsibility of loss.

(Draft Para No. 687/2013-14)

CHAPTER-6

CENTRAL POWER GENERATION COMPANY LIMITED (GENCO-II)

(63-70)

6. CENTRAL POWER GENERATION COMPANY LIMITED

6.1 Introduction

Central Power Generation Company (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 Guddu and 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 14 units having installed capacity of 1,690 MW and de-rated capacity of 1,180 MW. Profile of CPGCL is tabulated below for better understanding of its operations:

6.2 Brief comments on the status of compliance with PAC directives

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

Position of compliance with PAC directives is not satisfactory.

6.3 AUDIT PARAS

6.3.1 Loss due to fictitious booking of electricity consumption - Rs.201.36 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".

In GENCO-II Guddu, an amount of Rs.41.14 million on account of energy charges for 3.94 million units was paid to SEPCO and booked under miscellaneous head without billing record. Moreover, 15.42 million units amounting to Rs.160.22 million were charged to various official premises located within the residential colony of Thermal Power Station Guddu without sanctioned load and energy meters. Hence, fictitious booking of 19.36 million energy units resulted in loss of Rs.201.36 million to the Company.

The matter was taken up with the management in August, 2013 and reported to the Ministry in October, 2013, but no reply was given.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter for fixing responsibility of fictitious billing besides making good the loss.

(Draft Para No. 154 & 163/2013-14)

6.3.2 Loss due to consumption of excess heat rate per KWH from NEPRA standard - Rs.11,697.52 million

Heat rates of 9,481 for Units-6, 8 to 10 and 8,533 for Units-11 & 12 BTU per KWH were fixed by NEPRA for the GENCO-II.

In GENCO-II Guddu, heat rate 12,830 for Unit-6, 13,797 for Unit-8, 12,664 for Unit-9, 12,028 for Unit-10, 12,328 for Unit-11 and 12,351 for Unit-12 BTU per KWH was used instead of the permissible limits fixed by NEPRA. As a result of excess heat rate, 1,521.35 million KWH units were less generated and the Company had sustained a loss of Rs.11,697.52 million.

The matter was taken up with the management in August, 2013 and reported to the Ministry in October, 2013. The management replied that as the heat rate was determined in the year 2004, thereafter no heat rate was determined by the NEPRA. The reply was not tenable as no proper maintenance was carried out and resultantly, heat rate was increased from 9,481 to 13,797 for Units No. 6, 8, 9 and 10 and from 8,533 to 12,351 for Units No. 11 and 12.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter for fixing responsibility and making good the loss.

(Draft Para No. 143/2013-14)

6.3.3 Heavy generation loss due to poor maintenance of thermal units - Rs.5,463.04 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”.

In GENCO-II Guddu, Thermal Unit No. 3, 4, 7, 9, 10, 11 and 13 remained non-functional due to forced outages of the operations caused by some internal faults/non-major overhauling of units. Non-maintenance of thermal units resulted in a loss of Rs.5,463.04 million during 2012-13 due to less generation of electricity of 834.06 million KWH.

The matter was taken up with the management in August, 2013 and reported to the Ministry in October, 2013. The management replied that maintenance of Unit No. 7 was carried out timely. Major overhauling of Unit 11 and 13 was started timely but the delay occurred due to non-finalization of bidding process within stipulated period. The reply was not tenable as the reasonable time was taken from award of tender in June, 2012 till installation and torque converter synchronized with the system in July, 2013.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter at Ministry's level for fixing responsibility and making good the loss.

(Draft Para No. 138/2013-14)

6.3.4 Non-deduction of income tax at source - Rs.3,345.59 million

The Deputy Commissioner Inland Revenue Unit No. 2 Lahore Zone vide his decision dated October 22, 2013 passed order, under Section-161/205 of the Income Tax Ordinance, 2001 for GENCO-II to pay taxable amount of Rs.3,345.59 million within 15 days against the Contract of 747 MW CCPP.

In 747 MW Combined Cycle Power Plant (CCPP) GENCO-II, a payment of US$ 182.968 million equivalent to Pak Rs.17,510.02 million was made to M/s Harbine Power Engineering Company on account of foreign currency component without deduction of income tax amounting to Rs.3,345.59 million at source in violation of income tax rules.

The matter was taken up with the management in January, 2013 and reported to the Ministry in December, 2013. The management replied that total price of foreign currency portion offered by the contractor was US$ 580.83 million inclusive of 6% withholding tax amounting to US$ 34.85 million. During negotiation the contractor agreed to reduce the contract price of foreign currency component by withholding amount. The reply was not tenable as deduction of income tax was binding upon the project management as per income tax rules.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious recovery of income tax from contractor besides fixing responsibility.

(Draft Para No. 743/2013-14)

6.3.5 Loss due to non-recovery of advance from suppliers/contractors - Rs.2,087.16 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".

In GENCO-II, an amount of Rs.2,087.16 million was given to suppliers/ contractors as advances since February, 2004. No efforts were made to recover/ adjust the long outstanding advances.

The matter was taken up with the management in August, 2013 and reported to the Ministry in October, 2013. The management replied that the amount receivable from Chief Resident Representative (WAPDA) Karachi was of current & transitory nature and could not be recovered immediately. Moreover, receivable amount from M/s Walter Power International was under litigation in NAB / Supreme Court of Pakistan. As and when any decision was made, action would be taken accordingly. However, point was noted for future compliance and recovery of advance from remaining suppliers/ contractors would be made as early as possible.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious recovery of advances from suppliers/ contractors besides fixing responsibility.

(Draft Para No. 147/2013-14)

6.3.6 Loss due to less recovery of rent from the shop keepers - Rs.99.90 million

According to Authority's instructions issued dated September 26, 1997, "the standard rent is to be increased @ 30% on completion of every three years in respect of WAPDA Residential Colonies throughout Pakistan".

In GENCO-II, 221 shops, fish pond, cabins, khokhas, canteen & rehries were allotted to the private persons and employees of Thermal Power Station Guddu at very nominal rates since 1990. The rates of rent were not revised upto June, 2013 by violating the Authority's instructions. Resultantly, the Company sustained a loss of Rs.99.90 million due to less recovery of rent.

The matter was taken up with the management in August, 2013 and reported to the Ministry in October, 2013, but no reply was given.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter for fixing responsibility besides effecting recovery of rent.

(Draft Para No. 144/2013-14)

6.3.7 Loss due to line losses within the premises of residential colony Guddu - Rs.55.58 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”.

In GENCO-II, 5.34 million units were charged under the head “line losses” to conceal the theft of electricity within the premises of residential colony Thermal Power Station Guddu from July, 2012 to May, 2013. Line losses within the premises of colony were not covered under any criteria/ rules/ standard approved by the NEPRA. Resultantly, the Company had sustained a loss of Rs.55.58 million due to charging of 5.34 million units to line losses.

The matter was taken up with the management in August, 2013 and reported to the Ministry in October, 2013, but no reply was given.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter for fixing the responsibility and making good the loss.

(Draft Para No. 141/2013-14)

6.3.8 Non-utilization of store material -Rs.50.33 million

According to Para-5 of Memorandum dated January 17, 1978 on irregularities of purchases of stores and equipment, “purchases should be made only of such items and in such quantities as are required for a specific work. In no case should these purchases be made for storing an item for indefinite period”.

In GENCO-II, store, spares and tools valuing Rs.50.33 million were found idle in Thermal Power Station Sukkur. The material was neither shifted to other thermal power stations where required nor disposed off. This resulted in non-utilization of material amounting to Rs.50.33 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to the Ministry in October, 2013. The management replied that the material was lying in store of TPS Sukkur, as power house machinery / units still exists there and higher authorities had not yet decided for any action towards disposal of the plant as well as material.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious disposal / utilization of idle material.

(Draft Para No. 148/2013-14)

6.3.9 Loss due to payment of interest charges on arrangement and commitment fee - Rs.11.02 million

According to Clause-7 of facility agreement, dated December 23, 2011, "the arrangement fee shall be due upon the execution of the agreement and payable within 30 days from the date of the agreement".

In 747 MW Combined Cycle Power Plant (CCPP) GENCO-II, a payment of Rs.11.02 million was made to M/s HSBC Bank on account of interest on arrangement and commitment fee for the delay of 130 days. This resulted in loss of Rs.11.02 million to the Company due to payment of interest charges on arrangement and commitment fee.

The matter was taken up with the management in June, 2013 and reported to the Ministry in December, 2013. The management replied that the approval to make payment of arrangement fee was delayed by the PEPCO. Resultantly, delayed interest charges were paid on arrangement and commitment fee.

DAC was not convened by the department till the finalization of the report.

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

(Draft Para No. 750/2013-14)

6.3.10 Loss to public exchequer due to deletion of withholding tax clause - Rs.9.23 million

According to the Clause-47(A) of work order "withholding/income tax will be deducted from the proceeds as per Pakistan Tax Laws".

In GENCO-II, a service order at cost of US$ 0.378 million for repair and rewind of 118.31 MVA Generator Rotor of 600 MW CCPP was placed with M/s General Electric International Inc. This service order was converted into work order at a cost of US$ 1.49 million due to increase in scope of work. The income tax amounting to Rs.9.23 million payable by contractor could not be deducted due to deletion of clause relating to withholding income tax which resulted in loss to public exchequer.

The matter was taken up with the management in August, 2013 and reported to the Ministry in October, 2013. The management replied that advance payments were made to CRRK Office. Subsequently, CRRK Office had released final payment to the firm, therefore, deduction of the income tax was the responsibility of that office. The reply was not tenable as expenditure was finally charged to GENCO-II, therefore, it was the responsibility of GENCO-II to confirm the deduction of income tax at source.

DAC was not convened by the department till the finalization of the report.

Audit recommends to recover the income tax from the contractor besides investigating the matter for fixing responsibility.

(Draft Para No. 146/2013-14)

6.3.11 Loss due to renting out residential quarters to the private persons - Rs.2.28 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".

In GENCO-II, ninteen residential quarters of Thermal Power Station Colony Guddu were rented out to private persons by the employees. Disciplinary action under E&D Rules was initiated against the employees, however, the employees were exonerated from the allegation by simply issuing punishment of warning and censure. The decision of the competent authority was not justified as financial loss of Rs.2.28 million was involved which needed to be inquired through high power committee.

The matter was taken up with the management in August, 2013 and reported to the Ministry in October, 2013. The management replied that the matter was forwarded to competent authority for decision of recovery.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious recovery from the concerned employees besides fixing responsibility.

(Draft Para No. 145/2013-14)

6.3.12 Un-authorized payment of agency fee against facility agreement - Rs.1.36 million

According to the Finance Division (Government of Pakistan) office memorandum dated December 22, 2009, "there is no provision/scope for the payment of agency fee in the revised terms for financing of 747 MW CCPP, Guddu".

In GENCO-II, an amount of Rs1.36 million was paid in May, 2012 to M/s HSBC Bank on account of agency annual fee being an agent in facility agreement dated December 12, 2011 with China Exim Bank for financing 85% portion of foreign currency component (FCC) i.e. US$ 464.09 million in a contract of 747 MW CCPP signed with M/s Harbin Electrical International Company Limited, China. Violation of above instructions resulted in un-authorized payment of agency fee of Rs.1.36 million upto 2012-13.

The matter was taken up with management in December, 2012 and reported to the Ministry in July, 2013, but no reply was furnished.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(Draft Para No. 04/2014)

6.3.13 Un-authorized expenditure on account of procurement of transformer - Rs.1.25 million

According to Clause-14.3 of General Conditions of the Contract "the contractor shall be responsible of making his own arrangements for the adequate supply of electricity, water and gas required for the effective performance of his obligations under the contract".

In GENCO-II, a 630 KVA transformer valuing Rs.1.25 million was procured from SEPCO for supply of electricity to offices/residential colony of contractor during July, 2012. The procurement of transformer was un-authorized as supply of energy was the responsibility of contractor as per provision of contract.

The matter was taken up with the management in August, 2013 and reported to the Ministry in October, 2013, but no reply was given.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter for fixing responsibility upon the persons at fault.

(Draft Para No. 140/2013-14)

CHAPTER-7

NORTHERN POWER GENERATION COMPANY LIMITED (GENCO-III)

(73-81)

7. NORTHERN POWER GENERATION COMPANY LIMITED

7.1 Introduction

Northern Power Generation Company Limited, (NPGCL) is a subsidiary of GENCO Holding Company Limited (GHCL). 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 1,965 MW and de-rated capacity of 1,530 MW. Profile of NPGCL is tabulated below for better understanding of its operations:

7.2 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
GENCO-III	1996-97	1	1 (Para No. 37)	-	-
	1999-2000	2	2 (Para No. 8 & 21)	-	-

Position of compliance with PAC directives is satisfactory.

7.3 AUDIT PARAS

7.3.1 Loss due to abnormal delay in initiation of project – Rs.73,728.84 million

As per original PC-I approved by the ECNEC in August, 2006, the total project cost of the Combined Cycle Power Plant Project, Chichoki Mallian was Rs.18,050 million and was required to be completed and commissioned within 24 months after the award of contract i.e. upto June, 2008. As per PC-I of the project, estimated revenue collection of Rs.42,945.75 million was to be made during five years from 2008 to 2012 on completion.

In GENCO-III, the above mentioned project was required to be completed upto June, 2008 but the project was neither initiated nor completed/ commissioned uptill June, 2013. Due to delay in completion of project, the company sustained a loss of Rs.73,728.84 million. The detail of loss is as under:-

Sr. No.	Draft Para No.	Description	Amount (Rs. in million)
1	390/2013-14	Escalation of cost of the project	16,301.05
2	391/2013-14	Expenditure incurred upto June, 2013	2,621.37
3	392/2013-14	Blockage of generation revenue	51,986.96
4	535/2013-14	Effect of currency fluctuation	2,819.46
		Total:	**73,728.84**

The matter was taken up with management in July, 2013 and reported to the Ministry in November, 2013. The management replied that the delay for the commencement/completion of project was due to the reasons beyond control of this office. According to the findings of the constitution petition, there was negligence on the part of executive authorities of the Ministry of Law, Justice and Parliamentary Affairs (Government of Pakistan) which had caused the delay in completion of the project. The reply was not tenable as the management had not given proper justification for non-initiation of the project in time.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter through high power committee for fixing responsibility of abnormal delay besides making good the loss.

(Draft Para No. 390, 391, 392 & 535/2013-14)

7.3.2 Non-recovery of sales tax refund claims from FBR – Rs.53,729.88 million

According to Section-10 Chapter-II of Sales Tax Act-1990," if the input tax paid by a registered person on taxable purchase made during a tax period exceeds the output tax on account of zero rated local supplies or export made during that tax period, the excess amount of input tax shall be refunded to the registered person not later than 45 days of filing of refund claim".

In GENCO-III, sales tax refund claims amounting to Rs.53,678.57 million were not sent to Federal Board of Revenue (FBR) for re-imbursement upto October, 2013. Moreover, sales tax deducted and paid to FBR on the basis of quantity of furnace oil ordered whereas furnace oil was short received. The payment of sales tax amounting to Rs.51.31 million against short supply of furnace oil was recoverable from FBR. This resulted in non-recovery of sales tax claims amounting to Rs.53,729.88 million from FBR during 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013 & January, 2014. The management replied that the cases were under process at head quarter level and progress would be intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends that the management needs to expedite the refund of claims from FBR.

(Draft Para No. 712 & 833/2013-14)

7.3.3 Loss due to abnormal delay in completion of project – Rs.43,371.05 million

According to original PC-I, approved cost of 425 MW CCPP Project, Nandipur was Rs.22,334.76 million with completion date April 16, 2011. As per original PC-I, the project had to start yielding net benefits of Rs.2,441.21 million per annum since 2011.

In GENCO-III, the above mentioned project was required to be completed upto April 16, 2011 but the project was not completed / commissioned uptill June, 2013. Due to delay in completion of project, the company sustained a loss of Rs.43,371.05 million. The detail of loss is as under:-

Sr. No.	**Draft Para No.**	**Description**	**Amount (Rs. in million)**
1	783/2013-14	Escalation of cost of the project	35,045.42
2	787/2013-14	Blockage of generation revenue	7,323.63
3	798/2013-14	Additional demurrage and detention charges	1,002.00
		Total:	**43,371.05**

The matter was taken up with management in August, 2013 and reported to the Ministry in December, 2013 & January, 2014. The management replied that the delay for the commencement/completion of project was due to the reasons beyond control of this office. According to the findings of the constitution petition, there was negligence on the part of executive authorities of the Ministry of Law, Justice and Parliamentary Affairs (Government of Pakistan) which had caused the delay in completion of the project. The reply was not tenable as the management had not given proper justification for non-completion of the project in time.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter through high power committee for fixing responsibility of abnormal delay besides making good the loss.

(Draft Para No. 783, 787 & 798/2013-14)

7.3.4 Loss due to non-utilization of power plants - Rs.6,134.13 million

According to Para-4(v) of NEPRA's instructions dated November 8, 2012, "during the interim period, the operation of these units in RFO may be discontinued, further, these units may not be operated in standby mode".

In GENCO-III, all the machines installed on Steam Power Plants at Multan (120 MW), Faisalabad (132 MW) and Shahdara (85 MW) were not utilized during 2012-13 but the O&M cost and other expenditure was being incurred regularly. Resultantly, the Company sustained a loss of Rs.6,134.13 million due to incurrence of O&M cost and other expenditure, which required to be justified and needed to be investigated.

The matter was taken up with management in October, 2013 and reported to the Ministry in January, 2014. The management replied that machines of the power house were kept standby since June 18, 2012 due to no demand from NPCC, Islamabad. The reply was not tenable as O&M cost was incurred despite keeping the machines standby through out the year.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigated for fixing responsibility besides justifying incurrence of O&M expenditure on idle machines.

(Draft Para No. 837 & 840/2013-14)

7.3.5 Non-recovery of financial cost and interest – Rs.3,930.20 million

According to decision of the Supreme Court of Pakistan dated November 17, 2011, "it was directed to recover the total amount of performance guarantee along with interest from RPPs."

In GENCO-III, an amount of Rs.3,930.20 million was not recovered from three Rental Power Producers (RPPs) on account of advance payment and interest thereon as directed by Supreme Court of Pakistan. Non-observance of decision of the Supreme Court of Pakistan resulted in non-recovery of financial cost amounting to Rs.3,930.20 million upto 2012-13.

The matter was taken up with management in October, 2013 and reported to the Ministry in January, 2014, but no reply was given.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious recovery from RPPs besides fixing responsibility.

(Draft Para No. 836/2013-14)

7.3.6 Loss due to excess consumption of furnace oil – Rs.2,335.85 million

NEPRA determined standard heat rate of 11,213 BTU/KWH for Northern Power Generation Company Ltd GENCO-III, Muzaffargarh dated May 02, 2006.

In GENCO-III, actual heat rate was 11,513 BTU/KWH instead of the standard heat rate of 11,213 BTU/KWH as determined by NEPRA which resulted in loss of Rs.2,335.85 million due to excess consumption of 33,352.61 metric ton furnace oil.

The matter was taken up with management in October, 2013 and reported to the Ministry in December, 2013, but no reply was given.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the for fixing responsibility for non-observance of NEPRA's standards besides making good the loss.

(Draft Para No. 726/2013-14)

7.3.7 Blockage of revenue due to non-disposal of scrap material – Rs.109.50 million

According to Clause-1.4.2 (a) of WAPDA Disposal Procedures, "once declared unserviceable, beyond economical repair or dead by the competent authority, the material should be disposed off with minimum delay."

In GENCO-III, scrap material valuing Rs.109.50 million was lying for want of disposal at NGPS Shahdara and Muzaffargarh. The material was kept in open place and exposed to the environmental effects. This resulted in non-disposal of scrap material amounting to Rs.109.50 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in January, 2014. The management replied that material would be disposed off.

DAC was not convened by the department till the finalization of the report.

Audit recommends to expedite the disposal of scrap material as per WAPDA Disposal Procedure.

(Draft Para No. 788/2103-14)

7.3.8 Wasteful expenditure incurred on transportation and handling charges of used power plant – Rs.104.19 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”.

In GENCO-III, an amount of Rs.104.19 million was incurred on transportation and handling charges of 440 MW used power plant gifted by UAE Government. The power plant could not be installed since the date of its arrival. This resulted in wasteful expenditure of Rs.104.19 million during 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in January, 2014. The management replied that the expenditure incurred on transportation and handling charges was quite reasonable and gas turbine could be installed within shortest possible time. The reply was not tenable as the useful life of the plant had already been expired and its operation was un-economical as per feasibility report.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter for fixing the responsibility for non-installation of power plant.

(Draft Para No. 838/2013-14)

7.3.9 Loss due to non-receipt of furnace oil – Rs.60.64 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”.

In GENCO-III, 5,450 metric ton furnace oil amounting to Rs.60.64 million was either not received or short received as evident from reconciliation statement of furnace oil booked by M/s Shell Petroleum Ltd. for NPGCL Muzaffargarh. This resulted in loss of Rs.60.64 million due to non/short receipt of furnace oil during 2012-13.

The matter was taken up with management in October, 2013 and reported to the Ministry in December, 2013. The management replied that the matter was under investigation.

DAC was not convened by the department till the finalization of the report.

Audit recommends to expedite the investigation process for fixing responsibility besides making good the loss.

(Draft Para No. 768/2013-14)

7.3.10 Illegal occupation of WAPDA land - Rs.37.20 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".

In GENCO-III, six kanals and four marlas of WAPDA land of GTPS Shahdara valuing Rs.37.20 million was illegally occupied by some private person(s) since September, 2006. The cases were pending in courts but nothing had been achieved so far. Poor asset management resulted in illegal occupation of Company's land valuing Rs.37.20 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in January, 2014. It was stated that the reply would be given after consulting the record. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

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

(Draft Para No. 839/2013-14)

7.3.11 Non-encashment of performance bond - Rs.5.41 million

According to Standard Clause-13 a (i) of the Purchase Order, "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."

In GENCO-III, a purchase order was placed with M/s MJB International Dubai for supply of store material on March 19, 2012. The supplier could not supply the material within the stipulated period. Neither the contract was cancelled at the risk and cost of the supplier nor surety/performance bond worth Rs.5.41 million was encashed.

The matter was taken up with the management in October, 2013 and reported to the Ministry in January, 2014. The management replied that the purchase order had already been cancelled and matter been taken up with Standard Chartered Bank Lahore for encashment of surety bond. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends that the management needs to investigate the matter for fixing responsibility for delay besides encashment of performance bond.

(Draft Para No. 789/2103-14)

7.3.12 Loss due to violation of PPRA Rules-2004 - Rs.2.39 million

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

In 425 MW Combined Cycle Power Plant, Nandipur (GENCO-III), a tender for construction of 42 residential flats under Category-V was called for in which M/s Malik Abdul Salam & Co. was the lowest bidder with bid price of Rs.41.06 million and M/s Friends Engineering Co. was the 2nd lowest bidder with bid price of Rs.43.46 million. The tender was cancelled in March, 2011 and in re-tendering the contract was awarded to M/s Friends Engineering Co. (2nd lowest bidder of 1st tender) at a contract price of Rs.43.45 million. Due to ignoring the 1st lowest bidder by cancellation of 1st tender without any reason, the Company had to incur extra expenditure of Rs.2.39 million which resulted in loss to the Company.

The matter was taken up with the management in August, 2013 and reported to the Ministry in January, 2014. The management replied that the re-tendering was made after vetting from CCC and MD PEPCO raised objection that the validity period of the bid security of M/s Malik Abdul Salam & Co. was much lesser which was considered major deviation and advised to put the case before BOD. The approval for re-tendering was made by the competent authority against the work. The reply was not tenable as ignoring of M/s Malik Abdul Salam and Co. was against PPRA Rules-2004.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter for fixing responsibility for non-observance of PPRA Rules-2004.

(Draft Para No. 799/2013-14)

7.3.13 Unjustified expenditure on account of additional professional fee and hotel charges - Rs.1.53 million

According to the U.O. note dated January 18, 2012 of the Law, Justice & Parliamentary Affairs Division, Government of Pakistan, "ex-post facto approval was granted to the appointment of Khawaja Ahmed Tariq Rahim, Advocate Supreme Court of Pakistan to represent Ministry of Water & Power/Federation of Pakistan before the commission in constitution petition to determine the cause of delay in Nandipur Power Project/Chichoki Mallian Power Project at professional fee of Rs.2.5 million excluding traveling and accommodation charges".

In 525 MW CCPP, Chichoki Mallian (GENCO-III), the services of Khawaja Ahmad Tariq Rahim, Advocate were hired for Rs.2.35 million in a constitution petition pending before the Honorable Supreme Court of Pakistan. However, the learned counsel claimed an additional fee of Rs.1.6 million for appearing before the commission to determine the cause of delay in project. An amount of Rs.1.3 million along with hotel charges amounting to Rs.0.23 million for his Assistant was paid to him. The constitution of the commission was a part and parcel of proceeding of Apex Court, therefore, the payment of additional fee and hotel charges of Rs.1.53 million was unjustified.

The matter was taken up with management in March, 2013 and reported to the Ministry in July, 2013. The management replied that although case was the same but the assignments to act were different. Therefore, the payment was made on account of assignment instead of case. The reply was not tenable as the payment was made without approval of Government of Pakistan.

DAC was not convened by the department till the finalization of the report.

Audit recommends to justify the additional payment.

(Draft Para No. 03/2014)

CHAPTER-8

LAKHRA POWER GENERATION COMPANY LIMITED (GENCO-IV)

(85-87)

8. LAKHRA POWER GENERATION COMPANY LIMITED

8.1 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 de-rated capacity of 30 MW. Profile of LPGCL is tabulated below for better understanding of its operations:

8.2 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
GENCO-IV	2005-06	1		-	1 (Para No. 4.1)

Position of compliance with PAC directives is not satisfactory.

8.3 AUDIT PARAS

8.3.1 Loss due to incurrence of wasteful expenditure on account of defective power purchase agreement - Rs.16,349.50 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”.

In GENCO-IV, an agreement for power purchase was executed with M/s KARKAY Karanden Electric Uretim and electricity was to be used by M/s KESC Karachi. The total payment of Rs.16,349.50 million made in this context was wasteful as the electricity supplied by the M/s KARKAY was used by M/s KESC. This resulted in loss of Rs.16,349.50 million on account of defective agreement of power purchase upto 2012-13.

The matter was taken up with management in September, 2013 and reported to the Ministry in December, 2013, but no reply was given.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter at Ministerial level for fixing responsibility besides making good the loss.

(Draft Para No. 659/2013-14)

8.3.2 Loss due to non-utilization of power plant – Rs.3,135.38 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”.

In GENCO-IV, machines relating to Units-II (50 MW) & III (50 MW) for power plant were lying idle since April 12, 2007 and June 18, 2008 respectively for want of repair and maintenance. Due to non-operation of generating units at power house, 976 million KWH could not be generated during 2012-13. Resultantly, the Company sustained a loss of Rs.3,135.38 million.

The matter was taken up with management in September, 2013 and reported to the Ministry in December, 2013. The management replied that these units were stopped for want of rehabilitation but after leasing of Lakhra in 2006, the rehabilitation was stopped. Now after the Supreme Court’s decision against leasing, this office was making efforts for leasing. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends that the management needs to investigate the matter and take effective steps to bring into use the idle machines.

(Draft Para No. 693/2013-14)

8.3.3 Loss due to forced stoppage of power plant – Rs.673.55 million

According to 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”.

In GENCO-IV, power plant was remained stopped for 6,622 hours during 2012-13 due to serious faults i.e. economizer tube leakage, breaking of impeller vane of Fan No. 2 and sometimes due to unknown reasons. Resultantly, the Company sustained a loss of revenue to the tune of Rs.673.55 million.

The matter was taken up with management in September, 2013 and reported to the Ministry in December, 2013, but no reply was given.

DAC was not convened by the department till the finalization of the report.

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

(Draft Para No. 690/2013-14)

8.3.4 Loss due to de-rated capacity of power plant - Rs.589.45 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".

In GENCO-IV, only one unit of power plant was running at the de-rated capacity of 31.2 MW instead of its installed capacity i.e. 50 MW. Resultantly, a heavy generation loss of 164.69 million units amounting to Rs.589.45 million was borne by the Company.

The matter was taken up with management in September, 2013 and reported to the Ministry in December, 2013, but no reply was given.

DAC was not convened by the department till the finalization of the report.

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

(Draft Para No. 691/2013-14)

8.3.5 Loss due to consumption of excess heat rate from NEPRA's standard -Rs.46.01 million

Heat rate of 16,300 in BTU/KWH was fixed by NEPRA for GENCO-IV vide its decision dated July 25, 2011.

In GENCO-IV, 21,578.01 BTU per KWH was used instead of the permissible limit of 16,300 BTU per KWH fixed by NEPRA. Resultantly, 12.86 million units were less generated and the Company sustained a loss of Rs.46.01 million during 2012-13.

The matter was taken up with the management in September, 2013 and reported to the Ministry in December, 2013, but no reply was given.

DAC was not convened by the department till the finalization of the report.

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

(Draft Para No. 692/2013-14)

CHAPTER-9

NATIONAL TRANSMISSION AND DESPATCH COMPANY LIMITED (NTDC)

(91-110)

9. NATIONAL TRANSMISSION AND DESPATCH COMPANY LIMITED

9.1 Introduction

National Transmission and Despatch Company Ltd. (NTDC) was incorporated as a corporate entity in 1998 under Company's Ordinance, 1984. The principal activity of NTDC is to purchase electricity from Hydel Power Stations, Thermal Power Stations and 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 IPPs, WAPDA/PEPCO unbundled generation companies, nuclear power plant and hydroelectric plants owned and operated by WAPDA.

NEPRA granted transmission license to NTDC for a period of 30 years 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 program, establishment of an independent entity 'CPPA' has been approved by Prime Minister Secretariat. It is acting as an 'Agent' of Distribution Companies and Bulk Power Consumers (BPCs) for procurement power on their behalf from Generations Companies and delivers via NTDC network.

CPPA is responsible to purchase electricity from all power plants on behalf of WAPDA and manage to deliver this power to the 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)

SO is responsible for the safe and reliable operation of the network and to dispatch 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 function responsibilities, NTDC is providing services (non-core functions) 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.

Performance Measures

The entity has a formal budgeting process in place and annual budget is approved by BOD. All formations report as per their allocation in the ‘Budget vs. Actual statement’ on monthly basis.

Transmission Network

National Transmission and Dispatch Company operates and maintains nine 500 KV Grid Stations and twenty three 220 KV grid stations along with 4,160 KM, 500 KV transmission lines, and 4,000 KM, 220 KV transmission lines in Pakistan

9.2 Comments on the Financial Statements

9.2.1 Financial Overview

Monthly accounts (Trial Balance and other management information schedule) from field accounting units are sent to Finance Director, NTDC, where these accounts are consolidated and financial statements including Balance Sheet, Profit and Loss and Cash Flow statements are prepared. As per Companies Ordinance, 1984 the financial statements are required to be finalized within four month of closing of financial year. However, the Company has not complied with the provisions of Section-158 and Section-233 of the Companies Ordinance, 1984 as the financial statements for the financial year ended June 30, 2013 were not finalized within the time period stipulated in the rules and regulations.

As the financial statements for the financial year 2012-13 has not been finalized by the Company, therefore, the following comments/analysis were prepared on the basis of financial statements for the year 2011-12.

9.2.2 Extracts of the Financial Statements
Balance Sheet as at June 30, 2012

	2011-12	%	2010-11
Equity and Liabilities			
Share capital and reserves	52,700.38	-	52,700.38
Accumulated loss	(67,418.82)	(0.30)	(67,621.31)
Deposits for shares	7163.23	-	7163.23
Deferred Credit	57.76	(5.03)	60.82
Non-current liabilities			
Long term loans	35721.74	3.89	34384.64
Deferred liabilities	7325.21	11.24	6585.00
Current liabilities			
Trade and other payables	840654.54	37.61	610881.06
Accrued mark up	12036.05	73.36	6942.78
Short Term Borrowing	-		14400.00
Current Portion of the long term loan	13291.71	59.78	33048.61
Sale Tax Payable	2283.70	(22.76)	2956.70
Provision for Taxation	547.86	(12.47)	625.91
	868,813.86	29.90	668,855.06
TOTAL Equity and Liabilities	**904,363.37**		**702,127.82**
ASSETS			
Non-current assets	120140.31	13.98	105403.87
Long Term Loans and Advances	1097.48	(90.30)	11315.51
Long Term Deposit	9.04	22.13	7.40
Receivable from Govt. of Pakistan	43000.00	-	43000.00
Current assets			
Stores and spares	6,647.90	(14.29)	7,756.75
Trade debts	575,905.38	51.13	381,044.26
Current portion of long term loans and advances	3,821.35	(20.81)	4,826.12
Loan and Advances	19,366.43	(31.11)	28,115.68
Accrued interest	34.59	(99.41)	5,886.03
Other Receivables	112,186.25	5.36	106,476.35
Short Term Investment	100.00	-	100.00
Cash and bank Balances	22,054.64	169.09	8,195.86
	740,116.54		542,401.03
TOTAL ASSETS	**904,363.37**		**702,127.82**

Profit and Loss Account
For the Year ended June 30, 2012

	2011-12	%	2010-11
Revenue	868,458.78	27.86	679,222.25
Cost of Electricity	850,441.77	28.90	659,737.83
Gross profit/(Loss)	**18,017.01**	**(7.53)**	**19,484.41**
Operating Expenses	18,543.20	(50.22)	37,257.63
Profit/(Loss) Before Interest and Tax (PBIT)	**(526.19)**	**(97.03)**	**(17,773.21)**
Other Income	3,587.87	(14.61)	4,201.91
Finance Cost	2,769.11	(6.00)	2,945.89
Tax	90.09	(85.28)	612.21
Profit/(loss) for the year	**202.49**	**(98.17)**	**(17,129.40)**

9.2.3 Financial Ratios

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

COMPANY		NTDC	
YEAR		**2011-12**	**2010-11**
Profitability Ratios			
Return on Capital Employed	%	(0.51)	(17.62)
Gross Profit Margin	%	2.07	2.86
Net Profit Margin	%	0.02	(2.52)
Average Asset Turnover Ratio	Times	104.00	103.00
Return on Total Assets	%	0.022	(2.43)
Short Term Liquidity Ratio			
Current Ratio	Times	0.85	0.81
Working Capital Ratios			
Debtors Turnover Period	Days	242.00	205.00
Creditors Turnover Period	Days	361.00	338.00
Debt, Gearing & Leverage Ratios			
Debt to Equity Ratio	%	71.83	42.71
Debt to Total Assets Ratio	%	4.75	5.83
Gearing Ratio	%	41.80	68.36
Interest Coverage	**Times**	**(1.90)**	**(6.03)**

9.2.4 Cash Flow Analysis

The Company's net Cash inflows were Rs.13,858.78 million (Rs.2,659.95 inflows : 2010-11) during the financial year resulting in closing balance of Rs.22,054.64 million (Rs.8,195.86 million: 2010-11).

The Company generated net cash inflow of Rs.24,664.98 million from operating activities as compared to the last year which was of Rs.13,065.15 million. The major component of such increase was the reduction of finance cost. The Finance cost has been reduced by 6%.

Moreover, the net cash inflows of Rs.2,913.52 million injected from financing activities as the Company borrowed Rs.30,826.92 million as Re-lent loan from Govt. of Pakistan and Rs.4,842.98 million from the banking companies of Pakistan. During the year Rs.13,343.56 million were transferred from WAPDA.

The Company invested Rs.14,803.31 million on fixed assets during the year. In addition, the Company utilized net Rs.13,719.71 million in investing activities. The cash flow analysis showed that the Company has significant cash balances for operational requirements.

9.2.5 Ratios Analysis

9.2.5.1 Profitability

Profitability ratios of the Company showed improvement during current financial year as both gross profit and net profit ratios turned from negative to positive.

i) Gross profit

During the financial year 2011-12, electricity sales of the Company increased by 27.86%. On the other hand cost of electricity increased by 28.90%. The proportionate increase in cost of electricity was slightly higher than the increase in the sales of electricity. However, it has no significant impact on the profitability of the Company. In view of the forgoing, the Gross Profit ratio slightly declined i.e. from 2.86% (2010-11) to 2.07% (2011-12).

In addition the Company sustained transmission losses in excess of the targets set by NEPRA resulting in a loss of Rs.3,520 million (Rs.4,648 million in 2010-11).

ii) Net profit Ratio

The accumulated losses of the Company were Rs.67,418.82 million; however, a profit of Rs.202.49 million was reported during the financial year 2011-12. Company suffered loss in financial year 2010-11 due to that, its net profit ratio remained negative i.e. (2.52%). However, in the current financial year the ratio turned into positive i.e. 0.023%. The Company is still in operating loss of Rs.526.19 Million. But the loss has been decreased by 97.03% in the current year. This indicated that the operational efficiency of the Company has improved during the year 2011-12. Although operational expenses have been declined by more than 50% but still they are on higher side which was a cause of loss. It was mainly due 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) 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.

iii) Return on capital employed

The return on capital employed was still in negative i.e. 0.51% during the financial year 2011-12. It was mainly due to loss in operating profit for the year 2011-12. But it was improved as compared to the previous year 2010-11 i.e. negative ratio of 17.62%. This reflected that the Company has failed to utilize its resources in an efficient and effective manner.

iv) Return on total assets

The ratio of return on total assets has slightly improved to 0.02% from negative ratio of 2.43%. This reflected that the Company was still not utilizing its assets efficiently to generate favorable return.

The Company invested Rs.14,803.31 million on the non-current assets during the financial year 2011-12. In addition to the above, the Company held cash reserves of Rs.22,054.64 million. The debt to total asset ratio and gearing ratio was 4.75 and 41.80 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 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 which needs to be explained.

9.2.5.2 Short Term Liquidity

Current ratio

The Company current ratio improved slightly to 0.85 from 0.81. The position reflected that the Company was facing difficulties in repayment of current liabilities.

9.2.5.3 Working Capital Cycle

Debtors/ Creditors turnover period

The trade receivables increased significantly i.e. by Rs.194,861 million (51.13%) over the previous year. In addition to that, the debtor's turnover period increased by 37 days (242 days in 2011-12 and 205 days in 2010-11). Delays in collection from debtors have trickledown effect on the creditor's turnover period which increased to 361 days from 338 days. The increase in accounts receivable and accounts payable indicated continuing cash flow shortage resulted in persistent working capital financing problems of the Company. Poor management of debtors and creditors' turnover period needs to be explained.

9.2.5.4 Gearing, Leverage and Interest coverage ratios

The ratios reflect positive trend due to profit during current year i.e. Rs.202.49 million during the financial year 2011-12 as compared to the loss of Rs.17,129.40 in financial year 2010-11. Gearing ratio of 41.80% shows that company has improved its capital structure. However, it is recommended that in future company should rely on its own resources.

Although Finance cost decrease by 6.0% from last year but the earnings before interest and tax was not much enough to cover up finance cost that is why the interest coverage ratio was negative which can be improved by better operational efficiency.

9.2.6 Recommendations:

The above analysis showed that the profitability, liquidity and solvency position of the Company has been improved slightly during 2011-12. In order to finance the operations, Company would heavily rely on financing from external sources which will aggravate the liquidity position. If such reliance would prevail, the Company might 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.

Further, the management should consider the qualifications raised by the Commercial Auditors.

i. Confirmation of all Receivables from the DISCOs.
ii. Provision for taxation for the current year and further assessment of the deferred tax asset or liabilities.

iii. Disclosure requirements regarding the lease arrangements.
iv. Confirmation regarding deposit for shares from Ministry of Water and Power.
v. Mark up on account of amount payables to IPPs.
vi. Issues of sale tax refund.
vii. Acknowledgement from the JPCL regarding an advance amount of Rs.2,347 million

In addition to the above, the Company is not complying with the provisions of the Ordinance and has never been able to comply with the relevant provisions pertaining to preparation and approval of the financial statements. Non-compliance reflects poor management on part of NTDC and will also cause penalties imposed under the provisions of the Ordinance.

In order to ensure transparency in operations, policies and practices, the Company is required to ensure strict compliance with the Public Sector Companies (Corporate Governance) Rules, 2013.

9.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
NTDC	1999-2000	1	1 (Para No. 3)	-	-
	2000-01	1	1 (Para No. 93)	-	-
	2004-05	1	-	-	1 (Para No. 8.5)
	2006-07	3	-	2 (Para No. 8.6 & 8.7)	1 (Para No. 8.4)

Position of compliance with PAC directives is not satisfactory.

9.4 AUDIT PARAS

9.4.1 Non-production of record regarding award of contract for Evacuation of power from Nealum Jhelum Hydro Power Project - Rs.11,547.62 million

According to clause-14-C (2) & (3) of the Auditor General's (Functions, Powers and Terms and condition of service) Ordinance-2001, "it is obligatory for all Government entities to provide record to Audit on demand".

In NTDC, tendering record regarding award of contract for Evacuation of Power from Neelum Jhelum Hydro Power Project amounting to Rs.11,547.62 million was not produced to Audit inspite of written reminders and requests made during audit of formation. Violation of AGP Ordinance-2001 resulted in non-production of record worth Rs.11,547.62 million during 2012-13.

The matter was taken up with the management in November, 2013 and reported to Ministry in December, 2013. The management replied that requisite record would be produced to Audit.

DAC directed in its meeting held on February 6-7, 2014 to pend the para for production of relevant record to Audit within 30 days.

Audit recommends to investigate the matter for fixing responsibility for non-production of record during audit of the formation.

(Draft Para No. 752/2013-2014)

9.4.2 Loss due to placement of surplus funds with non-scheduled bank - Rs.100 million

According to Finance Division Letter dated September 22, 2005, "for the sake of the safety and security of deposits, the banks/ financial institutions taking a deposit should have a minimum "A" rating as appearing on the web-site of the Credit Rating Agency. This "A" rating refers to the rating scale used by Pakistan Credit Rating Agency and JCR-VIS Credit Rating Company for banks incorporated in Pakistan".

In EHV-I NTDC Lahore, an amount of Rs.200 million was invested in the Trust Investment Bank having credit rating A-3 at interest rates of 14.75% and 15% for the periods of 3 months and 6 months respectively in 2009. Later on Rs.100 million were withdrawn from the bank in August, 2009. The remaining amount was rolled over three times and its maturity date of repayment by the bank was November 10, 2012. The bank due to financial liquidity could not remit the principal amount of Rs.100 million and interest accrued thereon. Poor financial management resulted in non-recovery of investment of Rs.100 million from the bank during 2012-13.

The matter was taken up with the management in November, 2013 and reported to the Ministry in December, 2013. The management replied that a legal counsel was hired to file suit in District Court Lahore for recovery of principal amount and interest thereon. A complaint was also lodged with Security & Exchange Commission of Pakistan (SECP) for violation of provisions of Companies Ordinance, 1984.

DAC directed in its meeting held on February 6-7, 2014 to pursue the court case and complaint with SECP at Ministry level.

Audit emphasizes expeditious recovery from bank besides fixing responsibility.

(Draft Para No. 758/2013-14)

9.4.3 Non-recovery of LD from IPPs & Contractors - Rs.15,740.72 million

As per policy guidelines in the matter of waiver of imposition of liquidated damages on IPPs for the year 2008-09 and onwards circulated by the Ministry of Water & Power Islamabad vide letter dated July 03, 2012, "LD will be charged if IPPs fails to achieve the required net electrical out-put". As per Clause-26, Section-8 of Special Conditions of the contract agreement and Clause-46.1 of General Conditions of contract, "the liquidated damages for the whole of the works are 0.05% per day. The maximum amount of liquidated damages for the whole of the works is 10% of the final contract price".

In NTDC, liquidated damages amounting to Rs.15,258.75 million was imposed on IPPs on account of failure to achieve dispatch level as per PPA but they did not accept the liquidated damages and matter was referred to be resolved through dispute resolution mechanism which was under process upto June, 2013. Morever, in EHV-I NTDC, the contracts were awarded to various contractors for execution of works including procurement of material but the contracts could not be completed within the stipulated completion period. The liquidated damages amounting to Rs.481.97 million were to be recovered from the contractors as per contract provisions. This resulted in loss of Rs.15,740.72 million due to non-recovery of liquidated damages during 2012-13.

The matter was taken up with the management in May & November, 2013 and reported to the Ministry in December, 2013 & January, 2014. The management replied that no doubt issue of LD was taken up with inordinate delay but delay had defeated the spirit of Clause of PPA. The LD relating to contractors would be recovered from 15% retention money already deducted from their running bills.

DAC directed in its meeting held on February 6-7, 2014 to refer the case to Ministry within 7 days.

Audit recommends to expedite the recovery of LD besides fixing the responsibility for inordinate delay.

(Draft Para No. 770, 812 & 826/2013-14)

9.4.4 Loss due to non-recovery of advances along with interest from independent power producers - Rs.4,874.74 million

According to Section-9.7 (b) of PPA, "for each month in which the Company delivers Net Electric Output (NEO) to WAPDA, the Company shall read the metering system in accordance with Section-8.4 and shall prepare an invoice showing the amount of the energy payment payable to company for such month. The Company shall draw on the WAPDA LC or the ESCROW Account for the amount shown in the invoice as due to the Company (less any amount disputed by WAPDA) at any time on or after the 25^{th} day following the day the invoice is delivered to WAPDA".

In WPPO NTDC, advance payment of Rs.4,534.41 million was made to M/s Japan Power Company Limited (JPCL) and Southern Electric Power Company Limited (SEPCOL) for the supply of electricity. The companies had neither supplied the electricity as per agreement nor refund the amount of advance along with interest upto June, 2013 which resulted in loss of Rs.4,874.74 million.

The matter was taken up with the management in July, 2013 and reported to the Ministry in January, 2014. The management replied that the matter was subjudiced.

DAC directed in its meeting held on February 6-7, 2014 to pursue the court case vigorously.

Audit recommends to implement DAC directives besides fixing responsibility.

(Draft Para No. 831/2013-14)

9.4.5 Undue favour to contractors due to non-obtaining of insurance policies - Rs.3,843.38 million

According to Clause-13.1 of General Conditions of Contract (GCC), "the contractor shall provide insurance cover from the start date to the end of the defects liability period". As per Clause-34, "the contractor shall at its expense take out and maintain in effect the cargo insurance during transportation for covering loss or damage occurring, while in transit from the contractor's or sub contractor's works or stores until arrival at the site equal to the full replacement value".

In NTDC, sixteen contracts for civil works, erection, testing and commissioning of 220/132 KV transmission lines/grid stations worth Rs.1,418.25 million were awarded to different contractors under EHV-I but insurance coverage had not been provided by the contractors. Moreover, in EHV-II, material valuing Rs.2,425.13 million was shifted at site of works by the contractor without providing cargo insurance during transportation. Violation of contract provisions resulted in undue favour to the contractors due to non-obtaining of insurance policies of Rs.3,843.38 million upto 2012-13.

The matter was taken up with the management in April and May, 2013 and reported to the Ministry in January, 2014. The management replied that the contractor/supplier had not submitted policies and certificates for insurance against works in accordance with relevant terms and conditions of the contract agreement.

DAC directed in its meeting held on February 6-7, 2014 to constitute inquiry for fixing responsibility for non-obtaining insurance coverage within 15 days.

Audit recommends to obtain insurance coverage from contractors besides fixing the responsibility for non-obtaining the insurance coverage as required under contract provisions.

(Draft Para No. 795 & 796/2013-14)

9.4.6 Loss due to non-finalization of inquiry - Rs.850 million

According to 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".

In GSO, NTDC, Islamabad some outlaws intruded into the 500/220-KV Grid Station Sheikh Muhammadi Peshawar on April 2, 2013 and destroyed 500/220 KVA transformers by planting and blasted the explosive through remote control but the fate of destroyed material valuing Rs.850 million had not been decided. This resulted in loss of Rs.850 million during 2012-13.

The matter was taken up with management in July, 2013 and reported to the Ministry in September, 2013. The management replied that the matter had since been investigated by inquiry committee.

DAC directed in its meeting held on February 6-7, 2014 to ensure production of record of installation of new material as well as return of dismantled material and decide the fate of loss within 15 days.

Audit recommends to investigate the matter for deciding the fate of loss besides fixing the responsibility and implement the DAC directives.

(Draft Para No. 57/2013-14)

9.4.7 Unauthorized supply of energy to KESC in violation of power purchase agreement - Rs.213.41 million

According to Clause-(C) 1 of the Power Purchase Agreement signed between NTDC and KESC that electric power to the extent of 650 MW will be supplied to KESC by NTDC.

In CPPA, NTDC, excess electricity valuing Rs.213.41 million ranged from 710 MW to 850 MW was dispatched to the KESC than the agreed capacity of 650 MW during the financial year 2011-12 and 2012-13. Violation of Power Purchase Agreement resulted in unauthorized supply of energy costing Rs.213.41 million to KESC.

The matter was taken up with management in May, 2013 and report to the Ministry in January, 2014. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

Audit recommends to justify the supply of excessive electric power besides fixing the responsibility.

(Draft Para No. 828/2013-14)

9.4.8 Irregular award of works in violation of PPRA Rules-2004 – Rs.128.58 million

According to Rule-21 of PPRA Rules-2004, "the procuring agencies shall engage in open competitive bidding if the cost of the object to be procured is more than one hundred thousand rupees".

In NTDC, 08 work orders amounting to Rs.128.58 million were awarded to various contractors on the basis of quotations instead of inviting open tenders. Moreover, technical sanctions, cost estimates and analysis of quantities/rates were not available in record. Violation of PPRA Rules-2004 resulted in irregular award of works of Rs.128.58 million during 2012-13.

The matter was taken up with the management in September, 2012 July & August, 2013 and reported to the Ministry in December, 2013. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

Audit recommends that the matter needs to be inquired for fixing responsibility besides its regularization by the competent authority.

(Draft Para No. 653, 803 & 817/2013-14)

9.4.9 Un-authorized award of works - Rs.48.89 million

According to Section-IV, Clause 4.4.1 of Book of Financial Powers Revised-2007 of NTDC, "General Manager is empowered to award contract, work orders for works against limited enquiry upto Rs.3 million in each case subject to maximum of Rs.30 million in a year".

In EHV-I, NTDC, the General Manager, NTDC had approved 25 contracts/work orders for execution of civil works/supply of material valuing Rs.48.89 million against the permissible limit of 30 million during the financial year 2012-13. Violation of provisions of Book of Financial Powers resulted in un-authorized award of works/supply orders of Rs.48.89 million.

The matter was taken up with the management in November, 2013 and reported to the Ministry in January, 2014. The management replied that the works were done under the pressure of ongoing energy crises and to execute the job before expiry of ADB loan.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification and approval of competent authority within 15 days.

Audit recommends to investigate the matter for fixing responsibility.

(Draft Para No. 807/2013-14)

9.4.10 Non-return of Auto Transformer from Heavy Electrical Complex - Rs.40 million

According to Clause-1.4.2 (a) of the WAPDA Disposal Procedure, "once declared unserviceable, beyond economic repairs or dead by the competent authority, the material should be disposed off with minimum delay".

In GSO NTDC, Lahore, a 160 MVA, 220/132 KV Auto Transformer damaged at 220 KV Grid Station Kala Shah Kaku valuing Rs.40 million was sent to Heavy Electrical Complex (HEC) Hattar for repair in February, 2006. The transformer was lying with HEC upto June, 2013. Neither the transformer was repaired nor received back from HEC.

The matter was taken up with management in August, 2013 and reported to the Ministry in October, 2013. The management replied that the matter had already been taken up with HEC.

DAC directed in its meeting held on February 6-7, 2014 to take up the case with HEC through Ministry within 15 days.

Audit recommends to pursue the case vigorously besides fixing the responsibility.

(Draft Para No. 185/2013-14)

9.4.11 Loss due to illegal occupation of land – Rs.25 million

According to LAC's Notification dated June 25, 1995, "446 kanal 05 marla land was acquired from various sellers for the construction of grid station under Section-4 of Land Acquisition Act-1894".

In GSO NTDC Islamabad, 446 kanal 05 marla land was acquired for 220 KV Grid Station Shahibagh, Peshawar in June, 1995. Out of acquired land, 100 kanal land worth Rs.25 million was still in possession of the seller as it had not been taken over by the NTDC upto June, 2013. This resulted in loss of Rs.25 million during 2012-13.

The matter was taken up with management in July, 2013 and reported to the Ministry in September, 2013. The management replied that the land of 220 KV G/S Shahibagh was under dispute and the case was subjudice.

DAC directed in its meeting held on February 6-7, 2014 to pursue the court case vigorously.

Audit recommends to investigate the matter departmentally for fixing responsibility for non-obtaining of possession of acquired land and pursue the court case vigorously.

(Draft Para No. 36/2013-14)

9.4.12 Loss due to payment of penalty on rent - Rs.16.55 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".

In GSO NTDC, Hyderabad, an amount of Rs.16.55 million was paid to Sindh Industrial Trading Estates Limited, Karachi on account of penalty for non-payment of rent and development charges in time. Non-adherence to Authority's instructions resulted in loss of Rs.16.55 million during 2012-13.

The matter was taken up with management in July, 2013 and reported to the Ministry in December, 2013. The management replied that the matter was under trial in Court of Law.

DAC directed in its meeting held on February 6-7, 2014 to pursue the court case vigorously.

Audit emphasizes expeditious pursuance of court case besides investigating the matter for fixing responsibility.

(Draft Para No. 654/2013-14)

9.4.13 Non-recovery of standard rent - Rs.11.72 million

According to MD (PEPCO)'s office order dated September 11, 2009, "an employee can retain official accommodation up to a period of 4 months from the date of relieving. No further extension is to be allowed and the employee is required to vacate it under any circumstances". As per clarification given by the Director Finance (Regulation), WAPDA Lahore vide letter dated January 10, 2007, "where the accommodation is allotted by one organization to the employees of other organization, the standard rent is to be charged".

In NTDC, official accommodation in NPCC Colony was in possession of Deputy Manager after his transfer beyond four months. Moreover, residential and non-residential buildings were allotted to M/s Techno Energy and Engineering Group of FWO, Karachi and private persons. Standard rent amounting to Rs.11.72 million was not recovered from the concerned quarters upto 2012-13.

The matter was taken up with management during July to September, 2013 and reported to the Ministry in October, 2013. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

Audit emphasizes expeditious recovery of standard rent besides fixing responsibility.

(Draft Para No. 186, 717 & 845/2013-14)

9.4.14 Unjustified expenditure on account of payment of entertainment/refreshment and honorarium - Rs.10.97 million

According to Para-11.4 (b) Chapter-XI (Financial Powers Delegations to Subordinate Authorities) of GFR, "funds allotted to a Ministry/Division, its attached or subordinate offices are spent for the purpose for which they are allocated". As per Para-23 of GFR Vol-1, "every Government officer should realize fully and clearly that he will be held responsible personally for any loss sustained by Government trough fraud or negligence on his part".

In NTDC, an amount of Rs.1.33 million was incurred on entertainment on behalf of the Ministry of Water and Power while an amount of Rs.9.64 million was paid to staff of Ministry and National Power Control Center (NPCC) on account of compensation/honorarium. Violation of instructions resulted in unjustified expenditure of Rs.10.97 million upto 2012-13.

The matter was taken up with management from July, 2012 to November, 2013 and reported to the Ministry from July, 2013 to January, 2014. The management replied that the payment of entertainment/refreshment charges were made during US energy dialogue arranged by Ministry relating to all GENCOs, DISCOs and NTDC and these companies had to share the expenditure on pro-rata basis. The honorarium was paid to the employees and staff of the Ministry after the approval of the competent authority.

DAC directed in its meeting held on February 6-7, 2014 to refer the case to Ministry for clarification and decision.

Audit recommends to justify the expenditure besides fixing responsibility.

(Draft Para No. 02, 39, 769 & 846 /2013-14)

9.4.15 Non-disposal of dismantled material and off road vehicles - Rs.9.88 million

According to Clause-1.4 Chapter-XI (Section-1) of the WAPDA Disposal Procedure, "unserviceable vehicles and material/equipment are to be disposed off timely".

In GSO NTDC Hyderabad, dismantled/unserviceable electrical material and five off road vehicles having reserve value of Rs.9.88 million were lying in the store since 2009-10. The material was kept in the open yard and exposed to the environmental effects. This resulted in their deterioration and decrease in value with the passage of time.

The matter was taken up with the management in July 2013 and reported to the Ministry in December, 2013. The management replied that the dismantled/unserviceable material would be surveyed off shortly and efforts were being made for early disposal of off road vehicles.

DAC directed in its meeting held on February 6-7, 2014 to expedite the disposal process as per WAPDA Disposal Procedure within 15 days.

Audit emphasizes to expedite the disposal process besides fixing responsibility.

(Draft Para No. 708/2013-14)

9.4.16 Non-recovery of loan from Power Holding Company - Rs.3.44 million

According to Para-12 of Chapter-2 of GFR Volume-I, "a controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the funds allotted to spending units are expended in the public interest and upon objects for which the money was provided".

In CPPA NTDC, an amount of Rs.3.44 million was paid to Overseas Pakistan Foundation as advance rent for office on behalf of Power Holding Private Limited (PHPL) in March, 2010. The amount paid was released on the plea that as soon as budget would be approved, the same would be paid back to CPPA but the same was not paid back by the concerned formation till June 2013.

The matter was taken up with the management in July, 2012 and reported to the Ministry in January, 2014. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

Audit emphasizes expeditious recovery of advance amount besides fixing the responsibility.

(Draft Para No. 829/2013-14)

9.4.17 Un-justified expenditure on account of hiring of consultants - Rs.2.69 million

According to Para-II of the Establishment Division's O.M dated August 21, 2001, "a retired civil servant and a retired officer of the Armed Forces and a retired Judge of the superior courts, on reemployment in an autonomous body administered or controlled by the Federal Government, may be allowed pay as determined at that stage of the time scale of the post at which he was drawing his pay before retirement". As per Para-7(ii) & (iii) of above referred Guidelines, "Consultants should not be appointed to perform routine functions of an organization".

In NPCC NTDC, Mr. Muhammad Masood Akhtar, Chief Engineer WPPO was re-employed as GM (SO) NPCC for one year on April 4, 2009 after his retirement on April 3, 2009 which was further extended upto June 30, 2011. He was also appointed as Advisor NPCC for three months on lump sum package of Rs.180,000 per month on July 01, 2011 but he hold the charge of GM (SO) NPCC upto January, 2013. He was again appointed as Consultants (SO) NPCC, Islamabad for one year on contract basis at a package of Rs.300,000 per month. The appointment of the officer after the retirement was against the rules which resulted in unjustified expenditure of Rs.2.69 million.

The matter was taken up with management in September, 2013 and reported to the Ministry in January, 2014. The management replied that the said appointment was made by PEPCO/NTDC being competent authority.

DAC directed in its meeting held on February 6-7, 2014 to refer the matter to Ministry for final decision within 15 days.

Audit recommends to investigate the matter for fixing responsibility for un-authorized re-appointment of the officer on different posts.

(Draft Para No. 842/2013-14)

9.4.18 Undue favour to a contractor due to non-obtaining of performance security - Rs.2.18 million

According to Clause-49.1 of General Conditions of Contract, "the performance security shall be provided to the Employer not later than the date specified in the letter of acceptance and shall be issued in an amount specified in the PCC, by a bank acceptable to the Employer".

In NTDC, a work for construction of residences was awarded to M/s Rana Enterprises, Lahore with contract price of Rs.21.77 million in August, 2011 but performance security Rs.2.18 million was not provided upto June, 2013. Violation of contract provision resulted in undue favour to the contractor upto 2012-13.

The matter was taken up with the management during May and June, 2013 and reported to the Ministry in January, 2014. The management replied that the contractor started the construction activity at site. The contractor was personally reminded for submission of performance security but the contractor could not provide the same.

DAC directed in its meeting held on February 6-7, 2014 to constitute inquiry for fixing responsibility for non-obtaining performance security from contractor within fifteen (15) days.

Audit emphasizes to expedite the performance guarantee from contractor besides fixing responsibility.

(Draft Para No. 797/2013-14)

CHAPTER-10

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED (FESCO)

(113-135)

10. FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED

10.1 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 determined by National Electric Power Regulatory Authority (NEPRA) and notified by the Government of Pakistan. The Company purchase electricity from National Transmission and Despatch Company (NTDC) and sell it to 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 receives 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 Textile Mills and M/s Shakarganj Energy Limited.

The jurisdiction of FESCO includes four Operation Circles, one Grid System Construction Circle, one 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 seventy eight (78) accounting units are sent to Finance Director FESCO where these accounts are 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:

10.2.2 Extracts of the Financial Statements[2]
Balance Sheet as at June 30, 2013

(Rupees in million)

	2012-13	%	2011-12	%	2010-11
Equity and Liabilities					
Accumulated Loss	(8,545.07)	(63)	(22,876.47)	196	(7,730.36)
Non-current liabilities	52,951.32	12	47,458.78	11	42,910.45
Trade and other Payables	53,529.96	2	52,578.92	92	27,452.75
Current portion of long term loans	259.16	81	143.11	962	13.478
Mark up payable	661.28	83	362.09	100	-
Current liabilities	54,450.40	3	53,084.12	93	27,466.22
	140,309.44	**60**	**87,515.65**	**21**	**72,498.58**
Assets					
Non-current assets	78,655.60	80	43,775.30	11	39,512.96
Stores and spares	1,528.91	31	1,163.98	20	973.51
Trade debts	7,517.63	(38)	12,116.35	34	9,034.28
Short-term advances	212.57	9	195.59	128	85.74
Balance with statutory authorities	9,975.59	37	7,307.26	78	4,107.63
Other receivables	36,538.70	102	18,113.41	58	11,484.51
Short Term investment	0	0	0	(100)	3,206.00
Current portion of long-term advances	44.56	2	43.59	8	40.36
Interest accrued	39.35	31	29.95	3	29.07
Bank balances	5,796.53	22	4,770.23	19	4,024.52
Current assets	61,653.85	41	43,740.35	33	32,985.62
	140,309.44	**60**	**87,515.65**	**21**	**72,498.58**

Profit and Loss Account
For the year ended June 30, 2013

Electricity sale	120,788.37	38	87,358.10	14	76,865.16
Cost of electricity	95,584.21	0.31	95,291.61	32	72,054.67
Gross profit/(Loss)	25,204.16	417	(7,933.51)	(265)	4,810.49
Operating Cost	13,708.60	36	10,096.41	27	7,951.50
Loss/Profit before Interest and Tax	12,438.58	172	(17,169.64)	623	(2,375.84)
Other income	2,117.785	4	2,035.24	(16)	2,418.68
Profit/ (Loss) before Tax	14,556.370	196	(15,134.41)	(35,430)	42.838
Financial and other charges	228.00	1,447	14.738	(30)	21.043
Profit/ (Loss) for the year	**14,328.37**	**195**	**(15,149.15)**	**(29,963)**	**(50.39)**

10.2.3 Financial Ratios:

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

COMPANY		**FESCO**		
YEAR		**2012-2013**	**2011-2012**	**2010-2011**
Profitability Ratios				
Return on Capital Employed	%	16.95	(43.96)	0.10

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

Gross Profit Margin	%	20.87	(9.08)	6.26
Net Profit Margin	%	11.86	(17.34)	(0.07)
Average Asset Turnover Ratio	Times	3.67	(6.71)	36.22
Return on Total Assets	%	10.21	(17.31)	(0.07)
Short Term Liquidity Ratio				
Current Ratio	Times	1.13	0.82	1.20
Working Capital Ratios				
Debtors Turnover Period	Days	23	51	43
Creditors Turnover Period	Days	204	201	139
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	1.25	1.67	6.41
Gearing Ratio	%	1.75	3.82	10.29
Leverage Ratio	%	38.33	(37.84)	4.71
Interest coverage	Times	63.84	(1,027)	2.04

10.2.4 Cash Flow Analysis

The Company generated net cash inflow (surplus) of Rs.1,026.30 million (inflow (surplus) of Rs.745.71 million: 2011-12) during the financial year resulting in closing balance of Rs.5,796.53 million (Rs.4,770.23 million: 2011-12).

Net cash flows from operating activities increased by Rs.3,084.10 million (505%) over the previous year mainly due to profit during 2012-2013. The component which triggered such increase include:-

i) The revenue increased by 38% (i.e. Rs.33,430.27 million) whereas the cost of electricity increased only by 0.31% (i.e. Rs.292.60 million). Moreover, the operating expenses increased significantly i.e. by 39% (Rs.3,377.19 million) over the previous year which subsided ten percent of the additional revenue.

ii) Taxes paid by the Company decreased by Rs.531.29 million i.e. 16%.

While employee benefits increased by Rs.303.88 million i.e. 37% over the past year. In addition to the above, Rs.4,986.98 million were invested on fixed assets (Rs.5,694.62 million: 2011-12) for the improvement of the power distribution system. However, it succeeded to efficiently and effectively utilize the assets as the returns on assets got better appreciably.

Moreover, the net cash inflow of Rs.3,493.63 million injected from financing activities as the Company borrowed Rs.299.51 million (Rs.311.68 million: 2011-12) from financial institutions/ donors agencies, Rs.2,691.05 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.503.07 million raised through security deposits received from consumers.

The cash reserves increased by 22% over the last year which indicated cash flows of the Company improved over the previous year.

Despite having huge amount of cash reserves i.e. Rs.5,796.53 million (Rs.4,770.23 million in 2011-12), company borrowed Rs.230 million (Rs.312 million in 2011-12) which imposed financial burden on the Company in the form of interest cost.

10.2.5 Ratios Analysis

10.2.5.1 Profitability

Profitability ratios of the Company showed the improvement as the Company earned net profit during current financial year. Gross profit and net profit ratios went to positive as compared to negative during the previous years.

i) Gross profit

During the financial year 2012-13, electricity sales of the Company was o Rs.120,788 million i.e. increased by 38% during 2012-13. On the other hand, cost of electricity increased by 0.31% (Rs.95,584.21 million during the year 2012-13, Rs.95,291.61 million: 2011-12). The proportionate increase in cost of electricity was less than the increase in the sales of electricity due to which the Company earned gross Profit of Rs.25,204.16 million.

In view of the forgoing, the Gross Profit ratio increased significantly i.e. gross Profit 20.87 % as compared to gross loss of (9.08%) for the financial year 2011-12.

ii) Net Profit Ratio

The Company accumulated losses were Rs.8,545.07 million, however, during the present financial year the Company earned net profit of Rs.14,328.37 million.

The operative expenses were increased by 36% 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 increased significantly i.e. net Profit 11.86% as compared to net loss of (17.34%) for the financial year 2011-12.

The Company failed to manage its expenses including line losses due to which the indirect expenses increased. The indirect expenses increased over the previous year which swept out major portion of the profits gained by the Company which is required to be justified.

ii) **Return on capital employed**

The return increased to 16.95% profit from (43.96%) loss, showing that the Company has succeeded to utilize its resources in an efficient and effective manner.

iii) **Return on total assets**

The return increased to 10.21% from (17.31%) in the year 2011-12 as company was utilizing its assets efficiently to generate favorable return.

The Company invested Rs.4,986.98 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 current financial year. In addition to the above, the Company held cash reserves of Rs.5,796.53 million. The debt to total asset ratio and gearing ratio was 1.25 and 1.75 respectively which showed that company was using debt to finance its capital expenditure despite the fact that it held huge amount of liquid assets as referred above. Audit suggests that the Company should review its capital structure and policy of getting loan because it has direct impact on the profitability of the Company.

10.2.5.2 Short Term Liquidity

Current ratio

The current ratio improved to 1.13 from 0.82 indicating short term financial simplicity in repayment of current liabilities.

The Company held adequate liquid assets required to settle its short term liabilities.

10.2.5.3 Working Capital Cycle

Debtor's/ Creditor's turnover period

The trade receivables decreased significantly i.e. by Rs.4,598.71 million (38%) over the previous year. In addition to that, the debtors' turnover period decreased to 23 days (51 days in 2011-12 and 43 days in 2010-11). The Company increased the provision for doubtful debts by an amount of Rs.1,430.92 million during the present financial year which reflects that the Company would not be able to recover significant amount of receivables. However, tariff deferential subsidy receivable from Ministry of Water and Power (MoWP), Government of Pakistan increased by Rs.17,819.17 million (134%) over the previous financial year. The balance included an amount of Rs.4,753 million which has been withheld by MoWP.

Although the debtor's turnover period decreased over the last year however significant amount of the balance receivable from the energy debtors continued to appear in the balance sheet, which was further required to be improved. On the other hand, the creditor's turnover period further increased to 204 days from 201 days which reflects poor policies and practices of the Company for the management of its working capital.

The decrease in accounts receivable and increase in accounts payable indicated poor management of working capital of the Company. Delaying payments to creditors i.e. NTDC against purchase price of energy contributed towards increase in the balance of circular debt which is required to be justified.

10.2.5.4 Gearing, leverage and interest coverage ratios

Although the gearing ratio decreased to 1.75% as compared to 3.82% during the last financial year, the Company can still manage to finance its capital expenses out of its own resources to avoid outflow of funds through payment of finance cost.

10.2.6 Recommendations:

It was evident from the above analysis that the profitability, liquidity and solvency position of the Company reflected positive trend over the last year. The Company can further improve its financial position and can manage to write of accumulated losses by controlling the indirect expenses which increased significantly over the previous year.

The issue of line losses, being the major cause of losses was required to be addressed at higher level. A policy to control the heavy line losses shall be developed in order to ensure the inflow of funds in the form of revenue.

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

In order to ensure transparency in operations, policies and practices, the Company is required to ensure strict compliance with the Public Sector Companies (Corporate Governance) Rules, 2013.

10.3 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
FESCO	1996-97	AR	2	2 (Para No. 1 & 75)	-	-
	2006-07	AR	5		3 (Para No. 9.6, 9.7, 9.8)	2 (Para No. 9.4 & 9.5)
	2008-09	AR	1	1 (Para No. 8.10)	-	-

Position of compliance with PAC directives is satisfactory.

10.4 AUDIT PARA

10.4.1 Loss due to bogus payment on account of hotel charges – Rs.4.25 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”.

In FESCO, an amount of Rs.4.25 million was paid to 299 trainees on account of claims of bogus hotel charges as reported by Deputy Director Vigilance FESCO, Faisalabad on March 26, 2012. Resultantly, Director HR & Admn ordered all Superintending Engineers to recover the amount from the employees who claimed bogus hotel charges and take disciplinary action against them. Neither any departmental action was taken against the employees nor recovery made which resulted in loss of Rs.4.25 million upto 2012-13.

The matter was taken up with management in September, 2013 and reported to Ministry in November, 2013. The management replied that the matter was being inquired through high power committee for taking action against delinquents and Audit would be informed accordingly.

DAC directed in its meeting held on December 4-5, 2013 to finalize inquiry proceedings and submit revised reply along with justification/ documentation within 30 days.

Audit recommends to expedite the inquiry proceedings besides effecting recovery.

(Draft Para No. 487/2013-14)

10.4.2 Loss due to missing of transformer parts - Rs.27.58 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".

In FESCO, 796 transformers of different capacities were received in stores with missing HT/LT winding (coil) and transformer oil. Due to shortage of transformers parts and oil, the Company sustained loss of Rs.27.58 million during 2012-13. No departmental action was taken to fix responsibility of the loss.

The matter was taken up with the management in September and October, 2013 and reported to Ministry in November, 2013. The management explained that departmental and legal action was in process to decide the fate of loss. The majority of cases had been finalized.

DAC directed in its meeting held on December 4-5, 2013 to produce relevant record relating to finalized cases and expedite the action in remaining cases as per guidelines issued by the department.

Audit recommends to expedite the inquiry proceedings besides effecting recovery.

(Draft Para Nos. 462, 463 & 517/2013-14)

10.4.3 Loss due to damaging and stealing of transformers-Rs.5.64 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".

In FESCO, some inquiry committees were constituted by CEO for probing into stealing/damaging of various types of transformers/line material against some officials. But nothing was decided about loss of Rs.5.64 million incurred due to damaging of these transformers/line materials.

Non adherence of above instructions resulted in loss of Rs.5.64 million due to damaging and stealing of transformers during 2012-13.

The matter was taken up with management in September, 2013 and reported to Ministry in November, 2013. The management replied that disciplinary actions against concerned Line Superintendents were under process.

DAC directed in its meeting held on December 4-5, 2013 to expedite the action in all cases as per guidelines issued by the department.

Audit recommends that directives of the DAC need to be implemented.

(Draft Para No. 421/2013-14)

10.4.4 Non-recovery of cost of short material - Rs.17.60 million

As per recommendations of inquiry committee dated July 01, 2010 penalty for shortage of electrical material was imposed on 15 officials of Warehouse FESCO.

In FESCO Warehouse, an amount of Rs.17.60 million was recoverable from 15 officials on account of shortage of material as recommended by inquiry committee. No concrete efforts were made to recover the stated amount from responsible(s) which resulted in non-recovery of Rs.17.60 million upto 2012-13.

The matter was taken up with management in August, 2013 and reported to Ministry in November, 2013. The management replied that the matter pertained to NTDC and the issue related to the period prior to handing over the store to FESCO authorities. The reply was not tenable as the management needed to recover the cost of material from the employees held responsible.

DAC directed in its meeting held on December 4-5, 2013 to re-examine the case and submit report to DAC by constituting fact findings inquiry upto December 30, 2013.

Audit recommends that directives of the DAC need to be implemented.

(Draft Para No. 289/2013-14)

10.4.5 Misappropriation of electrical material - Rs.1.80 million

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

In Construction Circle FESCO, electrical material worth Rs.1.80 million drawn from store was neither installed at site nor returned to store by contractor/line staff. This resulted in misappropriation o f material amounting to Rs.1.80 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. It was stated that the matter was under investigation and action would be taken after finalization.

DAC directed in its meeting held on December 4-5, 2013 to finalize the cases and expedite the action as per guidelines issued by the department.

Audit recommends to expedite the inquiry proceedings besides recovery of electrical material.

(Draft Para No. 388/2013-14)

10.4.6 Loss due to illegal agreement with small power producer - Rs.4,076.05 million

According to SRO. 265 (I)/2005 dated March 16, 2005 under NEPRA act, "before executing a power acquisition contract, a transmission company or a distribution company shall file its proposed power acquisition contract with the Registrar for its approval by the Authority". As per Section-21(2) (b) of NEPRA Act, "be responsible to provide distribution service and make sale of electric power within its territory on a non-discriminatory basis to all the consumers who meet the eligibility criteria laid down by the Authority".

In FESCO, a power purchase agreement was singed with Sitara Energy Limited (SEL) Faisalabad without prior approval of NEPRA. The energy so purchased from SEL was for some selective consumers instead of providing this energy to all the consumers without discrimination as the technical losses on these feeders were also shared by all other consumers. Hence, the agreement with SEL was illegal/unlawful and the payment of Rs.4,005.43 million made to SEL was unjustified which put the Company into loss. Besides FESCO was also bearing loss of Rs.65.63 million on account of technical line losses ranging from 6% to 11% on these three (03) feeders providing energy purchased from SEL to some selective consumers. This resulted in loss of Rs.4,076.05 million during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management replied that FESCO had already fulfilled the requirements of NEPRA in case of M/s Sitara Energy Limited. All the power from M/s Sitara Energy Limited was being disbursed. The reply was not tenable as the energy was not disbursed as per provisions of PPA.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply with in 15 days.

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

(Draft Para No. 416/2013-14)

10.4.7 Undue favour to specified consumers by supplying energy purchased at excess cost - Rs.1,716.85 million

According to Para-2 of Power Purchase Policy-2002 with SPPs, "dire shortage of electricity was experienced in the country from time to time. Government of Pakistan, as a policy, had taken steps to acquire/generate electricity for the use and benefit of the general public. WAPDA/PEPCO had also taken steps in furtherance of Government policy to reduce the load on distribution system to minimize the gap between demand and supply".

In FESCO, 477.74 million units were purchased at the cost of Rs.5,024.37 million with average purchase rate of Rs.15.19 per kWh during 2012-13 as per PPA with SPPs. The energy was not purchased from SPPs for the use and benefit of general public as nine 11 KV feeders were supplying energy to 36,466 consumers. The energy was not received on the FESCO system thus benefiting only 1.14% consumers. The preferential treatment to less than 2% consumers resulted in an excess cost of Rs.1,716.85 million (330.80 million units at the rate of Rs.5.19 per kWh) which was against the spirit of agreement, power policy and constitutional rights of the public.

The matter was taken up with the management on September, 2013 and reported to Ministry in November, 2013. The management replied that the contents referred by the Audit in Para-2 of Power Policy were in fact not the part of Power Purchase Agreement signed by FESCO. Hence, the question of violation of power policy did not arise. The reply was not tenable as the PPA was executed on the basis of Power Policy-2002.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

Audit recommends to investigate the matter for fixing responsibility for violation of Power Purchase Policy-2002.

(Draft Para No. 417/2013-14)

10.4.8 Overpayment to small power producers - Rs.143.56 million

As per instructions issued by NEPRA vide letter dated July 10, 2012,"according to the Power Purchase Agreements signed between DISCOs and CPPs the agreed gas base tariff comprises of two components i.e. fixed cost component and fuel cost component. The same tariff will be used for provisional application to N-CPPs for energy delivered subject to an order of refund till the final decision in this regard."

In FESCO, an agreement of purchase of power was signed with M/s Galaxy Textile Mills under N-CPPs. Contrary to above instructions of the regulator (NEPRA), financial cost component was paid to power seller without any justification. Due to this an overpayment amounting to Rs.143.56 million was made during 2012-13 which caused financial loss to the Company.

The matter was taken up with management in September, 2013 and reported to Ministry in November, 2013. The management replied that in January, 2013 NEPRA allowed FESCO to pay financial cost component with retrospective effect. Hence, FESCO adjusted the payments made to M/s Glaxy Textile as per NEPRA's decision.

DAC directed in its meeting held on December 4-5, 2013 to provide copy of NEPRA's notification in support of reply with in 15 days.

Audit recommends to implement DAC directives besides fixing responsibility.

(Draft Para No. 428/2013-14)

10.4.9 Loss due to acceptance of defective / sub-standard electrical material - Rs.161.56 million

According to Clause-13(D) of purchase orders, "on final rejection of the material, the purchaser shall have the following rights:

i) to purchase the rejected goods at your cost and expenses;

ii) to terminate the contract and recover from you the loss, the company there by incurs".

In FESCO, 216 PCC Spun Hollow Poles valuing Rs.4.26 million supplied by the firm M/s Unze Trading (Pvt.) Limited Lahore were rejected by field formations on the basis of some serious defects in April and June, 2013. Moreover, 84,000 energy meters valuing Rs.157.30 million purchased from M/s Creative Electronics (Pvt.) Lahore on January 13, 2012 became defective soon after their installation. The matter was inquired through a committee which recommended the replacement of defective meters with new ones from firm. The defective poles and meters were not replaced by the suppliers which resulted in loss of Rs.161.56 million.

The matter was taken up with management in September, 2013 and reported to Ministry in November, 2013. The management explained that in one case the consumer filed a civil suit while the other case was under detailed scrutiny.

DAC directed in its meeting held on December 4-5, 2013 to pursue the court case and finalize the pending action within 30 days.

Audit emphasizes early replacement of defective material besides fixing responsibility.

(Draft Para Nos. 495 & 536 /2013-14)

10.4.10 Loss due to procurement of defective cranes under ADB loan - Rs.108.86 million

According to contract Clause-13, Warranty, "the supplier was required to supply the new goods and free from all kinds of defects and if there are defects or the goods not confirming to the specifications he will be held responsible for all losses and will be liable to replace the un-acceptable goods with acceptable goods at his risk and cost".

In FESCO Warehouse, a contract valuing US$ 1.283 million equivalent to Pak Rs.108.86 million under ADB loan was awarded to M/s Transword Associates on June 24, 2011 for the supply of 120 ton and 30 ton mounted cranes. Despite serious defects/damages in cranes as pointed out by joint survey committee on September 07, 2012, the delivery of cranes was accepted. Moreover, the supplier could not provide operational spare parts as per provision of contract. This resulted in loss of Rs.108.86 million upto 2012-13.

The matter was taken up with management in August, 2013 and reported to Ministry in November, 2013. The management replied that the matter was under detailed scrutiny.

DAC directed in its meeting held on December 4-5, 2013 to submit comprehensive reply and finalize the pending actions.

Audit recommends to investigate the matter for fixing responsibility for acceptance of defective cranes.

(Draft Para No. 302/2013-14)

10.4.11 Loss due to non-execution of feeder rehabilitation work - Rs.181.59 million

As per Para-4.1.3 & 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 officer related to work of completion/supervision of work will be share delay beyond 130 days.

In FESCO, rehabilitation of twenty two 11 KV feeders under System Augmentation Program (SAP) amounting to Rs.341.93 million were not executed till closing of financial year 2012-13. The envisaged benefits in the shape of energy of 21.36 million units amounting to Rs.181.59 million could not be achieved due to pending rehabilitation works.

The matter was taken up with management in September, 2013 and reported to Ministry in November, 2013. The management replied that the proposals were pending due to right of way problems which would be completed in due course of time.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

Audit recommends to accelerate the pace of the work besides fixing responsibility.

(Draft Para No. 474/2013-14)

10.4.12 Loss due to non-claiming of tariff differential subsidy - Rs.178.47 million

According to letter dated October 03, 2011 written by Engineering Advisor (Power), "commitment regarding reduction of adjustment from July, 2011 has not been fulfilled and justification for heavy adjustment is not forthcoming and subsidy is worked out on billed units i.e. without adjusted units".

In FESCO, 57.57 million units were debited to consumers on account of theft of electricity in the financial year 2012-13. These debited units were not considered to be worked out for tariff differential subsidy. Thus, FESCO was deprived of claiming an amount of Rs.178.47 million subsidies from GoP.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that the matter was under detailed scrutiny.

DAC directed in its meeting held on December 4-5, 2013 to finalize pending actions and provide comprehensive reply within 30 days.

Audit recommends to pursue the refund of subsidy from GoP vigorously.

(Draft Para No. 497/2013-14)

10.4.13 Loss due to non-utilization of material - RS.156.63 million

According to the Executive Order dated July 17, 2007, "the NTDC Warehouse, Faisalabad was transferred to FESCO w.e.f. July 01, 2007 with the condition that the material including spares which was no longer required by NTDC may be offered to DISCOs during the proposed one year transitional period against cash payment of the price based on prevailing store issue rate".

In FESCO Warehouse, material worth Rs.156.63 million was lying dumped in the store since July 01, 2007. The management neither utilized the material nor offered the same to other DISCOs in violation to the executive order.

The matter was taken up with management in August, 2013 and reported to Ministry in November, 2013. The management replied that the para related to Chief Engineer (MP&M) NTDC, Lahore who was directed to complete the shifting of material from FESCO warehouse to NTDC warehouse Gatti.

DAC in its meeting held on December 4-5, 2013 directed Chief Auditor PEPCO to refer this para to NTDC management for submission of reply.

Audit recommends to expedite the utilization of material besides fixing the responsibility.

(Draft Para No. 288/2013-14)

10.4.14 Wasteful Expenditure on feeder rehabilitation - Rs.35.71 million

According to Para 4 of Distribution and Rehabilitation Guidelines, "cost benefit ratio should be 2% or more for a viable HT proposal for system rehabilitation and Distribution plan".

In FESCO, a proposal valuing Rs.35.71 million for load shifting through 11-KV Miani Feeder from 132-KV Head Faqurian Grid Station to newly erected 132-KV Grid Station Bhera under Rehabilitation Programme was approved in January, 2013 with cost benefit ratio of 1:6.1. This proposal was not financially viable as per rules. This resulted in wasteful expenditure due to poor planning.

The matter was taken up with management in September, 2013 and reported to Ministry in November, 2013. The management replied that the matter was under detailed scrutiny.

DAC directed in its meeting held on December 4-5, 2013 to finalize pending actions and provide comprehensive reply within 30 days.

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

(Draft Para No. 418/2013-14)

10.4.15 Understatement of revenue due to delay in determination of tariff - Rs.22.98 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".

In FESCO, due to inordinate delay in finalization of tariff determination by NEPRA, the revenue of the Company was understated to the tune of Rs.22.98 million which reflected poor financial discipline and the matter needed investigation.

The matter was taken up with management in September, 2013 and reported to Ministry in November, 2013. The management replied that the tariff was re-determined by NEPRA on October 11, 2013. Hence, no question of delay in determination of tariff arose.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

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

(Draft Para No. 479/2013-14)

10.4.16 Loss due to undue benefit given to the industrial consumer – Rs.20 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".

In FESCO, an industrial connection in the name of M/s Crescent Textile Mills was approved and energized on March 04, 2013 with sanctioned load of 4,900 KW. The connection was energized by giving undue favour to the consumer as neither the power transformer was augmented as agreed upon with the consumer nor the sharing cost of Rs.20 million was recovered from the consumer. This resulted in loss of Rs.20 million due to giving undue favour to the industrial consumer during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013 but no reply was given.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

Audit recommends to expedite recovery from consumers besides fixing the responsibility.

(Draft Para No. 537/2013-14)

10.4.17 Loss due to damage of electrical material during warranty period - Rs.16.52 million

According to the Standard Warranty Clause-8 "contractor will 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 24 months from the date of completion of supply, contractor will be held responsible for all losses and that the unacceptable goods shall be substituted with the acceptable goods at contractor's expense and cost".

In FESCO, electrical material comprising distribution transformers, energy meters and transformer testing sets worth Rs.16.52 million were damaged during warranty period. The management neither got repaired / replaced the equipment from supplier nor responsibility for the damage of electrical material fixed. This resulted in loss of Rs.16.52 million due to non-replacement of electrical equipment within warranty period during 2012-13.

The matter was taken up with management during July to September, 2013 and reported to Ministry in October & November, 2013. The management explained that the major portion of the material had been received back and the efforts were being made to get back the remaining portion of material from supplier.

DAC directed in its meeting held on December 4-5, 2013 to provide the record of material received and expedite the replacement of the damaged material.

Audit recommends to expedite the replacement of electrical equipment from the manufacturers.

(Draft Para Nos. 190, 389, 471 & 496/2013-14)

10.4.18 Irregular purchase of material without proper competition - Rs.11.97 million

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

In FESCO, Lineman Safety Boots amounting to Rs.11.97 million were purchased from M/s Service Sales Corporation Ltd during March, 2013 without proper competition as only single bidder participated in the bid. This procurement was not justified as it was against the rules.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management replied that the procurement was made through open bidding and the single bidder participated in tender. The comparison of quoted rate was made with other DISCOs and procurement was made accordingly.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 422/2013-14)

10.4.19 Loss due to non-installation of independent transformers - Rs.10.09 million

According to Authority's instructions issued vide letter dated November 21, 2006, "industrial connections having load upto 10 HP (7.46 KW) can be given from the existing transformer, if the required load is available but the transformer will not be augmented to give such connection".

In Operation Circle Jhang FESCO, 44 industrial/tube well connections having load of more than 7.46 KW were electrified from the general distribution transformers. The management extended undue favour to the consumers by not providing them with independent transformers valuing Rs.10.09 million.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that the connections having sanctioned load upto 7.46 KW were energized from general duty transformers and the connections having sanctioned load above 7.46 KW were provided through independent transformers which were self purchased by consumers.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 30 days.

Audit recommends to regularize the connections besides fixing the responsibility.

(Draft Para No. 466/2013-14)

10.4.20 Non-return of removed/dismantled material - Rs.5.35 million

According to Distribution Store Manual, “the surplus / dismantled material is to be returned to store”.

In 1st Operation Circle Faisalabad, FESCO, material valuing Rs.5.35 million was removed from 95 permanently closed scarp tube well of Jaranwala Scheme and Satiana Pilot Project during 2006 but the same was not returned to store. Non-adherence to the stores manual resulted in non-return of removed/dismantled material valuing Rs.5.35 million to store upto 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in September, 2013. The management replied that the matter was under detailed scrutiny.

DAC directed in its meeting held on December 4-5, 2013 to finalize pending actions and provide comprehensive reply within 30 days.

Audit recommends to investigate the matter for fixing responsibility besides ensuring return of material.

(Draft Para No. 55/2013-14)

10.4.21 Non-recovery of liquidated damages - Rs.4.95 million

According to GCC, “the contractor shall pay liquidated damages @ 0.5% per week of the total contract price or part thereof. The maximum amount of liquidated damages shall be 10% of the contract price”.

In FESCO, seven contracts were awarded to the contractors for civil works and procurement of electrical material during August, 2011 to November, 2012. The contractors could not complete the works / supply within the stipulated period. Liquidated damages amounting to Rs.4.95 million were required to be recovered from them which were not done.

The matter was taken up with the management during August and September, 2013 and reported to Ministry in October & November, 2013. The management explained that in one case the total amount of LD came out to be Rs.0.40 million and out of which Rs.0.36 million had been deducted. In remaining two cases recovery of LD was under process.

DAC directed in its meeting held on December 4-5, 2013 to provide the record to Audit in respect of completed action and finalize pending actions within 15 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para Nos. 171, 188 & 287/2103-14)

10.4.22 Loss due to overpayment - Rs.4.65 million

According to instruction 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".

In GSC FESCO, five Power Transformers valuing Rs.213.35 million were purchased whereas payment of Rs.218 million was made from October, 2008 to February, 2011. Neither the recovery of overpayment made nor the matter was inquired to fix the responsibility. Resultantly, company sustained a loss of Rs.4.65 million due to overpayment during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in October, 2013. The management replied that overpayment was made to Chief Engineer (MP&M) NTDC, Lahore on account of procurement of power transformers which had been refunded on September 19, 2013.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 30 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 187/2013-14)

10.4.23 Loss of revenue due to non-billing to the consumers - Rs.4.43 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".

In M&T Circle FESCO, it was noticed from data retrieval reports that

0.31 million units valuing Rs.4.43 million were not charged to 54 consumers. Resultantly, the Company sustained loss of revenue to the stated extent during 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that the matter was under process.

DAC directed in its meeting held on December 4-5, 2013 to expedite the pending actions as per guide lines of the department.

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

(Draft Para No. 461/2013-14)

10.4.24 Loss due to withdrawal of amount from bill collection account – Rs.4.22 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".

In FESCO, an amount of Rs.4.22 million was transferred from MCB bill collection account to the court account through pay order dated January 24, 2013 which had been frozen. Neither any investigation was made nor action taken against delinquents which resulted in loss of Rs.4.22 million due to withdrawl of amount from bill collection account during 2012-13.

The matter was taken up with management in September, 2013 and reported to Ministry in November, 2013. The management replied that the matter was under detailed scrutiny.

DAC directed in its meeting held on December 4-5, 2013 to finalize pending actions and provide comprehensive reply within 30 days.

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

(Draft Para No. 475/2013-14)

10.4.25 Loss due to inadmissible payment on account of procurement of land Rs.1.73 million

According to Rule-10(i) of GFR 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”..

In GSC FESCO, land for two 132 KV Grid Stations at Millat Road Faisalabad and Chak No. 237/ RB was acquired. The land purchased for 132 KV Grid Station Millat Road was included the area of 1 kanal 10 marla valuing Rs.1.13 million through which village road was passing. Moreover, the land purchased for 132 KV G/S at Chak No. 237/RB was also included the area of 8 kanal and 13 marla valuing Rs.0.60 million of graveyard. Hence, the payment of Rs.1.73 million was made for the un-cleared/occupied land which resulted in loss to the Company.

The matter was taken up with the management in September, 2013 and reported to Ministry in October, 2013. The management replied that the matter was under detailed scrutiny.

DAC directed in its meeting held on December 4-5, 2013 to finalize pending actions and provide comprehensive reply within 30 days.

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

(Draft Para No. 170/2013-14)

10.4.26 Loss due to un-lawful payment to Ufone - Rs.1.04 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.

In FESCO, an amount of Rs.1.04 million was paid to Ufone against the usage of telephone services. No official contract or agreement existed between Ufone and FESCO for usage of telephone services which resulted in loss of Rs.1.04 million due to un-lawful payment to Ufone during 2012-13.

The matter was taken up with management in September, 2013 and reported to Ministry in November, 2013. The management replied that the matter was under detailed scrutiny.

DAC directed in its meeting held on December 4-5, 2013 to finalize pending actions and provide comprehensive reply within 30 days.

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

(Draft Para No. 486/2013-14)

10.4.27 Loss due to non-recovery of revenue from consumer - Rs.1.03 million

As per 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”.

In FESCO, an industrial consumer M/s Magna Processing Industries Jaranwala Road, Faisalabad was allowed to energize the extension of load from 451 KW to 960 KW from a mixed feeder and the annual energy loss 7,914 kWh per month due to addition of load 509 KW on the feeder was to be recovered from consumer as per order of Chief Engineer (P&D) dated December 12, 2012. This resulted in loss due to non-recovery of energy charges amounting to Rs.1.03 million during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management agreed with the Audit and replied that 7,914 units per month would be charged to the consumer.

DAC directed in its meeting held on December 4-5, 2013 to expedite the recovery.

Audit emphasize expeditious recovery from concerned consumer besides fixing the responsibility.

(Draft Para No. 477/2013-14)

CHAPTER-11

GUJRANWALA ELECTRIC POWER COMPANY LIMITED (GEPCO)

(139-153)

11. GUJRANWALA ELECTRIC POWER COMPANY LIMITED

11.1 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 purchase electricity from NTDC and sell it to the consumers in Gujranwala, Gujrat, Mandi Bahaudin, Narowal, Hafizabad and Sialkot Districts.

The jurisdiction of GEPCO included four Operation Circles, one Grid System Construction Circle, and one Construction Circle and one Grid System Operation Circle.

11.2 Comments on Financial Statements

11.2.1 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:

11.2.2 Extracts of the Financial Statements[3]
Balance Sheet as at June 30, 2013

(Rupees in million)

	2012-13	%	2011-12	%	2010-11
Equity and Liabilities					
Accumulated Loss	(6,795.79)	(49)	(13,358.99)	93	(6,919.84)
Non-current liabilities	27,716.392	283	21,605.53	20	17,975.71
Creditors, accrued and other liabilities	37,848.37	12	33,785.80	75	19,302.57
Current portion of long term loans	323.39	71	189.29	(93)	2,746.19
Current liabilities	38,744.20	13	34,217.10	54	22,149.69
	62,683.47	**38**	**45,482.28**	**26**	**36,224.20**
Assets					
Non-current assets	31,414.72	27	24,802.62	15	21,602.75
Stores and spares	724.67	(13)	833.20	(39)	1,363.47

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

Trade debts	14,967.09	9	13,715.52	55	8,872.09
Advances, prepayments and other receivables	12,362.63	300	3,087.99	43	2160.43
Short term investment	2,200.00	29	1,700.00	23	1,381.00
Cash and bank balances	835.17	(31)	1,215.57	59	763.66
Current assets	31,089.57	51	20,552.28	41	14,540.65
	62,683.47	**38**	**45,482.28**	**26**	**36,224.20**

Profit and Loss Account
For the year ended June 30, 2013

Electricity sale	83,253.80	21	68,526.01	14	59,976.21
Cost of electricity	69,722.92	0.28	69,526.79	23	56,395.68
Gross profit/(Loss)	13,530.88	1452	(1,000.78)	(128)	3,580.54
Operating Cost	8,792.18	23	7,176.45	14	6,304.68
Profit / (Loss) before Interest and Tax	5,279.57	169	(7,670.69)	233	(2,300.23)
Other income	1,445.60	(1)	1,453.16	20	1,214.70
Profit /(Loss) before Tax	6,725.18	202	(6,217.53)	473	(1,085.53)
Financial and other charges	152.11	-23	196.9	42	138.52
Profit/(Loss) for the year	6,563.21	202	(6,439.15)	426	(1,224.04)

11.2.3 Financial Ratios:

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

COMPANY		GEPCO		
YEAR		**2012-2013**	**2011-2012**	**2010-2011**
Profitability Ratios				
Return on Capital Employed	%	42.74	(133.54)	(12.91)
Gross Profit Margin	%	26.12	(1.46)	5.97
Net Profit Margin	%	12.67	(9.40)	(2.04)
Average Asset Turnover Ratio	times	2.16	6.08	4.26
Return on Total Assets	%	10	(14.16)	(3.38)
Short Term Liquidity Ratio				
Current Ratio	times	0.80	0.60	0.66
Working Capital Ratios				
Debtors Turnover Period	days	105	73	54
Creditors Turnover Period	days	198	177	125
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	8.11	4.24	10.99
Gearing Ratio	%	28.66	37.32	14.70
Leverage Ratio	%	24.01	(222.10)	(46.40)
Interest coverage	times	44.21	(31.58)	(7.84)

11.2.4 Cash Flow Analysis

The Company incurred net cash outflow of Rs.380.39 million (inflow of Rs.451.91 million: 2011-12) during the financial year resulting in closing balance of Rs.835.18 million (Rs.1,215.57 million : 2011-12).

The Company generated net cash inflow of Rs.4,081.11 million from operating activities as compared to the last year which was of Rs.3,823.04 million. The major component resulted this increase was that the capital contribution increased by Rs.1,136.02 million i.e. 353% over the past year.

Moreover, the Company expended net cash of Rs.7,698.45 million on investing activities as compared to an outflow of Rs.4,275.86 million during last financial year. Out of the total outflows, 95.50% amount was invested on fixed capital expenditure. Moreover, the Company also made short term investments of Rs.500 million.

An amount of Rs.2,905.93 million (Rs.573.86 million in 2011-12) was borrowed through long term financing arrangement by the Company.

Review of the facts as narrated above reveal that the Company has failed to generate adequate cash from its operating activities, therefore required significant amount of borrowings to finance the fixed capital expenditure.

11.2.5 Ratios Analysis

11.2.5.1Profitability

Profitability ratios of the Company shows improved position due to profit in the current financial year.

i) Gross profit

During the financial year 2012-13, electricity sales of the Company increased by 21% and was Rs.83,253.80 million (Rs.68,526.01 million: 2011-12). On the other hand cost of electricity increased by 0.28% and was Rs.69,722.92 million during the year 2012-13 (Rs.69,526.79 million: 2011-12). Due to increase in sale of electricity the Company earned a gross profit of Rs.13,530.88 million. The Gross Profit ratio increase significantly i.e. 26.12% as compared to gross loss of (1.46%) for the financial year 2011-12.

ii) Net Profit Ratio

The Company earned a net profit of Rs.6,563.22 million, as compared to loss of Rs.6,439.15 million during 2011-12 due to which its net profit ratio increased to 12.67 % from (9.40%) during the financial year 2011-12.

The Company has failed to manage its expenses including line losses due to which the indirect expenses increased significantly i.e. by 23% (Rs.1,615.74 million).

iii) Return on capital employed

The return increased to 42.74 % as compared to negative ratio of 133.54 %, during financial year 2011-12. Increase in the revenue by the Company resulted in increase in return on the capital employed by the Company.

iv) Return on total assets

The return increased to 10% from (14%) loss, during financial year 2011-12. This reflected that the Company was able to improve to utilize its resources in an efficient and effective manner.

The debt to total asset ratio and gearing ratio was 8.11 and 28.66 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.

11.2.5.2 Short Term Liquidity

i) Current ratio

The Company current ratio increased to 0.80 from 0.60 indicating some improvement. The increase in the ratio is associated to increase in the amount of other receivables which increased by 300% i.e. by Rs.9,274.64 million. Major portion of this balance included Tariff Differential Subsidy (TDS) and General Sales Tax (GST) receivable from the Government of Pakistan.

The Company shall file timely claims for the refund of GST and TDS for timely realization of receivables.

11.2.5.3 Working Capital Cycle

i) Debtor's/ Creditors turnover period

The trade receivables increased significantly i.e. by Rs.1,251.57 million (9%) over the previous year. In addition to that, the debtors' turnover period increased to 105 days (73 days in 2011-12 and 54 days in 2010-11). Moreover, the Company has created a provision for bad and doubtful debts with an amount of Rs.25.32 million during the present financial year.

An increase in accounts receivable, debtor's turnover period and creation of provision for doubtful debts reflect 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 198 days from 177 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 creation of provision for doubtful debts needs to be explained.

11.2.5.4 Gearing, leverage and interest coverage ratios

1. The ratios reflect increasing trend due to profit during current year. Gearing ratio of 28.66% shows that company was relying on debt. It is recommended that in future company should rely on its own resources.
2. Liquidity position of the Company improved due to profit in the current year i.e. a net profit of Rs.6,563.22 million 2012-13 as compared to a net loss of Rs.6,439.52 million in 2011-12.
3. Long term financing increased by 160% as the Company has received a loan from Asian Development Bank amounting to Rs.1,823.21 million for power distribution and enhancement project. The Trade and other payables increased by 12% and the creditors' turnover period increased to 198 days. Significant increase in the amount of payables and increase in number of days to settle the liabilities reflect that the Company's policies for the management of its liquidity position were getting worse and the management has not taken adequate remedial action to address the issue. Reliance on borrowings/ (loans) and payment of huge financial charges need to be explained.

11.2.6 Recommendations:

It is evident from the above analysis that the profitability and solvency position of the Company showed some improvement. The Company can further improve its profitability position by controlling the indirect expenses. In addition to that, the Company should also restructure its financial arrangements by utilizing its own cash reserves and by realizing receivables from defaulters, in order to minimize or avoid interest cost.

The distribution losses, being the major cause of increased cost of sales is required to be addressed at higher level. There is a dire need to develop a policy to address the heavy distribution 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 due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

In order to ensure transparency in operations, policies and practices, the Company is required to ensure strict compliance with the Public Sector Companies (Corporate Governance) Rules, 2013.

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
GEPCO	1996-97	AR	2	2 (Para No. 2 & 69)	-	-
	2005-06	AR	4	2 (Para No. 6.3 & 6.5)	-	2 (Para No. 6.1 & 6.4)
	2006-07	AR	4	1 (Para No. 10.6)	3 (Para No. 10.4, 10.5 & 10.7)	-
	2008-09	AR	1	-	1 (Para No. 9.13)	-

Position of compliance with PAC directives is satisfactory.

11.4 AUDIT PARAS

11.4.1 Non-recovery of penalty from employees on account of shortage, theft and misappropriation of material - Rs.36.18 million

According to the instructions issued by WAPDA dated July 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".

In GEPCO, penalty for an amount of Rs.36.18 million was imposed on officers/officials on account of misappropriation, shortage and theft of material / POL during 2012-13 but recovery was not initiated. This resulted in non-recovery of penalty from employees amounting to Rs.36.18 million during 2012-13.

The matter was taken up with the management during July to September, 2013 and reported to Ministry in October and November, 2013. The management replied that the recovery of Rs.1.27 million had been made from employees and remaining recovery of Rs.34.91 million was under progress.

DAC directed in its meeting held on December 4-5, 2013 to provide recovery record and expedite the remaining recovery within 30 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 120, 269, 525 & 534/2013-14)

11.4.2 Non-recovery of liquidated damages – Rs.87.92 million

According to Purchase Order Clause-14-A(i),"if the supplier fails to deliver the material within specified delivery period, the LD @ 0.5% per week subject to a maximum of 10% of the contract price will be recovered from supplier".

In GEPCO, eight contracts for supply of electrical equipment and civil works were made with suppliers/contractors but they could not supply the electrical material and complete the works within stipulated period. LD worth Rs.87.92 million was not recovered from the suppliers / contractors which resulted in a loss to the stated extent during 2012-13.

The matter was taken up with the management during September and October, 2013 and reported to Ministry in November, 2013. The management replied that in majority of cases recovery of LD had been effected and remaining LD would be recovered from final claims of the contractors.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

Audit emphasizes expeditious recovery of LD besides fixing the responsibility.

(Draft Para No. 425, 482 & 533/2013-14)

11.4.3 Wasteful expenditure incurred on rehabilitation due to the non-achievement of benefits - Rs.56.50 million

According to Clause-1.2 of Distribution and Rehabilitation Guidelines, "reduction of power losses is one of the main objectives of distribution / rehabilitation".

In Manager (P&E) GEPCO, the percentage of losses on six feeders was increased during 2012-13 (ranging from 11.3% to 24.6%) as compared to the previous year 2009-10 (ranging from 8.7% to 13.1%) despite incurring an expenditure of Rs.56.50 million on rehabilitation i.e. area planning, bifurcation and re-conductoring. Resultantly, the objectives of the expenditure were not met and an amount of Rs.56.50 million had gone waste during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management replied that the work orders for area planning had been done in good order and reflection would come after five years of completion of work.

DAC directed in its meeting held on December 4-5, 2013 to provide brief reply with facts and figures within 15 days.

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

(Draft Para No. 522/2013-14)

11.4.4 Loss due to non-recovery of tariff differential subsidy - Rs.14.54 million

According to the instructions issued by WAPDA dated July 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".

In Operation Gujrat Circle GEPCO, 7.90 million units were debited to consumers on account of theft of electricity from July, 2012 to June, 2013 but the claims for tariff differential subsidy were not worked out and the Company sustained a loss of Rs.14.54 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in October, 2013. The management replied that all types of adjusted units were taken into account while preparing subsidy claims so there was no deviation.

DAC directed in its meeting held on December 4-5, 2013 to revisit the case and submit revised reply within 15 days.

Audit recommends to pursue the refund of subsidy from GoP vigorously.

(Draft Para No. 173/2013-14)

11.4.5 Loss due to non-recovery of NJS and GST from employees – Rs.12.71 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".

In Operation Gujrat Circle GEPCO, 87.68 million units consumed by GEPCO employees upon which GST and NJS valuing Rs.12.71 million was not recovered during 2012-13. The whole amount was paid by the employer rather than employees in violation of Authority's instructions.

The matter was taken up with the management in August, 2013 and reported to Ministry in October, 2013. The management replied that the said surcharge was not payable by WAPDA employees in the light of minutes of meeting issued by GM (IS) on December 7, 1999.

DAC directed in its meeting held on December 4-5, 2013 to refer the case to Ministry of Water and Power at PEPCO level for decision.

Audit emphasizes expeditious recovery from employees besides fixing responsibility.

(Draft Para No. 136/2013-14)

11.4.6 Loss due to payment of mark-up for non-clearance of material – Rs.7.92 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".

In PMU GEPCO, an amount of Rs.7.92 million was paid in April, 2013 to custom department on account of mark up for non-clearance of various items in time. This resulted in loss of Rs.7.92 million due to payment of mark-up for non-clearance of material during 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that the mark up was charged on late payment due to case pending with FBR for exemption.

DAC directed in its meeting held on December 4-5, 2013 to investigate the matter at GEPCO level and provide the report within 30 days.

Audit emphasizes expeditious recovery of mark-up besides fixing the responsibility.

(Draft Para No. 426/2013-14)

11.4.7 Blockage of funds due to purchase of unnecessary material - Rs.7.52 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".

In GEPCO, material worth Rs.7.52 million was lying in store since November, 2000. The material was purchased without necessity / demand in violation to the instructions, which lost its value and warranty. This resulted in blockage of Authority's funds amounting to Rs.7.52 million upto 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management replied the material valuing Rs.2.69 million had been issued leaving the balance of Rs.4.83 million.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record relating to issuance of material and utilize remaining material within 15 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 529/2013-14)

11.4.8 Loss due to misuse of tariff- Rs.5.25 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".

In Operation Circle Sialkot GEPCO, 149 consumers got sanctioned their connections under domestic tariff (A-I) but the connections were being used for irrigation purposes. Detection bills amounting to Rs.5.25 million were charged to the consumer due to misuse of tariff but no recovery had so far been made during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that the no separate tariff for small tube-wells (pumpies) had been introduced by the authority so the pumpies were running under domestic tariff (A-1). However, some detection bills had already been charged to relevant consumers.

DAC directed in its meeting held on December 4-5, 2013 to recover the amount of detection bills within 30 days.

Audit emphasizes expeditious recovery from consumers besides fixing the responsibility for misuse of tariff.

(Draft Para No. 267/2013-14)

11.4.9 Loss due to re-tendering for procurement of single phase meters - Rs.4.38 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".

In GEPCO, a tender for procurement of 175,000 single phase static energy was opened on June 20, 2012 and a uniform rate of Rs.1,850 per meter was quoted by four participants. The tender was scraped due to uniformity of rates. Later on, a tender for purchase of 50,000 single phase meter was opened on July 13, 2012 and the contract was awarded to M/s KBK at Rs.1,875 per meter by enhancing the quantity to 75,000 meters. Remaining 100,000 meters were procured from three different suppliers @ Rs.1,875 per meter in January and February, 2013. The Company sustained a loss of Rs.4.38 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that GEPCO rejected all proposals against tender opened on June 20, 2012 due to uniform rates as it was against the competitive bidding.

DAC directed in its meeting held on December 4-5, 2013 to investigate the matter at GEPCO level and provide report duly approved by BOD within 30 days.

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

(Draft Para No. 481/2013-14)

11.4.10 Undue favour extended to the consumers - Rs.3.60 million

As per SOP for commercial buildings/plazas circulated vide GM (Operation) letter dated July 2, 2010, "commercial buildings/market, plazas having covered area 1,000 sft or more with five or more shops are being electrified by providing independent transformer & the assessment of load is being carried out in accordance with GM (PE&S) letter dated October 26, 1993.

In Operation Gujrat Circle, GEPCO, seventeen commercial consumers of various buildings/plazas energized their supply from January, 2007 to September, 2012 through general distribution transformer instead of providing independent transformers and assessment of load. This resulted in undue favour of Rs.3.60 million to the consumers on account providing independent connections at the cost of Company's distribution system during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in October, 2013. The management replied that there were five plazas which had been energized through independent transformers strictly in accordance with the procedure.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply along with justification within 15 days.

Audit recommends to justify the matter besides fixing the responsibility.

(Draft Para No. 134/2013-14)

11.4.11 Non-recovery of shortage of material – Rs.2.96 million and non-accountal for surplus material – Rs.3.36 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".

In GEPCO, the material of Rs.2.96 million was found short and surplus worth Rs.3.36 million as a result of stock verification carried out by the departmental stock verifiers in June, 2013. No departmental inquiry had been constituted for fixing responsibility upon the defaulters. Neither the recovery of short material was made nor the surplus material accounted for in the books of accounts. This resulted in non-recovery of short material of Rs.2.96 million and non-accountal of surplus material of Rs.3.36 million upto 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management replied that 13 SVRs involving Rs.1,950 shortage and Rs.99,050 surplus had been settled by internal audit.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply and finalize the pending actions within 15 days.

Audit recommends to investigate the matter through departmental inquiry committee for deciding the fate of loss.

(Draft Para No. 524/2013-14)

11.4.12 Loss due to non-recovery of capital cost from industrial consumers – Rs.2.78 million

According to CEO GEPCO's Office Memo dated October 23, 2012 read with Memo dated September 15, 2005, "all industrial connections having applied load above 3 KW be sanctioned by proposing independent transformers. The policy was formulated keeping in view the damaging/burning ratio of general duty transformers and in the present scenario of economic crunch".

In Operation Cantt Circle GEPCO, 22 industrial consumers having sanctioned load more than 3 KW were energized from the general duty transformers instead of providing them independent transformers. Hence, undue favour was extended to the consumers by not providing them independent transformers and non-recovery of capital cost of Rs.2.78 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in October, 2013. The management replied that out of 22 consumers, one consumer was energized from the independent 100 KVA transformer and in three cases, the connections were disconnected. The remaining 18 connections were not under the category of independent consumers.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

Audit recommends to regularize the connections besides recovery of additional capital cost.

(Draft Para No. 119/2013-14)

11.4.13 Unjustified expenditure due to appointment of legal advisors - Rs.1.84 million

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

In GEPCO, a legal advisor was appointed in May, 2011 by the BOD without open competitive bidding as required under PPRA Rules-2004. Neither the contract was advertised in Newspapers nor uploaded on PPRA's websites. In the presence of a legal fleet of lawyers on the roll of the Company and Legal Director hired on heavy market salary package and working with a complete set up in GEPCO, the expenditure of Rs.1.84 million upto 2012-13 on hiring of another Legal Advisor was unjustified.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management replied that the appointment of Legal Advisor in GEPCO was made under appointment of Legal Advisor Act- 1974 on retainer-ship.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply containing justification for appointment of legal advisor within 15 days.

Audit recommends to justify the appointment of legal advisor besides fixing the responsibility.

(Draft Para No. 523/2013-14)

11.4.14 Loss due to unjustified refund to consumers – Rs.1.20 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".

In Operation City Circle GEPCO, an amount of Rs.1.20 million was credited against 20 consumers on account of wrong reading. The amounts were debited to consumers in first instance due to wrong reading and subsequently, the same were refunded to the consumers. This resulted in loss due to unjustified refund of Rs.1.20 million to consumers during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in October, 2013. The management replied that seven officials were found responsible and actions had been initiated.

DAC directed in its meeting held on December 4-5, 2013 to finalize the disciplinary action and intimate the position along with documentary evidence within 30 days.

Audit recommends to expedite the action against the responsible(s) besides making good the loss.

(Draft Para No. 166/2013-14)

11.4.15 Loss due to non-recovery of supply charges against temporary connections - Rs.1.02 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".

In GEPCO, an amount of Rs.1.02 million was outstanding against the temporary connections as forthcoming form CP-120A of June, 2013. 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 which resulted in a loss of Rs.1.02 million upto 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management replied that the recovery of Rs.0.99 million was made/adjusted upto October 31, 2013.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

Audit emphasizes expeditious recovery from consumers besides fixing the responsibility.

(Draft Para No. 516/2013-14)

CHAPTER-12

HYDERABAD ELECTRIC SUPPLY COMPANY LIMITED (HESCO)

(157-172)

12. HYDERABAD ELECTRIC SUPPLY COMPANY LIMITED

12.1 Introduction

Hyderabad Electric Supply Company Limited (HESCO) 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 received 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 feeders. NTDC supply 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, one Construction and one Grid System Operations Circles.

12.2 Comments on Financial Statements

12.2.1 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:

12.2.2 Extracts of the Financial Statements
Balance Sheet as at June 30, 2013

(Rupees in million)

Equity and Liabilities	2012-13	%	2011-12	%	2010-11
Share capital and reserves					
Issued, subscribed and paid-up capital	0.01	-	0.010	-	0.010
Accumulated Loss	(94,906.28)	20.47	(78,782.81)	50.92	(52,201.93)
	(94,906.27)	20.47	(78,782.80)	50.92	(52,201.92)
Deposits for the issuance of shares	25,049.89	-	25,049.89	(17.11)	30,219.35
Non-current liabilities					
Long term Financing	1,798.16	(36.24)	2,820.22	84.57	1,528.00
Receive against deposit works	5,606.72	(1.57)	5,695.92	(15.68)	6,754.98
Consumer security deposits	995.14	13.60	876.02	(24.40)	1,158.75
Deferred Liabilities	7,822.86	40.52	5,566.98	(23.64)	7,290.56
Deferred credit	9,114.51	27.88	7,127.64	(37.25)	11,358.66
	25,337.39	14.72	22,086.77	(21.37)	28,090.95
Current liabilities					
Trade and other Payables	135,937.25	11.34	122,090.97	2.21	119,446.37
Current portion of long term loans	2,311.24	1,255.12	170.56	182.54	60.37
Mark up payable	1,279.61	95.98	652.94	129.57	284.41
	139,528.11	13.52	122,914.46	2.61	119,791.15
Provision for Taxation	29.65	-	29.65	-	29.65
	95,038.77	4.10	91,297.98	(27.50)	125,929.19
Assets					
Non-current assets					
Operating fixed assets	17,358.82	14.08	15,216.52	(41.02)	25,798.45
Capital work in progress	9,279.98	18.25	7,847.49	4.30	7,524.22
	26,638.80	15.50	23,064.02	(30.79)	33,322.67
Long term advances	29.98	5,595	0.53	(84.86)	3.48
Current assets					
Stores and spares	1,262.65	9.52	1,152.86	(60.52)	2,919.87
Trade debts	24,683.21	(19.61)	30,704.63	(47.05)	57,984.69
Short-term advances and other receivables	39,929.13	-	33,707.38	-	28,749.26
Other receivables	507.35	10.29	460.03	41.51	325.09
Bank balances	1,987.65	(10.00)	2,208.55	(15.84)	2,624.15
	68,369.99	0.20	68,233.44	(26.32)	92,603.05
	95,038.77	4.10	91,297.98	(27.50)	125,929.19

Profit and Loss Account
For the year ended June 30, 2013

Revenue			-		
Electricity sale	50,643.52	(10.32)	56,473.61	(14.56)	66,098.08
Rental and service income	-	-	-	(100.00)	1,807.13
	50,643.52	(10.32)	56,473.61	(16.83)	67,905.21
Cost of electricity	49,323.09	(26.64)	67,238.76	1.32	66,360.26
Gross profit/(Loss)	1,320.43	(112.27)	(10,765.15)	(796.79)	1,544.96
Amortization of deferred credit	330.58	(9.01)	363.31	(26.90)	497.02
	1,651.01	(115.87)	(10,401.84)	(609.40)	2,041.98
Other operating cost (excluding depreciation)	16,557.74	(3.77)	17,205.81	55.27	11,081.04
Depreciation on operating fixed assets	1,048.92	(12.89)	1,204.15	(14.32)	1,405.37
	17,606.66	(4.36)	18,409.96	47.44	12,486.41

	(15,955.65)	(44.62)	(28,811.80)	175.86	(10,444.43)
Other income	1,413.60	(36.77)	2,235.51	161.00	856.52
Operating loss	(14,542.05)	(45.28)	(26,576.29)	177.19	(9,587.91)
Financial and other charges	1,581.42	34,332.22	4.593	(97.72)	201.49
Accumulated loss brought forward	(16,123.47)	(39.34)	(26,580.88)	171.53	(9,789.40)
Taxation	-	-	-	(100.00)	15.45
Profit/(Loss) for the year	(16,123.47)	-	(26,580.88)	171.10	(9,804.85)

12.2.3 Financial Ratios

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

COMPANY		**HESCO**		
YEAR		**2012-2013**	**2011-2012**	**2010-2011**
Profitability Ratios				
Return on Capital Employed	%	N/A	N/A	N/A
Gross Profit Margin	%	2.61	(19.06)	2.34
Net Profit Margin	%	(31.84)	(47.07)	(14.83)
Average Asset Turnover Ratio	times	(1.14)	(1.78)	10.82
Return on Total Assets	%	(16.97)	(29.11)	(7.79)
Short Term Liquidity Ratio				
Current Ratio	times	0.49	0.56	0.77
Working Capital Ratios				
Debtors Turnover Period	days	178	198	320
Creditors Turnover Period	days	1,006	663	657
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	1.89	3.09	1.21
Gearing Ratio	%	(4.4)	(8.91)	25.06
Leverage Ratio	%	156.91	169.79	(359.83)
Interest coverage	times	(10.20)	(5,786.44)	(48.58)

12.2.4 Cash Flow Analysis

The Company incurred net cash outflow (deficit) of Rs.220.90 million during current period and outflow (deficit) of Rs.415.59 million during the financial year 2012-13 resulted in closing balance of Rs.1,987.65 million (Rs.2,208.55 million: 2011-12).

The Company generated net cash inflow of Rs.339.57 million from operating activities. The main components which triggered such increase included,

i) Employees retirement benefit transferred to Sukkar Electric Power Company Limited (SEPCO) during the previous year decreases by Rs.6,847.96 million i.e. 100%.

The Company invested on fixed assets amounting to Rs.25.28 million during the financial year 2012-13 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.1,118.63 million injected from financing activities (Rs.1,402.41 million: 2011-12) as the Company borrowed from financial institutions/ donors agencies, Rs.2,317.45 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 Company utilized its accumulated cash reserves to manage its operational requirements which resulted in significant decline of Rs.220.90 million in cash reserves which needed to be justified.

12.2.5 Ratios Analysis

12.2.5.1 Profitability

i) Gross profit

During the financial year 2012-13, electricity sale of the Company decreased to Rs.50,643.52 million i.e. decrease of Rs.5,830.10 million, 10% (Rs.56,473.61 million: 2011-12). On the other hand cost of electricity also decreased by 27% (Rs.49,323.09 million during the year 2012-13, Rs.67,238.76 million: 2011-12). The proportionate decrease in cost of electricity was much higher than the sales of electricity decreased due to which the Company earned a gross profit of Rs.1,320.43 (gross loss of Rs.10,765.15 million: 2011-12).

ii) Net Profit Ratio

The Company accumulated losses were Rs.94,906.28 million, out of which Rs.16,123.47 million (i.e. 17% of total accumulated losses) was sustained during the current financial year.

This indicated that the operational efficiency of the Company remained unsatisfactory. The operational loss was mainly due to increase in operating expenses by 4.3% as compared to last year and financial and other chargers abnormally increased over the previous year. The pay and allowances, repairs & maintenance expenses also increased significantly. 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.

iii) Return on capital employed

The return on capital employed could not be calculated due to heavy losses. The Company's operations totally relay on outsource financing.

iv) Return on total assets

Due to persistent losses sustained by the Company, the return on total assets remained negative i.e. 16.97% (29.11% in 2011-12). This reflected that the Company was not utilizing its assets efficiently to generate favorable return.

In addition to the above, the Company held cash reserve of Rs.1,987.65 million. The debt to total asset ratio and gearing ratio was 1.89% and (4.4%) 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.

12.2.5.2 Short Term Liquidity

Current ratio

The current ratio declined to 0.49 from 0.56 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 need to be explained.

12.2.5.3 Working Capital Cycle

Debtor's / Creditor's turnover period

The trade receivables decreased significantly i.e. by (19.61%) over the previous year. The decrease was mainly due to writing off significant amount of receivables as bad debts amounting to Rs.8,450.47 million. In addition to that the debtor turnover period remained at abnormally high rate i.e. 178 days (198 days in 2011-12).

Significant value in accounts receivable, 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.

Delays in collection from debtors had trickledown effect on the creditor turnover period which increased to 1,006 days from 663 days in 2011-12. The increase in accounts receivable and accounts payable indicated continuing cash flow shortage resulted in persistent working capital financing problems for the Company.

Writing off huge amount of bad debts, poor management of debtors and creditor turnover period needs to be explained.

12.2.5.4 Gearing, leverage and interest coverage ratios

The long term financing of the Company increased by 36.24%. The trade and other payables increased by 11.34%. Significant increase in the non-current and current liabilities reflected 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. (4.4%) during the financial year 2012-13 as compared to (8.91%) during the financial year 2011-12. 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 needed to be explained.

12.2.6 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 addition, writing off significant amount of bad debts reflected poor policies and practices of the management which resulted in losses to the Company. 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 issue of huge receivables from Government and private consumers also needs due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

In order to ensure transparency in operations, policies and practices, the Company is required to ensure strict compliance with the Public Sector Companies (Corporate Governance) Rules, 2013. This analysis is carried out on the un-audited/ unapproved financial statements. The financial statements shall also be prepared and finalized in compliance with the requirements of Companies Ordinance, 1984.

12.3 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	2000-01	AR	1	1 (Para No. 9)	-	-
	2005-06	AR	1	1 (Para No. 7.1)	-	-
	2006-07	AR	8		4 (Para No. 11.4, 11.9, 11.11 & 11.14)	4 (Para No. 11.5, 11.7, 11.8 & 11.13)
	2008-09	AR	2	2 (Para No. 10.10 & 10.11)	-	-

Position of compliance with PAC directives is satisfactory.

12.4 AUDIT PARAS

12.4.1 Non-production of record relating to mutation of land – Rs.3.54 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.

In GSC Circle HESCO, land assets valuing Rs.3.54 million were purchased during 2012-13 but relevant record i.e. registered deed, mutation and crops compensation paid to farmers/owners was not produced to Audit, which needed to be investigated. 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 August, 2013 and reported to Ministry in December, 2013. It was replied that the mutation of land was under process and final reply would be given later on.

DAC in its meeting held on December 30-31, 2013 directed to provide revised reply within 15 days and deferred the para for verification.

Audit recommends to investigate the matter for fixing the responsibility for non-production of record during audit.

(Draft Para No. 665/2013-14)

12.4.2 Loss due to misappropriation of material - Rs.8.10 million and bogus/fictitious billing - Rs.7.58 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".

In 1st Operation Circle HESCO, electrical material comprising LT conductor, line, poles and transformers valuing Rs.8.10 million installed at 14 tube well connections which were not existed at sites as pointed out by FEND Consultants in March, 2012 and February, 2013. However, 0.76 million units amounting to Rs.7.58 million were billed to the said tube well connections as fictitious/bogus reading. This resulted in loss of Rs.8.10 million due to misappropriation of material and bogus/fictitious billing of Rs.7.58 million during 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in October, 2013. The management replied that disciplinary action was initiated against the officers/officials involved in bogus/fictitious billing.

DAC directed in its meeting held on December 30-31, 2013 to conduct fact findings inquiry and provide copy of M/s FEND's report to Audit upto January 15, 2014.

Audit recommends to take actions against responsible(s) immediately besides making good the loss.

(Draft Para No. 98/2013-14)

12.4.3 Recoverable amount from sister companies, employees and consumers – Rs.26,443.48 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. Government of Pakistan levied NJS @ Rs.0.10/per unit for construction of NJHPP. As per Special Condition of Supply under Tariff-E, "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".

In HESCO, an amount of Rs.26,443.48 million was recoverable from sister companies, employees and consumers. Due to non-pursuance of recovery, such a huge amount had been blocked. This resulted in non-recovery of the Company's dues amounting to Rs.26,443.48 million during 2012-13 as detailed below:-

Sr. No.	Draft Para No.	Subject	Amount (Rs. in million)
1	599/2013-14	Receivables from other companies	26,388.64
2	612/2013-14	Non-recovery of supply charges against temporary connections	3.82
3	718/2013-14	Non-recovery of GST & NJS from employees	51.02
		TOTAL	**26,443.48**

The matter was taken up with management in August & October, 2013 and reported to Ministry in November & December, 2013. The management replied that there was regular recurring expenditure made on behalf of associated companies and efforts would be made to recover the amount from temporary connections. Free electricity was provided to WAPDA employees as per policy of the Authority.

DAC directed, in its meeting held on December 30-31, 2013, the Internal Audit to take up the case with Ministry for review of policy for free electricity and to provide aging of receivables, copy of policy for adjustment and reconcile the arrears within 30 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 599, 612 & 718/2013-14)

12.4.4 Recoverable amount of GST Rs.1,352.08 million from FBR and unjustified/wrongly written off electricity dues - Rs.8,450.47 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."

In HESCO, electricity dues of Rs.8,450.47 million against the departments of Provincial Government were written off through CP-139 as whole instead of consumers wise through Adjustment Notes (CP-52). Hence, unjustified/wrongly written off electricity dues not only deprived the Company of its revenue of Rs.8,450.47 million but put the loss of Rs.1,352.08 million paid to FBR as GST on accrual basis at the time of billing. This resulted in recoverable GST of Rs.1,352.08 million from FBR and unjustified/wrongly written off electricity dues of Rs.8,450.47 million upto 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013. It was stated that reply was under preparation.

DAC directed in its meeting held on December 30-31, 2013 to work out the actual paid GST and take up the matter with FBR for adjustment of GST.

Audit recommends to investigate the matter through high power committee for fixing the responsibility regarding unjustified written off the Company's revenue.

(Draft Para No. 604/2013-14)

12.4.5 Non-capitalization of completed works - Rs.4,996.75 million

According to Clause-D of Fixed Assets Management of the Accounting Manual, "after completion, the assets are transferred to the concerned division of GSO circle which in turn capitalize the assets and fixed asset register is updated accordingly."

In HESCO, different works valuing Rs.4,996.75 million were completed under 5th and 6th STG Programme since two to seven years. Neither the A-90s were prepared nor the works handed over to the GSO for capitalization. Non-capitalization of works amounting to Rs.4,996.75 million resulted in understatement of depreciation expenses of assets in the profit and loss account of the Company upto 2012-13.

The matter was taken up with the management during July and August, 2013 and reported to Ministry in December, 2013. The management replied that 409 works amounting to Rs.444.54 million had been capitalized and transferred to HESCO formations while capitalization of remaining works was under process.

DAC directed in its meeting held on December 30-31, 2013 to constitute a special task force for capitalization of works and provide relevant record relating to capitalization of works within 30 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 738 & 748/2013-14)

12.4.6 Loss due to non-billing of electricity supply - Rs.712.85 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".

In HESCO, twenty two 11 KV feeders were running without load and consumers as evident from CP-22A and 71.29 million units valuing Rs.712.85 million received on these feeders without billing to consumers. This resulted in loss of Rs.712.85 million due to non-billing of electricity supply during 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that the losses on these feeders were due to inappropriate coding. However, necessary coding was sent to computer centre in October, 2013 so that appropriate line losses could be brought on record.

DAC directed in its meeting held on December 30-31, 2013 to carry out analysis of ten feeders of the highest losses in order to determine the percentage of actual losses and to maintain proper documentation as per SOPs of the Authority within 30 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 597/2013-14)

12.4.7 Non-disposal of scrap material and vehicles - Rs.142.60 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”.

In HESCO, dismantled electrical material and fifteen off road vehicles worth Rs.142.60 million were lying in the store since long for want of disposal. The material and vehicles were kept in the open and exposed to the environmental effects. This resulted in non-disposal of scarp material and vehicles amounting to Rs.142.60 million upto 2012-13.

The matter was taken up with the management during July to October, 2013 and reported to Ministry in November and December, 2013. The management replied that the survey reports of the dismantled material/off road vehicles had been prepared and tendering for auction was under process.

DAC directed in its meeting held on December 30-31, 2013 to provide relevant record in respect of completed cases and finalize pending actions within 30 days.

Audit emphasizes expeditious disposal of scrap material and vehicles besides fixing the responsibility.

(Draft Para No. 600, 666 & 669/2013-14)

12.4.8 Non-recovery of mobilization advances from contractors – Rs.120.38 million

According to the instructions issued by WAPDA dated July 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”.

In PMU HESCO, an amount of Rs.120.38 million was paid to eight contractors from March, 2010 to April, 2011. The amount of mobilization advance was neither adjusted nor recovered despite lapse of considerable time. This resulted in non-recovery of mobilization advance of Rs.120.38 million from contractor’s upto 2012-13.

The matter was taken up with management in September, 2013 and reported to Ministry in December, 2013. The management replied that an amount of Rs.22 million was recovered from contractor.

DAC directed in its meeting held on December 30-31, 2013 to provide recovery record and clarify the nature of advances.

Audit emphasizes expeditious recovery of mobilization advance besides fixing the responsibility.

(Draft Para No. 745/2013-14)

12.4.9 Non-return of excess material to store - Rs.11.36 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".

In Construction Circle HESCO, in 78 cases electrical material worth Rs.11.36 million was drawn more than the material installed at site as evident from M/s BARQAAB's reports. Neither the excess material was returned to store nor transferred to other works where required. This resulted in non-return of material amounting to Rs.11.36 million during 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in December, 2013. The management replied that material valuing Rs.0.25 million was returned to store in December, 2013.

DAC directed in its meeting held on December 30-31, 2013 to provide relevant record in support of reply and constitute special task force to resolve the matter within 30 days.

Audit recommends to investigate the matter for fixing the responsibility besides ensuring the return of material.

(Draft Para No. 667/2013-14)

12.4.10 Loss due to non-replacement of transformers damaged under warranty period - Rs.10.25 million

According to Clause-9 of warranty of Purchase Order, "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".

In HESCO, 27 transformers of different capacities worth Rs.10.25 million were damaged under warranty period from September, 2011 to May, 2013. The damaged transformers were required to be got replaced from the supplier / contractor with healthy transformers which was not done. This resulted in loss of Rs.10.25 million due to non-replacement of transformers damaged under warranty period during 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that nine transformers valuing Rs.3.82 million received back from supplier, efforts were being made to receive back the remaining transformers.

DAC directed in its meeting held on December 30-31, 2013 to provide relevant record for completed actions and insert clause for specifying time period for replacement of transformers in purchase orders.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 605/2013-14)

12.4.11 Loss due to non-return of alive transformers to store - Rs.6.05 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".

In 2nd Operation Circle, HESCO, 29 alive transformers of various capacities valuing Rs.6.05 million were removed from different sites against augmentation but these transformers were not returned to store in alive condition. This resulted in loss of Rs.6.05 million during 2012-13

The matter was taken up with management in August, 2013 and reported to Ministry in November, 2013. The management replied that all the documentation cases were approved by the competent authority with the consideration of justification for increase in number of connections day by day on the respective public transformers.

DAC directed in its meeting held on December 30-31, 2013 to constitute special task force to resolve the matter within 30 days.

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

(Draft Para No. 609/2013-14)

12.4.12 Less recovery of security deposits and capital cost - Rs.3.92 million

According to Government of Pakistan's SRO dated January 03, 2011, "security deposits rates have been revised w.e.f. January 03, 2011". Chief Executive Officer vide his letter dated April 27, 2012 ordered recovery of capital cost in installments from new industrial and agriculture consumers.

In HESCO, security deposits amounting to Rs.2.98 million from 31 industrial consumers were less recovered. Moreover, installment of recovery of capital cost was allowed to seven industrial consumers from April to December, 2012 but installments amounting to Rs.0.94 million were not recovered. This resulted in less recovery of security deposits and capital cost amounting to Rs.3.92 million from consumers during 2012-13.

The matter was taken up with management during August and October, 2013 and reported to Ministry in November, 2013. The management replied that in some cases recovery had been made while in remaining cases the recovery was not involved.

DAC directed in its meeting held on December 30-31, 2013 to provide relevant record in respect of completed cases and finalize pending actions within 30 days.

Audit emphasizes expeditious recovery from consumers besides fixing the responsibility.

(Draft Para No. 603, 606 & 614/2013-14)

12.4.13 Loss due to less recovery of capital cost from Industrial consumers - Rs.1.80 million

According to Authority's instructions issued vide letter dated November 21, 2006, "industrial connections having load upto 10 HP (7.46 KW) can be given from the existing transformer, if the required load is available but the transformer will not be augmented to give such connection"

In Operation Circle Nawabshah HESCO, five industrial connections having sanctioned load more than 7.46 KW were energized from general duty transformers instead of provision of independent substations. The management extended undue favour to the consumers by non-providing them with independent transformers valuing Rs.1.80 million.

The matter was taken up with management in August, 2013 and reported to Ministry in December, 2013. It was stated that final reply was under preparation.

DAC directed in its meeting held on December 30-31, 2013 to effect the recovery and get verified from Audit within 30 days.

Audit emphasizes expeditious recovery from consumers besides fixing the responsibility.

(Draft Para No. 661/2013-14)

12.4.14 Unjustified expenditure due to hiring of vehicles – Rs.1.13 million

According to Rule-20 of PPRA Rules-2004," the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works". As per Rule-10(i) of GFR 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".

In HESCO, ten air conditioned vehicles were hired from market for recovery campaign within the jurisdiction of the Company in the presence of vehicles existed in transport pool. The vehicles were hired from market without calling quotations or competitive bidding. Hence, an expenditure of Rs.1.13 million during 2012-13 was irregular and unjustified.

The matter was taken up with management in October, 2013 and reported to Ministry in November, 2013. It was stated that the final reply was under preparation.

DAC directed in its meeting held on December 30-31, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

Audit recommends to investigate the matter for fixing the responsibility for non-observance of PPRA Rules-2004.

(Draft Para No. 594/2013-14)

CHAPTER-13

ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED (IESCO)

(175-198)

13. ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED

13.1 Introduction

Islamabad Electric Supply Company Limited (IESCO) started its operation as a Public Limited Company in May, 1998 and registered under Companies Ordinance, 1984 as public limited company.

The principal activity of the Company is distribution and supply of electricity within defined geographical boundaries. The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The mission of IESCO is to bring assurance of energy to its customers. 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, Jhelum 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 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 accounting units are sent to Finance Director IESCO where these accounts are consolidated and Financial Statements including Balance Sheet, Profit and Loss Account and Cash Flow Statements are prepared. The financial results along-with the financial ratios were as under:

13.2.2 Extracts of the Financial Statements

Balance Sheet as at June 30, 2013

(Rupees in million)

	2012-13	%	2011-12	%	2010-11
Equity and Liabilities		-		-	
Issued, subscribed and paid-up capital	5,798.25	(38.53)	5,798.25	(56.53)	5,798.25
Accumulated (loss)/profit	5,385.89	(1.66)	(3,887.75)	30.55	8944.97
Surplus on Revaluation of property and plant	14,452.04		14,696.56		11,257.55

Non-current liabilities					
Long term loans	8,530.13	15.03	7,415.69	49.35	4965.24
Employee retirement benefits	7,577.33	37.78	5,499.53	8.60	5,064.21
Deferred credit	18,626.47	7.53	17,322.51	15.21	15,035.46
Deferred Tax liability	-	-	0.00	-	0.00
	34,733.94	14.87	30,237.73	19.12	25064.91
Current liabilities					
Trade and other Payables	49,766.94	14.16	43,592.86	69.18	25767.57
Accrued markup	2,456.81	60.50	1,530.75	95.95	781.21
Current portion of long term loans	1,404.13	32.72	1,057.93	(35.64)	1,643.85
	53,627.88	16.12	46,181.54	50.522	30,680.92
TOTAL	**113,998.00**	**22.54**	**93,026.33**	**17.37**	**79,258.30**
Assets					
Non-current assets					
Property, Plant & equipment	62,762.98	5.74	59,357.88	17.82	50393.95
Long term Advances	40.79	22.75	33.23	17.27	28.34
Long term deposits	0.14	0	0.136	7.94	0.13
Current assets					
Stores and spares	645.86	(22.65)	834.96	6.51	783.95
Trade debts	26,377.53	14.63	23,011.15	26.54	18,184.87
Other Receivables	20,157.57	136.58	8,520.35	17.21	7,269.61
Cash and bank balances	4,013.14	216.34	1,268.62	(51.16)	2,597.42
	51,194.10	52.20	33,635.08	9.69	30,665.06
	113,998.00	**22.54**	**93,026.33**	**17.37**	**79,258.30**

Profit and Loss Account
For the year ended June 30, 2013

(Rupees in million)

	2012-13	**%**	**2011-12**	**%**
Revenue				
Electricity Sale	66,056.71	5.33	62,716.43	9.29
Subsidy from GoP and sale of Electricity	34,207.27	236.68	10,160.29	(5.43)
Rental and service income	31.41	(1.63)	31.93	16.95
Total Revenue	**10,0295.39**	**37.56**	**72,908.65**	6.97
Cost of electricity	81,966.03	2.06	80,312.85	27.42
Gross profit /(Loss)	**18,329.37**	**(347.55)**	**(7,404.20)**	**(244.34)**
Amortization of deferred credit	890.63	21.02	735.96	5.00
	19,220.00	**(388.23)**	**(6,668.24)**	(214.37)
Other operating cost (excluding depreciation)	8,630.31	40.79	6,129.81	17.89
Depreciation on Fixed Assets	1,650.08	7.97	1,528.29	18.77
	8,939.61	(37.60)	14,326.34	(2,284.23)
Other income	1,407.90	11.73	1,260.06	(10.64)
	10,347.50	(20.81)	13,066.27	1,632.37
Financial and other Charges	800.24	39.33	574.361	193.59
Worker Participation Fund/taxation	517.38	100.00	0	0
Profit/(Loss) before taxation	9,029.89	(166.20)	(13,640.64)	(2,541.91)
Taxation Deferred	0	(100.00)	552.39	306.00
Profit for the year	**9,029.89**	**(168.99)**	**(13,088.25)**	**(2,063.05)**

13.2.3 Financial Ratios

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

COMPANY		IESCO		
YEAR		2012-13	2011-12	2010-11
Profitability Ratios				
Return on capital employed	%	35.22	(61.98)	2.65
Gross profit margin	%	27.75	(11.81)	8.94
Net profit margin	%	13.67	(21.53)	1.16
Average Asset Turnover Ratio	times	0.41	0.47	-
Return on total assets	%	7.92	(14.52)	0.84
Short Term Liquidity Ratio				
Current ratio	times	0.95	0.72	1
Working Capital Ratios				
Debtors turnover period	days	136.45	134	116
Creditors turnover period	days	207.87	211	164
Debt, Gearing & Leverage Ratios				
Debt to total assets Ratio	%	6.65	5.95	5.2
Gearing ratio	%	43.27	21.22	8.7
Leverage ratio	%	15.66	63.49	81.44
Interest cover	times	11.28	(22.73)	3.86

13.2.4 Cash Flow Analysis

The Company incurred net cash outflow (deficit) of Rs.2,744.52 million as compared to inflow (surplus) of Rs.4,073.32 million in 2011-12 during the financial year resulting in closing balance of Rs.4,013.14 million (Rs.1,268.62 million: 2011-12). Net cash flows from operating activities increased by Rs.796.64 million, i.e; 17.4% over the previous year mainly due to profit generated during the financial year 2012-13.

During the period, the Company incurred capital expenditures amounting to Rs.4,792.05 million (Rs.5,905.04 million: 2011-12) for the improvement of power distribution system that resulted in improving the efficiency of system & increasing return on assets.

Moreover, the net cash inflow of Rs.982.34 million was injected from financing activities as the Company borrowed Rs.1,345.98 million (Rs.1,880.41 million: 2011-12) from financial institutions/donors agencies.

13.2.5 Ratio Analysis

13.2.5.1 Profitability

Profitability ratio of the Company has shown the improvement as evident from gross profit and net profit ratios. Both ratios turned into positive as compared to negative during the last year.

i) Gross Profit

During the financial year 2012-13, electricity sales of the Company increased to Rs.66,056.71 million i.e. increase of Rs.3,340.31 million, 5.33% (Rs.62,716.43 million: 2011-12). On the other hand, cost of electricity increased by 2.06% (Rs.81,966.03 million during the year 2012-13, Rs.80,312.85 million: 2011-12). The proportionate increase in the cost of electricity was lower than the increase in the sales of electricity due to which company earned a gross profit of Rs.18,329.37 million.

In view of the foregoing, the Gross profit ratio increased significantly i.e. 27.75% gross Profit as compared to gross loss (11.81%) for the financial year 2011-12. The major increase was in the sales volume, resulted in significant increase in gross profit of the Company.

ii) Net Profit Ratio

The Company earned net profit of Rs.9,029.89 million during the financial year ended June 30, 2013. Accumulated losses amounting to Rs.3,887.75 million brought forward from previous years turned into Accumulated profit amounting Rs.5,385.89 million during the current financial year due to profit.

iii) Return on Capital Employed

The return of capital employed remained at 35.22% showing that the Company utilized its resources in an efficient and effective manner.

iv) Return on total assets

The return increased to 7.92% from (14.52%) as company generated favorable return. The debt to total assets ratio and gearing ratio was 6.65 and 43.27 respectively which showed that company was relying heavily on debt to finance its capital expenditures. Audit suggests that the Company should review its capital structure and policy of getting loan because it may badly affected the liquidity position of the Company and have direct impact on the profitability of the Company.

13.2.5.2 Short term Liquidity

i) Current Ratio

The current ratio remained at 0.95 that is close to 1 which reflect the Company's current assets were equal to its current liabilities. Ideally the current assets should be twice the amount of the current liabilities.

Therefore, the Company shall undertake measures to further improve its short term liquidity position.

13.2.5.3 Working capital Cycle

i) Debtor's/Creditors turnover period

The trade receivables increased significantly i.e. by 14.63% over previous year. In addition to that, the debtors' turnover period increased to 136 days (134 days in 2011-12).

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.

The creditor's turnover period remained over 200 days i.e. 208 days in 2012-13 and 211 days in 2011-12 which reflected that the Company failed to settle its liabilities on timely basis which requires justification.

The increase in accounts receivable and account payable indicated that there was a continuing cash flow shortage resulting in persistent working capital financing problems for the Company.

13.2.5.4 Gearing, leverage and interest coverage ratios

The non-current liabilities of the Company increased by 14.87% over previous year. The trade and other payables increased by 14% and the creditors' turnover period was 208 days to settle current liabilities reflect that the Company was encountering the liquidity problems and the management has not taken adequate remedial action to address the issue.

The gearing position of the Company showed negative trend i.e. 43.27% during the financial year 2012-13 as compared to 21.22% during the financial year 2011-12. High gearing reflected liquidity problems resulting in cash flow risk for the Company. The Company was relying on the external sources to finance its capital expenditures instead of funding through revenue collections. Reliance on borrowings/(loans) and payments of financial charges need to be explained.

13.2.6 Recommendations:

In view of the foregoing, it is recommended that company should revamp its organizational structure and address operational issues, in order to avoid high operational cost. 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 shall also be managed to avoid leakage of revenue and to avoid losses. There is a dire needed 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.

In order to ensure transparency in operations, policies and practices, the Company is required to ensure strict compliance with the Public Sector Companies (Corporate Governance) Rules, 2013.

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
IESCO	1996-97	AR	3	3 (Para No. 17, 55 & 63)	-	-
	2000-01	AR	3	1 (Para No. 23)	2 (Para No. 14 & 17)	
	2006-07	AR	3		2 (Para No. 12.5 & 12.7)	1 (Para No. 12.8)

Position of compliance with PAC directives is satisfactory.

13.4 AUDIT PARAS

13.4.1 Non-production of record - Rs.12.45 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.

In Transport Directorate IESCO, an expenditure of Rs.12.45 million was incurred on POL for vehicles. Log books Part-II were not provided to Audit. In the absence of the record, the authenticity of consumption of POL could not be ascertained. This resulted in non-production of record for Rs.12.45 million upto 2012-13.

The matter was taken up with the management in June, 2013 and reported to Ministry in November, 2013. The management replied that record was available and would be produced to Audit on demand.

DAC in its meeting held on December 4-5, 2013 deferred the para for verification subject to production of record within 30 days.

Audit recommends to investigate the matter for fixing the responsibility besides production of auditable record.

(Draft Para No. 407/2013-14)

13.4.2 Loss due to misappropriation of material - Rs.11.66 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".

In IESCO, various Energy Load Reduction (ELR) works were approved for execution during 2000 to 2013 but these works were declared un-traceable/un-identified. Hence, the electrical material valuing Rs.9.58 million was misappropriated. Moreover, 77 HT PC Poles, 116 LT PC Poles and 12 HT Structures worth Rs.2.08 million were misappropriated by the contractor during execution of works. Resultantly, the Company sustained a loss of Rs.11.66 million due to misappropriation of material upto 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in September and November, 2013. The management replied that an amount of Rs.1.49 million had been recovered from contractor and the material involved in remaining works was installed. Hence, there was no misappropriation of material.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 30 days.

Audit recommends to implement the DAC directives.

(Draft Para No. 68 & 324/2013-14)

13.4.3 Fraudulent adjustment of arrears - Rs.5.38 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".

In Opertaion Circle Rawalpindi, IESCO, arrears amounting to Rs.5.38 million receivables from permanent disconnected consumers (CP-61 Dead defaulters) were charged to the Rawalpindi General Hospital Rawalpindi and different other running accounts of government and private consumers. The fraudulent adjustment was raised through bill adjustment notes on the written request of SDO Chandni Chowk Sub Division, Rawalpindi.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that the credited amount was debited to the consumers. An inquiry committee was constituted and disciplinary action was initiated against five officers/officials in the light of inquiry report.

DAC directed in its meeting held on December 4-5, 2013 to provide inquiry report and take strict action against the delinquents under report to Ministry of Water and Power and Audit within 15 days.

Audit recommends to expedite the action against delinquents as per recommendations of inquiry committee.

(Draft Para No. 303/2013-14)

13.4.4 Delayed determination of tariff by GoP - Rs.23,107 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".

In IESCO, an amount of Rs.23,107 million was claimed by the Company from NEPRA due to delayed tariff determination by NEPRA and non-notification of tariff by Government of Pakistan for the fiscal year 2012-13, thus causing a huge loss to the Company amounting to Rs.23,107 million.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that the amount had already been recovered due to notification of tariff determined for the financial year 2012-13 by GoP making it effective from July 1, 2012.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

Audit recommends to investigate the matter for fixing the responsibility.

(Draft Para No. 365/2013-14)

13.4.5 Un-authorized supplemental markup charges - Rs.4,414.72 million

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

In IESCO, two debit advices amounting to Rs.4,414.72 million were issued by CPPA to IESCO proportionately on account of supplemental mark-up charges on delayed payments to power suppliers in January and September,

2012. The said charges were disallowed by NEPRA in adjustment in tariff to CPPA. Transfer of these charges to IESCO was un-authorized/unjustified and acceptance of these supplemental mark-up charges would entail loss to IESCO.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that actual amount of para was Rs.3,653 million instead of Rs.4,414.72 million on account of supplementary charges debited by CPPA to the IESCO. IESCO had protested against the expenditure and never agreed to book the said debit note.

DAC directed in its meeting held on December 4-5, 2013 to make efforts with NEPRA and CPPA for adjustment expeditiously.

Audit recommends to justify the delayed payments to power suppliers.

(Draft Para No. 364/2013-14)

13.4.6 Non-recovery of GST claims from FBR – Rs.3,321 million

According to Section-10 Chapter-II of Sales Tax Act-1990," if the input tax paid by a registered person on taxable purchase made during a tax period exceeds the output tax on account of zero rated local supplies or export made during that tax period, the excess amount of input tax shall be refunded to the registered person not later than 45 days of filing of refund claim".

In IESCO, general sales tax refund claims amounting to Rs.3,321 million filed in March, 2013 had not been got refunded from FBR upto August, 2013 whereas a period of more than five months had since been elapsed. This resulted in non-recovery of GST claims amounting to Rs.3,321 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that IESCO had requested for revision of sales tax return to FBR and to withdraw the sales tax refund claims due to the reason that in future, the entire carry forward amount would be adjusted against increased output tax on account of tariff increase and application of Fuel Price Adjustment.

DAC directed in its meeting held on December 4-5, 2013 to take up the matter with FBR for adjustment and result be intimated to Ministry within 30 days.

Audit emphasizes expeditious refund of GST claims from FBR besides fixing the responsibility for delay in lodging the claims.

(Draft Para No. 300/2013-14)

13.4.7 Extra expenditure on POL - Rs.433.73 million

According to the office order dated August 26, 2010, Chief Executive Officer directed MPG (Liter) of all types vehicles applying in IESCO has been worked out and is hereby conveyed for strict implementation.

In Transport Directorate IESCO, average mileage per liter of each type of vehicles was worked out but not implemented. This resulted in extra expenditure of Rs.433.73 million incurred on POL upto 2012-13.

The matter was taken up with the management in June, 2013 and reported to Ministry in November, 2013. The management replied that all field officers were fully competent for fixing MPG (Liter). The Deputy Manager Transport was also competent for testing of fuel consumption where ever it was required on vehicle to vehicle basis as per transport rules.

DAC directed in its meeting held on December 4-5, 2013 to carry out random sample study and get it verified from log books that average consumption of POL of vehicles was according to WAPDA Transport Rules within 30 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 410/2013-14)

13.4.8 Illegal/unjustified purchase of transformers from black listed firms - Rs.399.98 million

According to Rule-10(i) of GFR 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".

In IESCO, four purchase orders worth Rs.272.21 million and two purchase orders worth Rs.127.77 million for the supply of distribution transformers were placed with M/s Hammad Engineering (Pvt) Limited and M/s A.B. Ampere respectively. Both the manufacturing firms were previously black listed by NTDC for using of substandard material in transformers. Hence, purchase of distribution transformers valuing Rs.399.98 million during 2012-13 from the black listed firms was illegal/unjustified.

The matter was taken up with the management in November, 2013 and reported to Ministry in November, 2013. The management replied that the contention of Audit was not based on facts as LESCO had renewed their registration for the year 2013-14, so the question of black listing did not arise. Moreover, the firms were emerged as the lowest responsive bidders and POs were placed with them after obtaining approval from the competent authority.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

Audit recommends to investigate the matter at Ministerial level besides fixing the responsibility.

(Draft Para No. 501/2013-14)

13.4.9 Non-registration of vehicles - Rs.190.32 million

According to Clause-23(1) of the Motor Vehicles Ordinance-1965, "no person shall drive any motor vehicle and no owner of a motor vehicle shall cause or permit the vehicle to be driven in any place unless the vehicle is registered".

In Transport Directorate IESCO, 71 vehicles (Model from 1982 to 2010) worth Rs.190.32 million were not registered upto June, 2013 in the name of the Company in contravention to the rules.

The matter was taken up with the management in June, 2013 and reported to Ministry in November, 2013. The management replied that instructions had been conveyed to the concerned formations to get the vehicles registered along with upto date annual token tax fee on emergent basis.

DAC directed in its meeting held on December 4-5, 2013 to constitute a committee to investigate the matter and submit report to Audit/Ministry within 30 days.

Audit recommends to get the vehicles registered without further loss of time besides fixing the responsibility.

(Draft Para No. 408/2013-14)

13.4.10 Loss due to unjustified withdrawal of writ petition by IESCO - Rs.187 million

According to Section-26 of NEPRA Act, "if the Authority is of the opinion that it is in the public interest, it may, with the consent of the licensee, amend or vary the conditions of any license issued under this Act and in the absence of licensee's consent, the Authority shall conduct a public hearing on whether the proposed amendment or variance is in the public interest and shall make a determination consistent with the outcome to this hearing".

In IESCO, an agreement was singed with M/s Bahria Town on January 25, 2002 for supply of power under Tariff C-1. Later on, M/s Bahria Town applied for license of power distribution in IESCO's territory and NEPRA granted him the license on November 24, 2010 by carving out the territory of IESCO by amending its license. Later on, IESCO challenged the license granted to M/s Bahria Town in Lahore High Court in May, 2011. The petition was withdrawn and IESCO went in arbitration with M/s Bahria Town without any benefit as per decision of BoD in its extra ordinary general meeting held on June 14, 2011. Resultantly, the Company sustained a loss of Rs.187 million by surrendering its legal rights.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that the case was subjudice and IESCO's Legal and Corporate Affairs Department was strongly pursuing all legal remedies and contesting the modification of its distribution license which challenged its service territory.

DAC directed in its meeting held on December 4-5, 2013 to pursue the case vigorously and provide copy of minutes of BOD's extra ordinary meeting to Audit.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 483/2013-14)

13.4.11 Non-recovery of short-term investment along with interest from Trust Investment Bank Limited - Rs.137.98 million

According to Finance Division Letter dated September 22, 2005 that "for the sake of the safety and security of deposits, the banks/ financial institutions taking a deposit should have a minimum "A" rating as appearing on the web-site of the Credit Rating Agency. This "A" rating refers to the rating scale used by Pakistan Credit Rating Agency and JCR-VIS Credit Rating Company for banks incorporated in Pakistan".

In IESCO, an investment of Rs.120 million was made in Trust Investment Bank Limited (TIBL) bearing A-3 rating in December, 2011 at the profit rate of 12.25% per annum for a period of one year. The bank could not remit the principal amount of Rs.120 million and interest of Rs.17.98 million accrued thereof from December, 2011 to June 30, 2013 due to financial liquidity. Poor financial management resulted in non-recovery of investment of Rs.137.98 million from the bank during 2012-13.

The matter was taken up with the management in November, 2013 and reported to Ministry in November, 2013. The management replied that amount of Rs.22 million had been recovered.

DAC directed in its meeting held on December 4-5, 2013 to get recovery record verified from Audit and ensure recovery of balance amount within 15 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 550/2013-14)

13.4.12 Unjustified expenditure on attached vehicles - Rs.96.15 million

According to instruction 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".

In Transport Directorate IESCO, an amount of Rs.96.15 million was incurred on repair and maintenance of 39 vehicles being used by Ministry of Water and Power from 2010-11 to 2012-13. The expenditure was required to be met out of the budget of the Ministry instead of IESCO. This resulted in unjustified expenditure of Rs.96.15 million upto 2012-13.

The matter was taken up with the management in June, 2013 and reported to Ministry in November, 2013. The management replied that IESCO was operating under the administrative control of Ministry of Water and Power and the vehicles were attached in that context and the same could neither be denied at IESCO level nor the expenditure could be treated as unjustified. Now all vehicles had been recovered.

DAC directed in its meeting held on December 4-5, 2013 to make efforts for recovery of expenditure made in this context within 30 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 411/2013-14)

13.4.13 Loss due to non-return of power transformer from HMC - Rs.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".

In GSO Circle IESCO, a 10/13 MVA Power Transformer valuing Rs.40 million was handed over to Heavy Mechanical Complex (HMC) on February 24, 2010 for repair. Neither the transformer was repaired nor received back from HMC. Resultantly, the Company sustained a loss of Rs.40 million due to non-return of power transformer by HMC upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that the case had already been taken up with HMC to return the transformer.

DAC directed in its meeting held on December 4-5, 2013 to expedite the efforts for recovery of damaged transformer and submit progress to Audit within 30 days.

Audit emphasizes expeditious recovery of transformers from HMC besides fixing the responsibility.

(Draft Para No. 394/2013-14)

13.4.14 Irregular expenditure on allocation of vehicles to un-authorized persons - Rs.34.51 million

As per WAPDA Transport Policy-1987, there is no provision of attachment of vehicles with BPS-16 to BPS-19 officers posted at head quarter.

In Transport Directorate IESCO, an amount of Rs.34.51 million was incurred on repair and maintenance of 44 vehicles from July, 2010 to May, 2013 attached with officers of BPS-16 to BPS-19 posted at head quarters. As per transport policy, the vehicles can only be attached with officers' equivalent to the Chief Engineer and above. This resulted in irregular expenditure of Rs.34.51 million on repair and maintenance of vehicles upto 2012-13.

The matter was taken up with the management in June, 2013 and reported to Ministry in November, 2013. The management replied that all vehicles were attached with the proper approval of CEO after justification. Therefore, the attachment of vehicles was in the best interest of organization.

DAC directed in its meeting held on December 4-5, 2013 to take action in accordance with transport policy, get the expenditure regularized and submit revised reply to Audit within 30 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 409/2013-14)

13.4.15 Loss due to non-finalization of insurance claims - Rs.30 million

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

In GSO Circle IESCO, insurance claims amounting to Rs.30 million on account of damage of three power transformers of various capacities in August, 2002, July, 2003 and April, 2007 were lodged with Director Insurance WAPDA but the same were still lying pending for want of indemnification. This resulted in loss due to non-finalization of insurance claims of Rs.30 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that all the XENs under GSO Circle had been directed to visit the office of Director Insurance for finalizing the insurance claims.

DAC directed in its meeting held on December 4-5, 2013 to make efforts for early finalization and submit progress to Audit within 30 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 395/2013-14)

13.4.16 Loss due to construction of 11 KV industrial feeder under ELR head - Rs.24.84 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".

In IESCO, an 11 KV feeder (Flour Mill-2) with estimated cost of Rs.24.84 million was approved under Electricity Loss Reduction (ELR) in April,

2012. The construction of feeder for flour mills was required to be done after receiving the cost from the sponsors instead of at the cost of IESCO. This resulted in loss of Rs.24.84 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that the proposal was submitted for load management and area planning. In the proposal there was remarkable reduction in technical losses and was technically feasible under ELR. The funds to be utilized would automatically be recovered due to reduction in technical losses.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

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

(Draft Para No. 361/2013-14)

13.4.17 Less recovery of cost of deposit work - Rs.22.55 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 estimate deposited with WAPDA, with an undertaking from the depositor to meet any variation."

In GSC Circle IESCO, a deposit work amounting to Rs.50.90 million for DHA was approved during July, 2012. The sponsoring agency deposited an amount of Rs.28.35 million. The work was completed by the IESCO from its own resources in May, 2013 as the remaining amount of Rs.22.55 million was not deposited by the DHA. This resulted in less recovery of Rs.22.55 million against deposit work during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in October, 2013. The management replied that the final estimate as per actual work done involving an amount of Rs.31.75 million was sent for technical sanction.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

Audit recommends to justify the actual estimate and ensure recovery of less deposited amount besides fixing the responsibility.

(Draft Para No. 172/2103-14)

13.4.18 Un-authorized payment on account of repair and maintenance charges - Rs.16.80 million

According to the instruction 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".

In Transport Directorate IESCO, an amount of Rs.16.80 million was paid to M/s Awan Autos and M/s Rawal Autos for repair of vehicles from 2010-11 to 2012-13 without any inspection certificate and approved estimates for annual repair & maintenance. This resulted in un-authorized payment of Rs.16.80 million on account of repair and maintenance charges upto 2012-13.

The matter was taken up with the management in June, 2013 and reported to Ministry in November, 2013. The management replied that M/s Awan Autos had a claim of more than Rs.6.60 million regarding repair of IESCO vehicles attached with Ministry. All the repair bills were processed as per SOP and after completion of codal formalities.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

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

(Draft Para No. 489/2013-14)

13.4.19 Loss due to non-installation of separate connection to residential colony - Rs.10.66 million

As per Schedule of Electricity Tariffs, "Tariff-H is applicable for one point supply to residential colonies attached to the industrial supply consumers having their own distribution facilities."

In Operation Circle IESCO Rawalpindi, M/s Kohinoor Textile Mill having sanctioned load 4,989 KW was running under Tariff B-3 w.e.f. March, 2012. The residential colony attached with the industry was also energized on the same industrial connection instead of separate connection under Tariff-H. Neither the consumer applied for new connection nor the IESCO management provided separate connection to the consumer under Tariff-H applicable for the residential colony. Resultantly, IESCO sustained a revenue loss of Rs.10.66 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that the consumer had applied for Tariff-H and deposited Rs.1.80 million. The connection would be provided after fulfillment of departmental formalities.

DAC directed in its meeting held on December 4-5, 2013 to provide recovery record in support of reply within 15 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 335/2013-14)

13.4.20 Non-return of excess material to store - Rs.8.97 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".

In Construction Circle IESCO, electrical material worth Rs.8.97 million was drawn more than the material installed at 242 works as evident from M/s BARQAAB's reports. The excess material was not returned to store by the officials. This resulted in non-return of material amounting to Rs.8.97 million during 2012-13.

The matter was taken up with the management in July, 2012 and reported to Ministry in September, 2013. The management replied that actual amount of the para was Rs.9.09 million in 242 cases and out of which material amounting to Rs.7.97 million in 173 cases was returned to store, material valuing Rs.0.25 million in one case was stolen and material valuing Rs.0.43 in 63 cases was installed at site. Estimate revised and material Rs.0.04 million in two cases was installed at site and MRN amounting to Rs.0.41 million in three cases were under process.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply and expedite the pending actions within 15 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 65/2013-14)

13.4.21 Loss due to non-recovery of standard rent - Rs.6.96 million

According to Para-d of the Director Finance (Regulation), WAPDA Lahore clarification dated January 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.”

In IESCO, an amount of Rs.6.96 million was recoverable from 30 ex-employees/private persons being illegal occupants of WAPDA accommodations on account of standard rent upto June, 2013. This resulted in non-recovery of standard rent of Rs.6.96 million.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that an amount of Rs.0.76 million had been recovered upto October, 2013 leaving the balance of Rs.6.20 million.

DAC directed in its meeting held on December 4-5, 2013 to provide recovery record in support of reply and ensure recovery of remaining amount within 15 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 285/2013-14)

13.4.22 Loss due to non-recovery of feeder cost - Rs.6 million

As per NEPRA tariff determination dated March 27, 2013, “the supply under industrial tariff shall not be available to a prospective consumer unless he provides, to the satisfaction and approval of the Company, his own transformer, circuit breakers and other necessary equipment as part of the dedicated distribution system for receiving and controlling the supply, or, alternatively pays to the Company for all apparatus and equipment if so provided and installed by the Company. The recovery of the cost of service connection shall be regulated by the NEPRA eligibility criteria”.

In Operation Circle Rawalpindi, IESCO, two industrial consumers having sanctioned load of 505 KW and 398 KW respectively running under Tariff-E were converted to permanent connections according to load through existing 11 KV independent feeder as stop gap arrangement but the cost of independent feeder of Rs.6 million was not recovered from the consumers.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management replied that an amount of Rs.56.30 million was recovered on account of cost of independent feeder.

DAC directed in its meeting held on December 4-5, 2013 to provide recovery record in support of reply and ensure recovery of remaining amount within 15 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 251/2013-14)

13.4.23 Loss due to non-claiming of tariff differential subsidy – Rs.3.95 million

According to Engineering Advisor's letter dated October 3, 2011, "commitment regarding reduction of adjustment from July, 2011 has not been fulfilled and justification for heavy adjustment is not forth coming and subsidy is worked out on billed units i.e. without adjustment units".

In IESCO, 1.60 million units were debited to various consumers on account of electricity theft. However, tariff differential subsidy was not calculated. Hence, the Company was deprived of claiming of subsidy amounting to Rs.3.95 million during 2012-13 from Government of Pakistan.

The matter was taken up with the management in August & September, 2013 and reported to Ministry in October & November, 2013. The management replied that tariff differential claimed by IESCO was worked out on the billed units as well as on the adjusted units.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 131 & 366/2013-14)

13.4.24 Loss due to less recovery of capital cost – Rs.3.48 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".

In Operation Circle Attock IESCO, in 22 cases Vigilance Directorate WAPDA had pointed out many discrepancies in the installation of electrical connection during February, 2013. Hence, capital cost of Rs.3.48 million on account of sub-station cost was not recovered from the consumers. This resulted in loss due to less recovery of capital cost of Rs.3.48 million during 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in September, 2013. The management replied that Rs.0.45 million had been recovered, an amount of Rs.1.14 million was not recoverable and recovery of Rs.1.89 million was under progress.

DAC directed in its meeting held on December 4-5, 2013 to provide recovery record in support of reply and finalize pending action within 15 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 18/2013-14)

13.4.25 Loss due to non-replacement of defective material under warranty - Rs.1.98 million

According to Warranty Clause-8, "contractor will 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 12-months from the date of completion of supply, contractor will be held responsible for all losses and that the unacceptable goods shall be substituted with the acceptable goods at contractor's expense and cost".

In GSO Circle IESCO, electrical equipment valuing Rs.1.98 million purchased from the manufacturer/supplier were damaged during warranty period but the management neither got the equipment (repaired/replaced) from supplier nor responsibility of the damage was fixed. Resultantly, the Company sustained a loss of Rs.1.98 million during 2012-13 due to non-replacement of defective material.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that electrical equipment were damaged after expiry of warranty period. However, the case was under process with M/s Siemens.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days and pursue the case with manufacturer vigorously for replacement.

Audit recommends expeditious recover of material from manufacturers besides fixing the responsibility.

(Draft Para No. 396/2013-14)

13.4.26 Irregular refund of LD - Rs.1.92 million

According to the Purchase Order Clause-A (i) issued on March 24, 2011, "if the supplier fails to deliver the stores within the specified delivery period the liquidated damages would be levied at the rate of 2% per month or a fraction thereof subject to a maximum of 10% of the contract price".

In PMU IESCO, the supplier M/s M.J Corporation could not deliver the electrical equipment within the stipulated delivery period i.e. 150 days. Accordingly, LD of Rs.1.92 were charged and recovered from the supplier. Later on, the entire LD was irregularly withdrawn and refunded to the supplier in August, 2012 despite the fact that the supplier was failed to deliver the material within delivery period. This resulted in irregular refund of liquidated damages amounting to Rs.1.92 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that the matter had been investigated and found that the extension in time was accorded keeping in view the genuine facts of the case.

DAC directed in its meeting held on December 4-5, 2013 to provide copy of investigation report and submit revised reply with documentary evidence within 15 days.

Audit recommends to investigate the matter for irregular refund of LD besides fixing the responsibility.

(Draft Para No. 360/2013-14)

13.4.27 Non-disposal of irrepairable transformers - Rs.1.57 million

According to Clause-1.4 of Chapter-XI Section-1 of the WAPDA Disposal Procedure, "unserviceable vehicles and material/equipment are to be disposed off timely".

In M&T Circle IESCO, 35 irrepairable distribution transformers and a vehicle were lying since long. The un-necessary retention of transformers and vehicle in the open yard and exposing to the environmental effects would cause further deterioration and loss of their residual value. This resulted in non-disposal of transformers and vehicle valuing Rs.1.57 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that all the transformers had been shifted to regional store Rawalpindi for further disposal.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply and finalize pending actions for disposal of transformers within 15 days.

Audit recommends to expedite the disposal procedure of transformers besides fixing the responsibility.

(Draft Para No. 518/2013-14)

13.4.28 Loss due to payment of late payment surcharge - Rs.1.20 million

According to instruction 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".

In Transport Directorate IESCO, an amount of Rs.1.20 million was paid to M/s PSO on account of late payment surcharge from October, 2011 to March, 2013. The Company sustained loss due to negligence of the field staff. This resulted in loss of Rs.1.20 million due to late payment surcharge during 2012-13.

The matter was taken up with the management in June, 2013 and reported to Ministry in November, 2013. The management replied that payment was late on many times due to attachment of IESCO bank accounts by FBR.

DAC directed in its meeting held on December 4-5, 2013 to make efforts for waiver of late payment surcharge and intimate progress to Audit within 15 days.

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

(Draft Para No. 500/2013-14)

13.4.29 Unauthorized borrowing by CPPA/PEPCO on account of financing of Circular Debt

In Para 14.7 of Tariff Determination of IESCO for Financial year 2012-13, "NEPRA has decided to decline Petitioner's request on the present arrangement of loan allocated under Power Holding (Pvt) Ltd., for onward payment to CPPA".

In IESCO, a Debit Advice for Rs.146.20 million was received in IESCO from CPPA being 1st mark up payment proportionately against the loan of

Rs.136,454 million arranged by CPPA through Power Holding (Private) Ltd. (PHPL) to pay off the obligations towards generation/ oil companies. Neither the loan was arranged by DISCOs nor they were taken on board by PEPCO prior to arrangement of loan on their behalf. Moreover, NEPRA expressed concerns significantly on the legality of the PHPL and generally on the organization/mandate of PHPL to undertake the borrowing and to enter into re-lending agreement with IESCO and disallowed the cost to IESCO. Hence, the loan of Rs.136,454 million arranged by CPPA/PEPCO on behalf of DISCO's at a very high price of KIBOR plus 2% was unauthorized/unjustified and would cause financial burden/loss to the DISCOs.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that GoP instructed to book these liabilities with respect to share of each DISCO, as the loan was negotiated by Power Holding (Pvt) Ltd. with banks and the syndicated term finance agreement was also signed between PHPL and banks. IESCO had not yet signed any agreement with either PHPL or Bank. NEPRA had also rejected the mark up cost of this loan, therefore, IESCO was not in a position to book this liability. The reply was not satisfactory as due to the unauthorized borrowing by PEPCO & approved by IESCO Board subject to tariff adjustment from NEPRA.

DAC directed in its meeting held on December 4-5, 2013 to expedite the efforts with NEPRA and CPPA for adjustment.

Audit recommends to investigate the matter at Ministerial level besides fixing the responsibility.

(Draft Para No. 363/2013-14)

CHAPTER-14

LAHORE ELECTRIC SUPPLY COMPANY LIMITED (LESCO)

(201-218)

14. LAHORE ELECTRIC SUPPLY COMPANY LIMITED

14.1 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 Regulator 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, and one Construction Circle and one Grid System Operation Circle.

14.2 Comments on Financial Statements

14.2.1 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:

14.2.2 Extracts of the Financial Statements[4]

Balance Sheet as at June 30, 2013

(Rupees in millions)

Share capital and reserves	**2012-13**	**%**	**2011-12**	**%**	**2010-11**
Accumulated Loss	(5,054.28)	(81.75)	(27,701.97)	5,148.60	(527.80)
Non-current liabilities					
Long term Loans	3,545.56	(0.20)	3,552.51	40.04	2,536.86
Employee retirement and benefit	26,456.02	18.28	22,367.85	19.91	18,654.44

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

Deferred credit	18,762.23	7.66	17,426.67	10.34	15,792.96
	55,884.37	12.63	49,617.09	17.00	42,407.91
Current liabilities	93,321.30	12.47	82,973.16	88.11	44,155.85
	150,889.39	**35.11**	**111,626.30**	**20.32**	**92,773.97**
Assets					
Non-current assets	45,404.56	7.28	42,411.13	24.88	37,536.88
Current assets					
Stores and spares	3,923.42	(4.43)	4,105.12	19.96	3,422.03
Trade debts	34,429.89	4.61	32,912.11	41.37	23,281.54
Advances, prepayments	54,195.32	138.59	22,714.40	43.13	15,869.62
Cash and Bank balances	12,861.60	35.62	9,483.55	(25.11)	12,663.90
	105,410.22	52.29	69,215.17	25.31	55,237.09
	150,889.39	**35.11**	**111,626.30**	**20.32**	**92,773.97**

Profit and Loss Account
For the year ended June 30, 2013

Revenue	**2012-13**	**%**	**2011-12**	**%**	**2010-11**
Electricity sale	135,839.94	2.27	132,830.38	15.78	114,722.74
Subsidy from GoP	66,822.05	239.78	19,666.01	(5.66)	20,845.09
	202,661.99	32.90	152,496.39	12.49	135,567.83
Cost of electricity	163,053.12	(2.89)	167,897.20	34.08	125,218.90
Gross profit/(Loss)	39,608.87	357.19	(15,400.81)	(248.82)	10,348.93
Amortization of deferred credit	856.39	13.94	751.60	14.19	658.22
Other operating cost	18,896.69	19.07	15,870.27	26.94	12,502.48
Profit / (Loss) before interest and tax	21,568.57	170.67	(30,519.48)	1,940.99	(1,495.33)
Other income	28,863.70	(17.14)	3,456.02	(1.19)	3,497.54
Profit /(Loss) before Tax	24,432.27	190.28	(27,063.46)	(1,451.68)	2,002.21
Financial and other charges	592.60	435.27	110.71	(65.73)	323.04
Profit/(Loss) for the year	**22,647.68**	**183.34**	**(27,174.17)**	**(1,803.49)**	**1,595.21**

14.2.3 Financial Ratios

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

COMPANY		**LESCO**		
YEAR		**2012-2013**	**2011-2012**	**2010-2011**
Profitability Ratios				
Return on Capital Employed	%	42.44	(94.45)	4.12
Gross Profit Margin	%	19.54	(10.10)	7.63
Net Profit Margin	%	11.18	(17.82)	1.18
Average Asset Turnover Ratio	Times	120.37	(7.27)	21.83
Return on Total Assets	%	15.01	(24.34)	1.72
Short Term Liquidity Ratio				
Current Ratio	Times	1.13	0.83	1.25
Working Capital Ratios				
Debtors Turnover Period	Days	62	79	54
Creditors Turnover Period	Days	181	159	94
Debt, Gearing and Leverage Ratios				
Debt to Total Assets Ratio	%	3.09	3.62	7.54
Gearing Ratio	%	6.16	12.40	5.22
Leverage Ratio	%	2.92	(73.16)	12.77
Interest coverage	Times	41.23	(244.45)	6.20

14.2.4 Cash Flow Analysis

The Company's net inflow of cash was Rs.3,378.05 million (net outflow of Rs.3,180.35 million in 2011-12) during the financial year resulting in closing balance of Rs.12,861.60 million (Rs.9,483.55 million: 2011-12).

The Company generated net cash inflow of Rs.2,214.02 million from operating activities (outflow of Rs.105.07 million in 2011-12) which was 2,207% higher than last year. The main component which triggered such increase was sales which increased by 33% over the last year and the cost of electricity decreased by 2.89%. Resultantly, the Company earned Gross Profit of Rs.39,608.87 million, which was 357% higher than last year. On the other hand, the indirect expenses, including finance cost increased by Rs.3,508.31 million, 22% higher than the last year, which is required to be justified.

The net cash inflow of Rs.5,299.02 million (Rs.2,228.52 million in 2011-12) injected from financing activities as the Company borrowed Rs.860.60 million from Asian Development Bank, Rs.3,826.18 million raised through receipts against deposit works and Rs.850.49 million raised through security deposits received from consumers.

The Company invested Rs.5,005.92 million (Rs.6,232.84 million in 2011-12) on fixed assets for the improvement distribution network. Despite holding huge cash reserves, the Company borrowed funds from Asian Development Bank (ADB) which resulted in financial cost to the Company. Therefore, the Company is required to justify its borrowing policies.

14.2.5 Ratios Analysis

14.2.5.1 Profitability

Profitability ratios of the Company showed significant improvement as compared to last year. The improvement in the profitability ratios was due to the increase in sales revenue during the financial year.

i) Gross profit

During the financial year 2012-13, electricity sales of the Company increased to Rs.202,661.99 million as compared to Rs.152,496.39 million in 2011-12. The increase was Rs.50,165.60 million i.e. 33% (Rs.16,928.56 million: 2011-12). On the other hand cost of electricity decreased by 2.89% (Rs.163,053.12 million during the year 2012-13, Rs.167,897.20 million: 2011-12). Resultantly the Company earned gross profit of Rs.39,608.87 million (Gross loss of Rs.15,400.81 million in

2011-12).

In view of foregoing the gross loss ratio of 10.10% for the year 2011-12 turned in gross profit ratio of 19.54% during the year 2012-13.

ii) Net profit Ratio

The Company earned net profit of Rs.22,647.68 million (net loss of Rs.27,174.17 million in 2011-12), due to increase in the revenue over the last year. Resultantly, net profit ratio increased to 11.18% (Net loss of 17.82% in 2011-12).

Although the profitability ratios improved, the Company failed to manage its expenses which increased by 22% over the last year. The Company incurred line losses in excess of the targets set by NEPRA resulting in loss of revenue of Rs.1,512 million during the financial year. This indicated that the operational efficiency of the Company remained unsatisfactory. In addition, the Company's pay and allowances and miscellaneous expenses increased significantly over the last year. 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) Dangerous 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 has failed to manage its expenses including line losses due to which the cost of electricity and indirect expenses increased significantly and burned down significant proportion of the revenue of the Company which is required to be justified.

iii) Return on capital employed

The Company earned return of 42.44% against its capital employed (negative ratio of 94.45% in 2011-12) which signifies the improvement as compared to last year.

iv) Return on total assets

The return increased to 15.01% as against negative ratio of 24.34% in last year. The ratio increased due to increase in the amount of revenue.

The Company invested Rs.5,005.92 million (Rs.6,232.84 million in 2011-12) on the non-current assets during the financial year for the improvement distribution network, however, it failed to manage the transmission and distribution losses which exceeded the targets set by NEPRA.

The Company held cash reserves of Rs.12,861.60 million (Rs.9,483.55 million). The debt to total asset ratio and gearing ratio was 3.09% and 6.16% respectively. Audit suggested that the Company should review its capital structure and policy of getting loan because it affected the liquidity position of the Company and have direct impact on the profitability of the Company.

14.2.5.2 Short Term Liquidity

Current ratio

The Company current ratio increased from 0.83 to 1.13 indicating improvement in short term financial position.

14.2.5.3 Working Capital Cycle

Debtor's/ Creditor's turnover period

The trade debts increased by Rs.1,517.79 million (increase of Rs.12,921.72 million in 2011-12) over the previous year. The debtors' turnover period reduced to 62 days (79 days in 2011-12). Moreover, the Company has created a provision for bad and doubtful debts with an amount of Rs.1,391.71 million during the present financial year resulting in total provision for bad debts amounting to Rs.5,914.25 million.

An increase in accounts receivable, long debtor collection period and creation of provision for doubtful debts reflect inefficient collection procedures and poor administration of trade debts, resulting loss of revenue to the Company and ultimately affect the liquidity position of the Company.

Prolonged debtors collection period have trickledown effect on the creditor's turnover period which increased to 181 days from 159 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 creation of provision for doubtful debts needs to be explained.

14.2.5.4 Liquidity Ratios

Debt to equity ratio revealed that the debt is 276.86% of the equity. It reflected that the Company relied heavily on the debt to finance its operations.

Liquidity position of the Company deteriorated significantly due to huge losses in recent years. Net profit of Rs.22,647.68 million reduced accumulated losses of Rs.27,174.19 million to Rs.5,054.28 million during the year. Significant proportion of the capital employed comprises Government grants, loans and Security deposits made by the electricity consumers.

The Trade and other payables increased by 11% (i.e. by Rs.7,813.87 million) and the creditors' turnover period increased to 181 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 has not taken adequate remedial action to address the issue.

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

14.2.6 Recommendations:

It is evident from the above analysis that the liquidity position of the Company deteriorated during the year. In order to finance the operations, Company relied 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 is needed to 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 increased expenses 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 due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

In order to ensure transparency in operations, policies and practices, the Company is required to ensure strict compliance with the Public Sector Companies (Corporate Governance) Rules, 2013.

14.3 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	AR	4	4 (Para No. 4, 42, 62 & 67)	-	-
	2000-01	AR	6	-	3 (Para No. 28, 32 & 42)	3 (Para No. 30, 33 & 39)
	2004-05	AR	2	-	-	2 (Para No. 13.6 & 13.7)
	2006-07	AR	3		2 (Para No. 13.4 & 13.6)	1 (Para No. 13.5)
	2008-09	AR	6	1 (Para No. 12.25)	2 (Para No. 12.20 & 12.24)	3 (Para No. 12.10, 12.19 & 12.22)

Position of compliance with PAC directives is not satisfactory.

14.4 AUDIT PARAS

14.4.1 Un-due burden on Company's funds - Rs.672.97 million

According to Clause-2(A) of Service Agreement executed between LESCO and M/s Sidat Haider Morshid Associates on February 10, 2009, "for providing on the basis of as and when required, certain services and for matters related and incidental to execution of such works/services as are specified in Annexure-A of the agreement".

In LESCO, M/s Sidat Haider Morshid was engaged on February 10, 2009 as consultant by direct contracting for transformation from COBOL based legacy system to Oracle based ERP system. However, the consultants were not delivering the services envisaged in their scope of work rather deviating from their core functions as they could not deliver the bug free system within the stipulated timeframe. The nature and scope of the work was also fell within the ambit of services of PITC and MIS department of the Company. This resulted in an undue burden on the Company's funds worth Rs.672.97 million upto 2012-13.

The matter was taken up with the management in August, 2013 and reported to the Ministry in November, 2013. The management replied that the BOD of DISCOs were authorized under the provision of Ordinance to take financial and administrative decisions independently and was not required to take approval of GoP.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

Audit recommends to investigate the matter unnecessary engagement of consultant at Ministerial level besides making good the loss.

(Draft Para No. 262/2013-14)

14.4.2 Recurring annual loss due to non-upgradation of system - Rs.289.58 million

As per Para 4.1.6 of Distribution Rehabilitation Guidelines, "total time for completion of HT/LT proposals is 130 days".

In Construction Circle LESCO, 96 HT Proposals under head ELR/DOP duly approved by CEO LESCO were pending for execution for more than one to eleven years (since 2002). As per financial viability of these proposals, the cost benefit ratio was worked out as mentioned against each. Due to inordinate delay, the Company was deprived of annual envisaged benefits Rs.289.58 million.

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management replied that 11 HT proposals were completed, one HT proposal was under revision and two proposals were cancelled while remaining proposals were pending due to shortage of material.

DAC directed in its meeting held on February 6-7, 2014 to provide record of completed proposals and make efforts for timely completion of pending proposals.

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

(Draft Para No. 591/2013-14)

14.4.3 Recurring annual loss due to delay in completion of LT Proposals – Rs.250.06 million

As per Para 4.1.6 of Distribution Rehabilitation Guidelines, total time for completion of HT/LT proposals is 130 days.

In LESCO, 848 LT proposals under head ELR/DOP duly approved by Chief Executive Officer LESCO were pending for execution for more than one to eleven years. As per financial viability of these proposals, the cost benefit ratio was also worked out. Due to inordinate delay, the Company was deprived of annual envisaged benefits Rs.250.06 million during 2012-13.

The matter was taken up with the management during July to September, 2013 and reported to the Ministry in September, 2013. The management replied that 124 LT proposals were completed while efforts were being made to complete remaining works.

DAC directed in its meeting held on February 6-7, 2014 to provide record of completed action and finalized pending action within 15 days along with justification for non-completion of LT proposals.

Audit recommends to implement the DAC directives besides fixing the responsibility

(Draft Para No. 76, 259, 634 & 646/2013-14)

14.4.4 Blockage of funds owing to improper need assessment of electrical material – Rs.208.36 million

According to Para-5 of Memorandum dated January 17, 1978 on irregularities of purchases of stores and equipment, "purchases should be made only of such items and in such quantities as are required for a specific work. In no case should these purchases be made for storing an item for indefinite period".

In PMU LESCO, electrical material valuing Rs.208.36 million procured under IBRD Loan-7565 Pak was still lying unused from January, 2009 to March, 2012. The reasons of their non-issuance were not forthcoming from the record. Poor inventory management resulted in blockage of funds valuing Rs.208.36 million during 2012-13.

The matter was taken up with management in September, 2013 and reported to the Ministry in December, 2013. The management replied that the said material could not be utilized due to non-procurement of power transformers.

DAC directed in its meeting held on February 6-7, 2014 to expedite the utilization of idle material for completion of projects by early procuring of power transformers.

Audit recommends to investigate the matter for procurement of material without need assessment besides fixing the responsibility.

(Draft Para No. 782/2013-14)

14.4.5 Un-necessary procurement of 120 ton crane - Rs.157.56 million

According to Para-5 of Memorandum dated January 17, 1978 on irregularities of purchases of stores and equipment, "purchases should be made only of such items and in such quantities as are required for a specific work. In no case should these purchases be made for storing an item for indefinite period".

In LESCO Warehouse, one 120-ton truck mounted crane valuing Rs.157.56 million procured on June 24, 2011 was still lying in the warehouse un-issued/un-utilized. One of the reasons of its non-utilization might be its capacity and size not conforming to the operational environment of the executing formation. This resulted in unnecessary procurement of crane valuing Rs.157.56 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to the Ministry in December, 2013. The management replied that the proper utilization of such complicated equipment required trained and dedicated staff for its O&M. A dedicated team for O&M of this crane would be deputed after proper training.

DAC directed in its meeting held on February 6-7, 2014 to justify the non-utilization the crane since last two years.

Audit recommends to justify the unnecessary procurement of crane besides fixing the responsibility.

(Draft Para No. 780/2013-14)

14.4.6 Loss due to non-installation of capacitor at the 11 KV feeders - Rs.157.22 million

As per Chapter-3 (capacitor application) of Distribution Rehabilitation Guidelines, "Power factor improvement is an important distribution rehabilitation measure, which gives a high rate of return on investments. The losses in a distribution system can be reduced by installation of capacitors".

In Operation Circle Okara LESCO, on twenty eight 11 KV Feeders either capacitors were not installed or were out of order. This resulted in low power factor which indicated the wastage of power. The power worth Rs.157.22 million was wasted due to non-installation and operation of capacitors.

The matter was taken up with the management in August, 2013 and reported to the Ministry in December, 2013. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

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

(Draft Para No. 635/2013-14)

14.4.7 Loss due to non-finalization of insurance claims - Rs.108.24 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".

In GSO Circle LESCO, electrical equipment valuing Rs.108.24 million was damaged from August, 2001 to May, 2013 in 145 cases. Insurance claims of damaged material were registered with Director General Insurance but did not finalize. This resulted in loss of Rs.108.24 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to the Ministry in October, 2013. The management replied that the matter was in active pursuance with DG (Insurance) WAPDA through written requests.

DAC directed in its meeting held on February 6-7, 2013 to pursue the insurance claims vigorously.

Audit recommends pursue the cases vigorously besides fixing the responsibility.

(Draft Para No. 112/2013-14)

14.4.8 Irregular approval of LT proposals under system augmentation program-Rs.53.40 million

As per Distribution Rehabilitation Guidelines, such LT proposals should be executed, which give maximum technical as well as financial benefits. The required Benefit/Cost ratio for LT proposals is equal or more than one.

In Construction Circle LESCO, 98 LT proposals under System Augmentation Program (SAP) valuing Rs.53.40 million were approved by CEO which were carrying $\leq$ 1 cost benefit ratio. These proposals were not financially viable i.e. with less envisaged benefits than the expenditure. This resulted into irregular expenditure of Rs.53.40 million upto 2012-13.

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

Audit recommends to investigate the matter for fixing the responsibility.

(Draft Para No. 581/2013-14)

14.4.9 Wasteful expenditure incurred on rehabilitation due to the non-achievement of benefits - Rs.34.69 million

According to Clause-1.2 of Distribution and Rehabilitation Guidelines, reduction of power losses is one of the main objectives of distribution / rehabilitation.

In Construction Circle, LESCO, the percentage losses of four feeders was increased during 2012-13 (ranging from 13.2% to 24.4%) as compared to the previous year 2011-12 (ranging from 8% to 15.2%) despite incurring an expenditure of Rs.34.69 million on rehabilitation i.e. area planning, bifurcation and re-conductoring. Resultantly the objectives of the expenditure were not met and an amount of Rs.34.69 million had gone waste during 2012-13.

The matter was taken up with the management in July, 2013 and reported to the Ministry in November, 2013. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

Audit recommends to investigate the matter for fixing the responsibility for incurring of wasteful expenditure.

(Draft Para No. 586/2013-14)

14.4.10 Loss due to non-recovery from grid station consumers - Rs.23.55 million

As per Clause-1(b) Memorandum of Understanding (MoU) dated August 23, 2003, “the salaries/allowances, etc. of the staff for maintenance/operation and security of the grid station will be remitted by CAA to XEN SS&T Division South, LESCO on the basis of the pay scale as admissible to the officials on actual basis within one month after presentation of invoice”.

In GSO LESCO, an amount of Rs.23.55 million (from August 23, 2003 to March, 2013) was paid as salary to staff posted at consumer grid station on account of maintenance and service charge but did not recover from the Civil Aviation Authority (CAA) in violation of MoU which sustained a loss of

Rs.23.55 million.

The matter was taken up with the management in July, 2013 and reported to the Ministry in October, 2013. The management replied that the matter was under process with CAA in April, 2013 which would be finalized after approval of Secretary Defence.

DAC directed in its meeting held on February 6-7, 2013 to pursue the case with concerned quarter vigorously.

Audit emphasizes expeditious recovery from CAA besides fixing the responsibility.

(Draft Para No. 109/2013-14)

14.4.11 Non-recovery of LD – Rs.21.21 million

According to Clause-15-A (i) of purchase order, "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".

In LESCO, ten purchase orders for supply of store material were placed with different suppliers / contractors from July, 2012 to September, 2013 but the contractors could not supply the material within stipulated time period. As such they were liable to pay the LD amounting to Rs.21.21 million but nothing was recovered from contractor upto 2012-13.

The matter was taken up with the management in August, 2013 and reported to the Ministry in November, 2013. The management replied that LD charges amounting to Rs.15.63 million had been deducted from supplier while efforts were being made to recover the balance amount of Rs.5.58 million.

DAC directed in its meeting held on February 6-7, 2014 to provide recovery record and expedite the recovery of remaining LD charges.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 282/2013-14)

14.4.12 Loss due to inordinate delay for starting work of feeder - Rs.13.99 million

As per Para-4.1.6 of Distribution Rehabilitation Guidelines, "total time for completion of HT/LT proposals is 130 days".

In Construction Circle LESCO, two work orders were issued on June 30, 2011 for bifurcation of 11 KV City Manawala feeder emanating from 132 KV Grid Station Walgun Suhail (11 KV City Manawala and 11 KV Industrial) amounting to Rs.18.92 million. But in the severe situation of overloading work was not started upto June, 2013. This resulted in annual loss of Rs.13.99 million in the shape of line losses due to non-completion of work during 2012-13.

The matter was taken up with the management in September, 2013 and reported to the Ministry in December, 2013. The management replied that the work was delayed due to right of way problem.

DAC directed in its meeting held on February 6-7, 2014 to pursue the case with Civil Administration for clearance of site.

Audit recommends to expedite completion of proposals to escape the Company from further loss besides fixing the responsibility.

(Draft Para No. 642/2013-14)

14.4.13 Loss due to non-replacement of transformers damaged under warranty period - Rs.11.85 million

According to Clause-9 of warranty of Purchase Order, "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".

In LESCO, 47 transformers of different capacities worth Rs.11.85 million were damaged under warranty period and sent to manufacturers for replacement. The replacement transformers were not received from the manufacturers. Hence, the Company suffered a loss of Rs.11.85 million.

The matter was taken up with the management during August, 2013 and reported to the Ministry in September, 2013. The management replied that the 37 transformers were received back from manufacturers and efforts were being made to get back the remaining transformers.

DAC directed in its meeting held on February 6-7, 2014 to provide the record of transformers received and expedite the replacement of the remaining 10 transformers within 15 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 293/2013-14)

14.4.14 Loss of revenue due to non-replacement of sluggish energy meters - Rs.8.28 million

As per Section-6 of Part-IV of NEPRA Performance Standards (Distribution) Rules-2005, "a distribution company shall ensure any investigation and decision of dispute concerning metering, billing and electricity consumption charges are finalized within 21 days. The disputed meter shall be inspected by the authorized distribution company personnel within five days of receipt of the particular complaint".

In Operation Circle Okara LESCO, 489 obsolete and sluggish meters were pending for want of replacement from 4 to 12 months. The delay in replacement of meters resulted in lavish consumption and theft of energy amounting to Rs.8.28 million.

The matter was taken up with the management in August, 2013 and reported to the Ministry in October, 2013. The management replied that the sluggish meters would be replaced on availability of new meters in store.

DAC directed in its meeting held on February 6-7, 2013 to expedite the efforts to replace the meters as per NEPRA's instructions.

Audit recommends to replace the obsolete and sluggish meters without further loss of time besides fixing the responsibility.

(Draft Para No. 232/2013-14)

14.4.15 Loss due to excess expenditure incurred on village electrification - Rs.2.99 million

According to Authority's Circular dated January 11, 2010, "per house cost limit will be Rs.100,000 for Punjab."

In Construction Circle LESCO, ten village electrification schemes were sanctioned at an estimated cost of Rs.7.39 million in violation of cost criteria stated above as house cost was ranging from Rs.0.11 million to Rs.0.97 million. Thus, an amount of Rs.2.99 million was spent in excess of the per house cost limit.

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

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

(Draft Para No. 590/2013-14)

14.4.16 Loss due to non-recovery of capital cost from tube-well consumers – Rs.2.51 million

As per 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.

In Operation Circle Kasur LESCO, an amount of Rs.2.51 million was recoverable from the tube-well consumers as 75% capital cost. The management could not recover capital cost from consumers which resulted in non-recovery of Rs.2.51 million during 2012-13.

The matter was taken up with the management in July, 2013 and reported to the Ministry in November, 2013. The management replied that an amount of Rs.0.39 million was recovered while efforts were being made to recover the remaining amount.

DAC directed in its meeting held on February 6-7, 2014 to provide recovery record and finalized pending actions within 30 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 294/2013-14)

14.4.17 Unjustified expenditure on engagement of legal consultant - Rs.1.76 million

According to Rule-21 of PPRA Rules-2004, "the procurement agencies shall engage in open competitive bidding".

In LESCO, an amount of Rs.1.76 million was paid to M/s Cornelius Lane & Legal Advisors of LESCO for filing 271 inter court appeals against short order dated October 24, 2012 without open competition. In the presence of a legal fleet of lawyers on the roll of the Company and Legal Director hired on heavy market salary package and working with a complete set up. This resulted in unjustified expenditure of Rs.1.76 million during 2012-13.

The matter was taken up with management in August, 2013 and reported to the Ministry in December, 2013. The management stated that the matter would be revisited and final reply be submitted in due course of time.

DAC directed in its meeting held on February 6-7, 2014 to provide revised reply along with justification/documentation within 15 days.

Audit recommends to justify the unnecessary engagement of the consultant in violation of the PPRA Rules-2004 besides fixing the responsibility.

(Draft Para No. 777/2013-14)

14.4.18 Non-recovery from employees on account of misappropriation/ damage of electrical equipment - Rs.1.26 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".

In Operation Circle Northern LESCO, penalty for Rs.1.26 million was imposed on seven officials on account of misappropriation / damage of electrical equipment from October, 2012 to February, 2013 nothing was recovered. This resulted in non-recovery of Rs.1.26 million.

The matter was taken up with the management in August, 2013 and reported to the Ministry in October, 2013. The management replied that an amount of Rs.0.15 million was recovered from LESCO employees while efforts were being made to recover remaining amount.

DAC directed in its meeting held on February 6-7, 2013 to provide recovery record and expedite the recovery process for remaining amount.

Audit emphasizes expeditious recovery of penalty from employees.

(Draft Para No. 237/2013-14)

14.4.19 Loss due to wrong application of tariff - Rs.1.23 million

As per NEPRA Tariff Determination dated February 28, 2013:

i. A-2 tariff shall be applicable for supply to commercial office and commercial establishments and

ii. For the purposes of application of this tariff an "Industry" means a bona fide undertaking or establishment engaged in manufacturing, value addition and / processing of goods.

In Operation Circle Okara LESCO, telephone exchange was running under tariff B-2b (Industrial) instead of A-2b (Commercial) in violation to the rules. The Company sustained a loss of Rs.1.23 million due to wrong application of tariff for last ten years.

The matter was taken up with the management in August, 2013 and reported to the Ministry in October, 2013. The management admitted the audit point of view.

DAC directed in its meeting held on February 6-7, 2013 to change the tariff as per NEPRA's tariff and recover difference of cost of electricity.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 230/2013-14)

CHAPTER-15

MULTAN ELECTRIC POWER COMPANY LIMITED (MEPCO)

(221-244)

15. MULTAN ELECTRIC POWER COMPANY LIMITED

15.1 Introduction

Multan Electric Power Company Limited (MEPCO), registered under Companies Ordinance, 1984, started its operations as a Public Limited Company in May, 1998. The registered office of the Company is situated in Multan.

The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The jurisdiction of MEPCO includes eight Operation Circles, one Project Construction Circle, one Grid System Construction Circle and two Grid System Operation Circles. The Company had obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The Company purchases 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.

15.2 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
MEPCO	2000-01	5	1 (Para No. 109)	-	4 (Para No. 49, 55, 56 & 57)
	2004-05	1	-	-	1 (Para No. 14.5)
	2006-07	4	-	2 (Para No. 14.4 & 14.5)	2 (Para No. 14.6 & 14.7)
	2008-09	1	-	1 (Para No. 13.10)	-

Position of compliance with PAC directives is not satisfactory.

15.3 AUDIT PARAS

15.3.1 Embezzlement of revenue due to bogus scrolls and fake remittances against electricity bills - Rs.2.56 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".

In Operation Circle Bahawalpur MEPCO, an amount of Rs.2.56 million was misappropriated by Mr. Abdul Khaliq, LDC from June, 2011 to November, 2012 through bogus scrolls and fake remittances in monthly statements of Post Office Uch Sharif. The inquiry committee recommended legal and administrative action against the persons at fault but no action was initiated. This resulted in embezzlement of Rs.2.56 million during 2012-13.

The matter was taken up with the management in July, 2013 and reported to the Ministry in September, 2013. The management replied that the action against the official would be finalized at the earliest under intimation to Audit. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends that the management needs to expedite legal and administrative action besides making recovery of embezzled amount.

(Draft Para No. 11/2013-14)

15.3.2 Loss due to misappropriation of electrical material – Rs.59.05 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".

In MEPCO, 467 HT PCC Poles and 6,118 LT PCC Poles worth Rs.16.88 million were misappropriated by the contractor M/s ENKAY Enterprises during the year 2000. The Court decided the case for recovery on December 21, 2012 in favour of the Company with the direction to recover Rs.16.88 million along with interest @ 18% per annum as compensation i.e Rs.56.39 million. Similarly, 851 LT PCC Poles worth Rs.2.66 million were also misappropriated by the M/s Nimbus at PC Pole Plant D.G. Khan. No action was taken against the contractors to recover the amount which resulted in loss of Rs.59.05 million upto 2012-13.

The matter was taken up with the management during August and October, 2013 and reported to the Ministry in November, 2013. The management replied that action would be taken in the light of court decision. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious recovery from contractor/supplier besides fixing responsibility for delayed action.

(Draft Para No. 319 & 320 /2103-14)

15.3.3 Non-recovery of investment due to bankruptcy of Trust Investment Bank Limited - Rs.214.37 million

According to Finance Division Letter dated September 22, 2005 that "for the sake of the safety and security of deposits, the banks/ financial institutions taking a deposit should have a minimum "A" rating as appearing on the web-site of the Credit Rating Agency. This "A" rating refers to the rating scale used by Pakistan Credit Rating Agency and JCR-VIS Credit Rating Company for banks incorporated in Pakistan".

In MEPCO, a huge investment of Rs.200 million was made in Trust Investment Bank bearing rating A-3 by the then Finance Director without the prior approval of BOD. The Bank informed the Company on March 01, 2013 that they were unable to repay the amount including profit thereon of Rs.214.37 million due to liquidity crises. Neither the principal amount along with profit had been recovered from the Bank nor any legal action initiated against the defaulters so far. Poor financial management resulted in non-recovery of investment of Rs.214.37 million from the bank during 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. The management replied that the matter would be taken up with the HR&A Director and Company Secretary for taking action in the light of BOD decision. No further progress was intimated to Audit.

DAC was not convened by the department till the finalization of the report.

Audit recommends that management needs to take action in the light of BOD recommendations besides recovery of amount from the bank/persons at fault.

(Draft Para No. 568/2103-14)

15.3.4 Non-fixation of responsibility for irregular appointments – Rs.6.01 million

According to advertisement for the recruitment of staff in MEPCO published on November 03, 2008, "applications were required from the suitable candidates having domicile of MEPCO jurisdiction."

In MEPCO, 42 candidates were appointed on December 21, 2009, in violation of the terms & conditions of the advertisement i.e. having domiciles of other districts than MEPCO region. The appointments were declared malafide and void ab-initio by the Lahore High Court (Bahawalpur Bench) on July 20, 2010. Resultantly, all the appointments were cancelled but no departmental inquiry was initiated against the higher management for irregular recruitment involving a loss or Rs.6.01 million on account of pay and allowances upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. It was stated that reply would be given after consulting the record. No further progress was intimated to Audit.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter at Ministerial level for fixing responsibility of irregular appointment besides making the loss good.

(Draft Para No. 630/2013-14)

15.3.5 Un-justified expenditure on pay & allowances – Rs.4.19 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".

In MEPCO, Mr. Abdul Wahab S/o Muhammad Arab, appointed as Junior Engineer on March 28, 2002. The officer was terminated from service due to fake degree on December 26, 2011. The Company suffered a loss of Rs.2.50 million paid on account of pay and allowance upto December 26, 2011. No legal action was initiated against the ex-officer on account of bogus degree. Similarly, Mr. Sohail Abbas was promoted as Assistant Director from Steno Grade-I on January 02, 2010 without verification of certificates/degrees. On complaint in January 2013, an inquiry was constituted to look into the matter but verification of education degrees of the officer could not be verified from concerned Board and University to date. In the absence of verification of certificates/degrees, the expenditure incurred on the pay & allowances of Rs.1.69 million from January, 2010 to June, 2013 were quite irregular. Poor human resource management resulted in irregular expenditure of Rs.4.19 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. The management replied that in one case departmental action was finalized and legal action would be taken while in other case, the verification of Certificates/Degree was under process and progress achieved would be intimated to Audit accordingly. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter at Ministerial level for fixing responsibility of irregular appointment besides making the loss good.

(Draft Para No. 574 & 621/2013-14)

15.3.6 Loss due to fake appointment by management – Rs.1.67 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".

In MEPCO, three ALMs were appointed on December 21, 2009 on the basis of fake appointment letters. The joining of these employees was taken on the basis of photocopies of appointment letters. An amount of Rs.1.67 million was paid to these employees on account of pay and allowances from December 21, 2009 to January 08, 2013. The departmental proceedings were initiated against the responsible and decided in December, 2012 but actions against the defaulters were not finalized. Poor human resource management resulted in loss of Rs.1.67 million due to bogus drawl of pay and allowances upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. The management replied that the fact finding inquiry was completed and the action under E&D rules was under process. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter at Ministerial level for fixing responsibility of irregular appointment besides making the loss good.

(Draft Para No. 575/2013-14)

15.3.7 Recoverable amount of tariff subsidy from government – Rs.41,387.07 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".

In MEPCO, an amount of Rs.41,387.07 million was recoverable from the Governments of Punjab and Pakistan on account of tariff subsidy since July, 2010. The amount of outstanding dues was accumulating the circular debt which was required to be recovered to enable the Company to overcome its financial crises. This resulted in non-recovery of subsidy amounting to Rs.41,387.07 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. The management replied that the tariff subsidy had been released by the Government of Pakistan, however, the credit advice was awaited. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to take up the matter at Ministerial level for expediting the recovery of subsidy.

(Draft Para No. 629/2103-14)

15.3.8 Irregular payment on account of purchase of power from captive power producer -Rs.988.71 million

According to Clause-5 (Power Acquisition Contract), "before executing a power acquisition contract, a transmission company or a distribution company shall file its proposed power acquisition contract with the Registrar for its approval by the Authority. As per Clause-7 (1) of the NEPRA Regulation of Generation, Transmission and Distribution of Electric Power Act-1997, "the Authority shall be exclusively responsible for regulating the provision of electric power services".

In MEPCO, an agreement for purchase of 10.50 MW energy was singed with M/S Roomi Fabrics Limited on November 16, 2010 without approval of PAR from NEPRA. Hence, an amount of Rs.988.71 million paid to M/s Roomi Fabrics for the period from April 23, 2011 to August 30, 2013. This resulted in irregular payment of Rs.988.71 million to CPP upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. It was stated that reply would be submitted in due course of time. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter for fixing responsibility of irregular payment of Power Producer.

(Draft Para No. 571/2103-14)

15.3.9 Irregular purchases through repeat orders - Rs.703.08 million

As per Rule-42 (C) (iv) of PPRA Rules-2004, "repeat order should be given upto 15 percent of the original procurement".

In MEPCO, electrical material worth Rs.628.86 million was purchased through repeat orders from May, 2011 to February, 2013. These repeat orders were issued by enhancing the quantities by 25% of the original purchase orders. Similarly, HT/LT poles worth Rs.74.22 million were purchased through 100% repeat order dated April 29, 2013. This resulted in irregular procurement of electrical material through repeat orders of Rs.703.08 million during 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. It was stated that the CEO, MEPCO had accorded approval for repeat order of 15% in future in compliance of PPRA rules**.** The reply was not tenable as electrical material was procured through 25% repeat orders instead of 15% in violation of PPRA rules.

DAC was not convened by the department till the finalization of the report.

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

(Draft Para No. 562 & 564/2103-14)

15.3.10 Unjustified procurement of energy meters on uncompetitive rates - Rs.629.06 million

Section-4 (2) (a) of the Competition Commission of Pakistan Act-2010 prohibits agreements or even any conspiracy to enter into agreement, and concerted practices that have the objective or effect of preventing, restricting, or distorting competition within Pakistan, and in particular those which directly or indirectly fix purchase or selling prices or any other trading conditions. As per Clause-13.10 of the Tender Documents, "after opening the tender, if it is established that the Tenderers have quoted same/cartel/pooled price, then MEPCO reserves the right to scrap the tender and invite fresh tender."

In MEPCO, 337,500 single phase energy meters valuing Rs.629.06 million were purchased during September and November, 2012 through two tenders. All the suppliers quoted a pooled price of Rs.1,850 per unit and Rs.1,875 per unit respectively. Neither the tenders were scraped on account of pooled price nor the situation brought into the knowledge of Competition Commission of Pakistan for taking appropriate action to break the cartel of suppliers. This resulted in unjustified procurement of energy meters valuing Rs.629.06 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. It was stated that the rates were mostly low then other DISCOs. The reply was not tenable as the tenders were required to be scraped according to rules and matter should have been reported to the Competition Commission of Pakistan for taking appropriate action.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter for fixing responsibility of unjustified procurement.

(Draft Para No. 567/2103-14)

15.3.11 Purchase of sub-standard transformers - Rs.461.57 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".

In MEPCO, 2,188 distribution transformers of various capacities valuing Rs.461.57 million were purchased from three companies namely M/s Hammad, M/s A.B Ampere and M/s Pan Power International during January, 2010 to February, 2012. On complaint of using scrap/recycled material in manufacturing the matter was investigated through an inquiry committee as directed by PEPCO. As per recommendations of inquiry committee dated January 31, 2013, appropriate action was not taken against these companies. This resulted in procurement of sub-standard transformers valuing Rs.461.57 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. The management replied that case was under trial with NAB and progress would be intimated. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter at Ministerial level besides fixing the responsibility.

(Draft Para No. 310/2103-14)

15.3.12 Non-deposit of disputed amount in favour of MEPCO - Rs.126.70 million

According to Section-54(C) "Bar of Jurisdiction" of Electricity Act-1910, "50% of disputed amounts were required to be deposited in court in favour of WAPDA before filling the cases against WAPDA in Courts".

In Operation Circle Sahiwal MEPCO, an amount of Rs.253.40 million pertained to the subjudice cases as the consumers had gone into litigation against the Company without depositing 50% of the disputed amount of Rs.126.70 million in favour of the Company. This resulted in non-deposit of Rs.126.70 million in courts by the consumers during 2012-13.

The matter was taken up with the management in July, 2013 and reported to the Ministry in September, 2013. The management replied that MEPCO counsel would be directed for depositing 50% amount of bills in favour of MEPCO and progress would be intimated to Audit accordingly. No further progress was intimated to Audit.

DAC was not convened by the department till the finalization of the report.

Audit recommends to expedite the matter of getting deposit of disputed amount in favour of the Company.

(Draft Para No. 52/2013-14)

15.3.13 Irregular award of contract – Rs.108.64 million

According to Section-12(2) of PPRA Rules-2004, "all procurement opportunities over two million rupees shall 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 appear in at least two national dailies, one in English and the other in Urdu in principle."

In Construction Circle MEPCO, 50 tenders worth Rs.108.64 million were called for by the field formations for different works during the period 2012-2013 but these were not advertised on PPRA's website in contravention to the rules. This resulted in irregular award of work worth Rs.108.64 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to the Ministry in December, 2013. The management replied that the advertisement were published in newspaper through our publication department. However, in future advertisement would be published on PPRA's website. The reply was not satisfactory, as the PPRA Rules-2004 were not complied with.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter for fixing responsibility.

(Draft Para No. 761/2013-14)

15.3.14 Non-recovery of LD from the contractor – Rs.92.33 million

According to Clause-11A(i) of Purchase Order dated November 19, 2012, "LD will be calculated @ 0.2% per month or part thereof subject to the maximum upto 10% of contract price."

In MEPCO, a purchase order valuing Rs.65.75 million for supply of steel tubular poles was placed upon M/s M.H Associates on November 19, 2012. The contractor failed to supply the material within stipulated time. Similarly, seven work orders valuing Rs.857.58 million for construction of residential and non residential buildings at various grid stations were placed upon different contractors from October, 2010 to June, 2012. The contractors failed to complete the works within the stipulated time and the LD amounting to Rs.92.33 million was not recovered from the contractors upto 2012-13.

The matter was taken up with the management during August and October, 2013 and reported to the Ministry in November, 2013. The management replied that after receipt of delivery the LD would be deducted in accordance with the rules/ procedures. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious recovery of LD from supplier besides fixing the responsibility.

(Draft Para No. 316 & 695/2103-14)

15.3.15 Loss due to non-recovery of excess payment from captive power producer - Rs.91.54 million

According to Clause-7.3(a) (Chapter-II) of NEPRA Act-1997, Power and Function of NEPRA is "to determine tariff, rates, charges and other terms and conditions for supply of electric power services by the generation, transmission and distribution companies and recommend to the Federal Government for notification". As per Clause-15.3 of approval of PAR, NEPRA directed MEPCO to adjust payments, if any, made to RFL in the light of above order of the Authority from the date of supply of electricity.

In MEPCO, an agreement for purchase of 5 MW energy was made with M/s Roomi Fabrics on February 6, 2009 but the electricity tariff was determined without the approval of NEPRA. The Power Acquisition Request (PAR) was got approved from NEPRA on March 22, 2013, but the payment to the captive power producer was being made as per the previous agreement. This resulted in excess payment of Rs.91.54 million to the captive power producer upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management replied that the matter was subjudice.

DAC was not convened by the department till the finalization of the report.

Audit recommends to pursue the court case vigorously besides effecting expeditious recovery.

(Draft Para No. 632/2103-14)

15.3.16 Recoverable amount from consumers and employees – Rs.68.80 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 and GoP levied NJS @ Rs.0.10 per unit for construction of NJHPP". As per Section-III (C-1) of the WAPDA Book of Financial Power, "deposit work shall be undertaken only after getting the full amount of sanctioned estimate deposited with WAPDA, with an undertaking from the depositor to meet any variation." As per Special Condition of Supply under Tariff-E, "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".

In MPECO, an amount of Rs.68.80 million was recoverable from consumers and employees. Due to non-pursuance of recovery, such a huge amount had been blocked. This resulted in non-recovery of the Company's dues amounting to Rs.68.80 million during 2012-13 as detailed below:-

Sr. No.	Draft Para No.	Subject	Amount (Rs. in million)
1	48/2013-14	Non-recovery of supply charges against temporary connections	1.10
2	619/2013-14	Non-recovery of design service charges from consumer	1.23
3	622/2013-14	Non-recovery of GST & NJS from employees	66.47
		TOTAL	**68.80**

The matter was taken up with the management in August & October, 2013 and reported to Ministry during September to December, 2013. The management replied that efforts would be made to recover the amount from consumers. Free electricity was provided to WAPDA employees as per policy of the Authority.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious recovery from consumers and employees besides fixing the responsibility.

(Draft Para No. 48, 619 & 622/2013-14)

15.3.17 Non-recovery of GST claims from FBR – Rs.56.87 million

According to Section-10 Chapter-II of Sales Tax Act-1990," if the input tax paid by a registered person on taxable purchase made during a tax period exceeds the output tax on account of zero rated local supplies or export made during that tax period, the excess amount of input tax shall be refunded to the registered person not later than forty five (45) days of filing of refund claim".

In MEPCO, GST refund claims amounting to Rs.56.87 million were sent to Federal Board of Revenue (FBR) for re-imbursement but the same were not got refunded upto October, 2013. This resulted in non-recovery of GST claims amounting to Rs.56.87 million from FBR during 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. The management replied that the cases were regularly submitted to FD MEPCO for re-imbursement from FBR and progress would be intimated. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to expedite the recovery of GST claims.

(Draft Para No. 625/2013-14)

15.3.18 Un-necessary purchase of electrical material - Rs.55.92 million

According to Para-5 of memorandum dated January 17, 1978 relating to irregularities in purchases of stores equipment, "the material is required to be purchased keeping in view its maximum utilization in near future."

In MEPCO, electrical material worth Rs.55.92 million was classified as slow-moving/inactive and was lying in the stores since 1991 un-issued. This scenario indicated that the material in question was procured without assessing the actual demand. This resulted in blockage of funds amounting to Rs.55.92 million due to un-necessary purchase of electrical material upto 2012-13.

The matter was taken up with the management in October, 2013. The management replied that it was a continuous process and material was being allocated as per demand. The reply was not tenable as the procurement was not based on actual demand and anticipated consumption.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter for fixing responsibility of unnecessary procurement of material.

Draft Para No. 563/2103-14)

15.3.19 Loss due to non-replacement of material damaged during warranty period - Rs.31.73 million

According to Clause-7 (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 within 60 days after receipt at ex-works".

In MEPCO, 435 distribution transformers of different capacities valuing Rs.29.45 million and 1,127 energy meters of various types worth Rs.2.28 million were damaged under warranty period. But neither the supplier replaced the material nor cost thereof recovered from the supplier despite elapse of considerable time. This resulted in loss of Rs.31.73 million due to non-replacement of damaged material under warranty upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. The management replied that the firm was not on their panel and the matter would be taken with other DISCO for recovery of the cost of transformers. No further progress towards recovery was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter for non-replacement of electrical equipment from manufacturers besides fixing the responsibility.

(Draft Para No. 311 & 317/2103-14)

15.3.20 Excess expenditure over the deposited amount – Rs.23.86 million

According to Section-III- (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."

In MEPCO, an amount of Rs.44.44 million was incurred against 12 works against an estimated cost / deposited amount of Rs.20.58 million. The expenditure of Rs.23.86 million was incurred in excess of estimated cost / deposited funds which were not recovered from the sponsors. This resulted in non-recovery of Rs.23.86 million from sponsors during 2012-13.

The matter was taken up with the management in August, 2013 and reported to the Ministry in November, 2013. It was stated that reply would be submitted after consulting the record. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to recover the excess amount from the sponsors besides fixing the responsibility.

(Draft Para No. 623, 671, 762 & 763/2013-14)

15.3.21 Loss due to purchase of sub-standard LT TOU meters - Rs.17.43 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".

In M&T Circle MEPCO, 1,743 LT TOU meters valuing Rs.17.43 million were declared defective due to the reasons i.e. time and date upset, difference of T1 & T2, display washed out etc. This resulted in loss of Rs.17.43 million due to procurement of sub-standard meters upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. It was stated that the matter would be taken up with Material Management Directorate. M&T reports were continuously being sent to higher offices about poor standards of meters. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

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

(Draft Para No. 449/2103-14)

15.3.22 Non-return of electrical material to store - Rs.15.98 million

According to Distribution Store Manual, "the surplus / dismantled material is to be returned to store".

In MEPCO, 46 distribution transformers of different capacities were not returned to store after removal from sites against damaged / augmentation works. Moreover, dismantled / surplus electrical material from 15 rehabilitation works and redundant transmission line was not returned to store. Neither the material worth Rs.15.98 million was returned to store during 2012-13 nor any action taken against the responsible(s).

The matter was taken up with the management during July to October, 2013 and reported to the Ministry in September to December, 2013. The management replied that the record would be collected and progress would be intimated accordingly. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter for fixing the responsibility besides ensuring the return of damaged/dismantled material to store.

(Draft Para No. 64, 566, 719, 720, 751 & 764/2013-14)

15.3.23 Irregular expenditure on electrification of villages-Rs.10.47 million

According to the decision of meeting held in Ministry of Water & Power dated January 04, 2003, "the village electrification schemes submitted by MNAs directly to field formations should be routed through Ministry of Local Government and Rural Development".

In Construction Circle MEPCO, 24 village electrification schemes amounting to Rs.10.47 million were adjusted against savings of other village electrification schemes without prior approval of the Prime Minister's Secretariat. This resulted in irregular expenditure of Rs.10.47 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to the Ministry in December, 2013. It was stated that the reply would be given after consultation of record. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to justify the irregular expenditure besides fixating responsibility.

(Draft Para No. 774/2013-14)

15.3.24 Less recovery of security deposit from consumers - Rs.8.25 million

According to Special Conditions of Supply under Tariff -E of Schedule of Electricity Tariff MEPCO, "the supply shall not be given by the Company without first obtaining security equal to the anticipated supply and other miscellaneous charges for the period of temporary supply and temporary connections shall be allowed for a period of three months which may be extended on three months basis subject to clearance of outstanding dues".

In MEPCO, a temporary connection was sanctioned on March 19, 2013 for a load of 999-KW. An amount of Rs.11.01 million was required to be recovered but only an amount of Rs.2.76 million was recovered and the balance amount of Rs.8.25 million was not recovered during 2012-13 in violations of the rules.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. It was stated that reply would be submitted in due course of time. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious recovery of security deposit from consumers besides fixing the responsibility.

(Draft Para No. 633/2013-14)

15.3.25 Extra expenditure due to purchase of power transformers at higher rates - Rs.7.70 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".

In PMU MEPCO, Multan, a tender for purchase of ten power transformers was opened on May 30, 2007 wherein M/s Siemens was the lowest bidder with offered price of Rs.29.80 million per transformer. After negotiation with the three lowest firms, M/s PEL offered a reduced rate of Rs.28.90 million per transformer. The said tender was scraped on March 20, 2008 by the instructions of M.D PEPCO. A purchase order dated December 31, 2008 was awarded to M/s PEL @ Rs.29.67 million per transformer during re-tendering. This resulted in extra expenditure of Rs.7.70 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. The management replied that the Company made utmost efforts to purchase the material through 1st tender, however, PEPCO, did not agree to our proposal. The reply was not tenable as the

Company had to incur extra expenditure of Rs.7.70 million due to re-tendering.

DAC was not convened by the department till the finalization of the report.

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

(Draft Para No. 431/2013-14)

15.3.26 Loss due to out of circuit capacitors - Rs.5.57 million

As per Chapter-3 of Distribution Rehabilitation Guidelines, "power factor improvement is an important distribution rehabilitation measure, which gives a high rate of return on investments. The losses in a distribution system can be reduced by installation of capacitors".

In Operation Circle Sahiwal MEPCO, 100 capacitors were installed on required locations of 11KV feeders, out of which 60 capacitors were out of circuit due to damage. This resulted in low power factor which indicated the wastage of power worth Rs.5.57 million due to non-installation and operation of capacitors upto 2012-13.

The matter was taken up with the management in July, 2013. The management replied that 34 (11 KV) capacitors have been replaced and remaining would be replaced very soon. Documentary evidence in support of reply and further progress achieved was not intimated.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious installation of healthy capacitors besides fixing responsibility.

(Draft Para No. 760/2013-14)

15.3.27 Loss due to electrification of housing colonies under village electrification schemes -Rs.5.35 million

According to the instruction of Ministry of Water & Power dated August 18, 2008, "as far as new developed colonies are concerned, the respective developers would be responsible to provide electricity to the area."

In Construction Circle MEPCO, eight housing schemes were electrified under village electrification schemes in contravention to the instructions. Resultantly, the Company had to sustain a loss of Rs.5.35 million incurred on irregular electrification of housing schemes.

The matter was taken up with the management in August, 2013 and reported to the Ministry in December, 2013. It was stated that the reply would be given after consultation of record. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to justify the irregular expenditure besides fixing the responsibility.

(Draft Para No. 772/2013-14)

15.3.28 Irregular award of work - Rs.5.32 million

According to Rule-42 (d) of PPRA Rules-2004, “a procuring agency may engage in negotiated tendering with one or more suppliers or contractors with or without prior publication of a procurement notification. This procedure shall only be used when:-

(i) the supplies involved are manufactured purely for the purpose of supporting a specific piece of research or an experiment, a study or a particular development;

(ii) for technical or artistic reasons, or for reasons connected with protection of exclusive rights or intellectual property, the supplies may be manufactured or delivered only by a particular supplier;

(iii) for reasons of extreme urgency brought about by events unforeseeable by the procuring agency, the time limits laid down for open and limited bidding methods cannot be met. The circumstances invoked to justify extreme urgency must not be attributable to the procuring agency:

In GSC Circle MEPCO, a contract of Rs.11.71 million for construction of transmission line of 132-KV Grid Station Lal Sohanra - Kehror Pacca was awarded to M/s Al-Khurram Associates on January 17, 2012. An additional work amounting to Rs.5.32 million for construction of two friction type pile foundations of the same transmission line was also awarded to the same contractor on April 15, 2013 on negotiation basis. The management extended undue favor to the contractor by awarding additional work 45% of the original cost. This resulted in irregular award of work amounting to Rs.5.32 million upto 2012-13.

The matter was taken up with the management in September, 2013 and reported to the Ministry in December, 2013. The management replied that the additional work was awarded due to change in foundation design in the interest of Company. The reply was not tenable as the additional work was 45% of the original contract and it should have been awarded through open tendering.

DAC was not convened by the department till the finalization of the report.

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

(Draft Para No. 672/2013-14)

15.3.29 Non-encashment of performance bonds - Rs.4.27 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."

In MEPCO, six purchase orders were placed on different firms for supply of store material from April, 2008 to March, 2013. 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.4.27 million was en-cashed upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. The management replied that the notices had been served to firms and progress would be intimated to Audit. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to expedite encashment of performance bonds besides fixing the responsibility.

(Draft Para No. 569/2103-14)

15.3.30 Recoverable amount from Bank of Punjab - Rs.4.15 million

As per contents of performance guarantee issued by Bank of Punjab against Purchase Order dated May 26, 2011 issued to M/s Syed Bhais, Lahore, "the bank guaranteed to pay MEPCO an amount of Rs.4.15 million on first written demand and without cavil or argument on behalf the contractor."

In MEPCO, a purchase order valuing Rs.82.90 million was awarded to M/s Syed Bhais in May, 2011 for supply of 37,500 single phase static meters. The firm supplied only 8,000 energy meters instead of 37,500 energy meters. The CEO MEPCO accorded approval for encashment of performance guarantee of Rs.4.15 million of the firm issued by the Bank of Punjab, Lahore in August, 2012 but the Bank did not encash the performance guarantee. Poor financial and contract management resulted in non-encashment of performance guarantee of

Rs.4.15 million utpo 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. The management replied that the matter would be taken up with the State Bank of Pakistan and outcome would be intimated accordingly. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to pursue the case for encashment of bank guarantee through State Bank of Pakistan besides fixing the responsibility.

(Draft Para No. 321/2103-14)

15.3.31 Irregular award of contract for installation of turbine - Rs.2.65 million

According to the terms and conditions of the advertisement, "only those firms are eligible to participation in tenders who have installed at least one or more turbines in GSO formation of MEPCO"

In GSO Circle MEPCO, a contract valuing Rs.2.65 million for provision and installation of turbine at 132 KV Grid Station, Vehari was awarded to M/s Al-Fazal Trading Co. in July, 2013 as the contractor had no such requisite experience. Moreover, the work was awarded abnormally 41% below the BOQ rates with a special condition by specifying the vendor instead of manufacturer. This resulted in irregular award of contract valuing Rs.2.65 million during 2012-13.

The matter was taken up with the management in September, 2013 and reported to the Ministry in December, 2013. The management replied that the matter would be investigated and Audit would be informed accordingly. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

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

(Draft Para No. 680/2013-14)

15.3.32 Non-remittance in the Company's accounts by the banks – Rs.2.06 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".

In Operation Circle Multan MEPCO, an amount of Rs.2.06 million collected by the different banks on behalf of MEPCO were not remitted into the Company's main account. This resulted in non-remittance of Rs.2.06 million in the Company's accounts by the banks during 2012-13.

The matter was taken up with the management in August, 2013 and reported to the Ministry in September, 2013. The management replied that the cases would be referred to Finance Directorate for further process. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to recover the amount from banks besides fixing the responsibility.

(Draft Para No. 47/2013-14)

15.3.33 Blockage of unspent government funds - Rs.1.86 million

As per instruction issued by the Prime Minister' Secretariat Islamabad dated March 09, 2007, "the executing agencies are liable to retune the interest to the Government of Pakistan on the funds disbursed to them for development schemes for the period these funds remained unspent in the bank accounts of the executing agency and also refund the unspent amount to the Government of Pakistan".

In Construction Circle MEPCO, funds of Rs.1.86 million were allocated for electrification of two villages on September 25, 2011 but these funds remained un-utilized till June, 2013 as the schemes were already electrified. This resulted in blockage of government funds of Rs.1.86 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to the Ministry in December, 2013. It was stated that the reply would be submitted after consulting the record. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to justify the matter besides return of funds to the government.

(Draft Para No. 773/2013-14)

15.3.34 Loss due to non-pursuance of the civil suits – Rs.1.82 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".

In MEPCO, four civil suits involving an amount of Rs.1.82 million were lost in April, 2012 due to non-prosecution as well as non-production of evidences well in time by the field staff. The departmental proceedings were initiated against the responsible in January, 2013 but the fact finding report was still awaited. Poor management resulted in loss of Rs.1.82 million due to non-pursuance of civil suits in court of law upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in November, 2013. The management replied that the inquiry committee had already been constituted to fix the responsibility upon the defaulters and action would be taken in the light of recommendations of the inquiry committee. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

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

(Draft Para No. 576/2013-14)

15.3.35 Loss due to non-supply of vehicles by the supplier - Rs 1.77 million

According to the Clause-3 of the purchase order dated June 13, 2009, "the vehicles shall be supplied within 30 days as per existing policy of M/s Dewan Farooq Motors Ltd. Karachi for Government organization."

In MEPCO, a purchase order valuing Rs.15.07 million was placed upon M/s Hyundai Motors Multan on June 13, 2009 for supply of seventeen Shehzore Pickups and an amount of Rs.14.77 million was paid as advance. The firm supplied fifteen vehicles and remaining two vehicles were not supplied upto October, 2013. The Company filed a recovery suit for Rs.1.77 million of two vehicles which was decided in favour of the Company on April 9, 2012 by the court but the amount in question was not recovered upto 2012-13.

The matter was taken up with the management in October, 2013. The management replied that action would be taken in the light of court decision. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends expeditious recovery from supplier besides fixing the responsibility for advance payment without any guarantee.

(Draft Para No. 318/2103-14)

15.3.36 Non-recovery of penalty imposed on employees - Rs.1.62 million

According to the recommendations of the Inquiry Committee, "the loss of Rs.1.615 million was to be recovered from nine (9) officers/officials of MEPCO Sahiwal Division on account of drawl of bogus pay and allowances".

In MEPCO, an amount of Rs.1.62 million was recoverable from the employees on account of bogus drawl of pay and allowances which was not recovered upto October, 2013. This resulted in non-recovery of penalty of Rs.1.62 million from employees.

The matter was taken up with management in October, 2013 and reported to the Ministry in November, 2013. The management replied that the action would be taken according the recommendations of the inquiry committee. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to expedite the recovery from employees.

(Draft Para No. 627/2013-14)

15.3.37 Loss due to un-authorized payment of pay and allowances – 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".

In MEPCO, Mr. Muhammad Afzal, Sub-Engineer was un-authorizedly attached for working in the office of Secretary, WAPDA Employees Co-Operative Housing Society (WECHS) Multan, being private entity, on September 30, 2008. The official was still working there but the pay and allowances were being paid by MEPCO. Neither the pay and allowances amounting to Rs.1.40 million was recovered from the WECHS nor the official repatriated to parent office. This resulted in loss of Rs.1.40 million due to un-authorized payment of pay and allowances upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. It was stated that reply would be submitted in due course of time. No further progress was intimated.

DAC was not convened by the department till the finalization of the report.

Audit recommends to investigate the matter for fixing responsibility for un-authorized attachment of employee besides recovery of the amount from WECHS, Multan.

(Draft Para No. 674/2013-14)

15.3.38 Recoverable amount of standard rent from employees – Rs.1.30 million

According to the Clause-23 (2) of WAPDA Book of Financial Power, "any sum due to the Authority shall be recoverable as arrears of land revenues."

In MEPCO, an amount of Rs.1.30 million was recoverable from eleven officers/officials on account of standard rent. Efforts were not made to get the residencies vacated and recovery of the standard rent effected. This resulted in non-recovery of standard rent amounting to Rs.1.30 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to the Ministry in December, 2013. The management replied that the amount would be recovered and progress would be intimated to Audit accordingly. No further progress was intimated to Audit.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious recovery of standard rent from employees besides getting the residencies vacated.

(Draft Para No. 631/2013-14)

CHAPTER-16

PESHAWAR ELECTRIC SUPPLY COMPANY LIMITED (PESCO)

(247-267)

16. PESHAWAR ELECTRIC SUPPLY COMPANY LIMITED

16.1 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 Pakhtunkhwa (KPK). However, the business of FATA circle, which consists of tribal area of KPK, has been transferred to Tribal Areas Electric Supply Company Limited (TESCO) 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.

16.2 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	4	-	1 (Para No. 15.6)	3 (Para No. 15.5, 15.8 & 15.9)
	2005-06	1	1 (Para No. 11.2)	-	-
	2006-07	2	-	1 (Para No. 15.5)	1 (Para No. 15.4)
	2008-09	2	-	2 (Para No. 14.14 & 14.16)	

Position of compliance with PAC directives is not satisfactory.

16.3 AUDIT PARAS

16.3.1 Loss due to misappropriation of material - Rs.27.09 million

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

and the amount involved".

In PESCO, electrical material comprising distribution transformers, energy meters and other allied material valuing Rs.27.09 million was not utilized at sites / returned to stores. Hence, the electrical material was misappropriated. No departmental action was taken to get the material installed / returned to stores. This resulted in loss of Rs.27.094 million due to misappropriation of material upto 2012-13.

The matter was taken up with the management during April, 2012 to October, 2013 and reported to Ministry in October and November, 2013. The management replied that departmental and legal action was in process to decide the fate of loss. The majority of cases had been finalized.

DAC directed in its meeting held on December 4-5, 2013 to produce relevant record relating to finalized cases and expedite the action in remaining cases as per guidelines issued by the department.

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

(Draft Para No. 213, 216, 342, 376, 397 & 491/2013-14)

16.3.2 Loss due to unjustified credit to consumers - Rs.126.84 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".

In PESCO, an amount of Rs.126.84 million was credited unlawfully to various consumers. Hence undue favour was granted to the consumers by the management and the Company sustained a loss to the stated extent. No inquiry was conducted to fix the responsibility for unlawful credit to consumers. This resulted in loss of Rs.126.84 million due to un-justified credit of amount without energy units during 2012-13.

The matter was taken up with the management during July and October, 2013 and reported to Ministry in October and November, 2013. The management replied that concerned Superintending Engineers had been asked to finalize the matter and intimate to Audit.

DAC directed in its meeting held on December 4-5, 2013 to investigate the matter through an inquiry committee and provide report to audit within 30 days.

Audit recommends investigate the matter for fixing the responsibility besides making good the loss.

(Draft Para No. 223 & 352/2013-14)

16.3.3 Bogus booking of energy units - Rs.1.76 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".

In PESCO, thousands of energy units valuing Rs.1.76 million were credited to 151 consumers and the same were debited to other consumers by the Commercial Assistant from July to December, 2011. Departmental proceeding was initiated in July, 2013 but no action was finalized against the responsible. This resulted in bogus booking of energy units valuing Rs.1.76 million during 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that disciplinary action was initiated against employee at fault.

DAC directed in its meeting held on December 4-5, 2013 to finalize the pending actions within 30 days.

Audit recommends to expedite the action recommended by the inquiry committee besides making good the loss.

(Draft Para No. 344/2013-14)

16.3.4 Loss due to unjustified/irrational provision against bad debts - Rs.22,649.84 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".

In PESCO, provision for bad debts ranging from 15% to 100% was approved in the 24th meeting of BOD. As a result of approval and adoption of said policy. This resulted in loss of Rs.22,649.84 million due to unjustified provision of bad debts during 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that the percentage was based on aging of receivables and the amount was still receivable and was being pursued for recovery.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 30 days.

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

(Draft Para No. 306/2013-14)

16.3.5 Loss due to un-known status of static energy meters - Rs.516.89 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".

In M&T Circle PESCO, 16,487 static energy meters were received from circle offices and tested out of these, 7,863 meters were found tampered/burnt and 1,649 declared in "Ok" condition, whereas the whereabouts of remaining 6,975 meters were not evident from the record. The Company sustained loss of Rs.516.89 million due to carelessness and lack of vigilance as no responsibility was fixed upon the operational staff nor reported to the M&T office during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in October, 2013. The management replied that unserviceable/scrap meters were returned to regional store from time to time by the respective M&T circle.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

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

(Draft Para No. 113/2013-14)

16.3.6 Non-return of electrical material to store - Rs.321.32 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'.

In PESCO, 539 distribution / power transformers and allied electrical material valuing Rs.321.32 million was drawn against damaged / augmentation / rehabilitation works from store but the dismantled / damaged material was not return to store. This resulted in non-return of transformers and electrical material worth Rs.321.32 million to store during 2012-13.

The matter was taken up with the management during April, 2012 to October, 2013 and reported to Ministry in October and November, 2013. The management replied that some healthy transformers of different capacities were kept spare due to augmentation while others were being returned to store.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in respect of completed actions and finalize pending actions within 15 days.

Audit recommends to investigate the matter for fixing the responsibility besides ensuring the return of electrical material to store.

(Draft Para No. 207, 284, 308, 357, 359, 371, 373, 406 & 492/2013-14)

16.3.7 Loss due to substandard repair of transformers- Rs.228.45 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".

In M&T Circle PESCO, 3,537 transformers of different capacities were got repaired in WAPDA and private workshops respectively and jointly inspected by the M&T staff. 1,523 transformers valuing Rs.228.45 million were declared damaged due to loose connections on T/F bushing, dirty oil and weak insulation of winding, moisture in oil/carbonized and internal defect/short circuit, etc. This resulted in loss of Rs.228.45 million due to substandard repair of transformers during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in October, 2013. The management replied that the matter was not related to M&T Lab. It was the responsibility of concerned operation division to fix the responsibility for damages.

DAC directed in its meeting held on December 4-5, 2013 to investigate the matter through an inquiry committee and submit revised reply with documentation to Audit within 30 days.

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

(Draft Para No. 114/2013-14)

16.3.8 Loss due to abnormal T&T losses - Rs.123.22 million

As per Distribution Rehabilitation Guidelines issued by the General Manager (Operation) WAPDA, Lahore dated September 24, 2003, "the maximum voltage drop and Annual Energy Losses (AEL) for HT circuit (HT feeders) is 3% for rural/urban areas"

In GSO Circle PESCO, percentage of units lost in 66 grid stations ranged from 3.04% to 91.76% which was more than the permissible limit of 3%. This higher percentage of losses resulted in loss of 17.45 million energy units valuing Rs.123.22 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that T&T losses target could not be achieved due to the worst law and order situation in KPK.

DAC directed in its meeting held on December 4-5, 2013 to carry out analysis of ten feeders of highest losses in order to determine the percentage of actual losses within 30 days.

Audit recommends to implement the DAC directives.

(Draft Para No. 370/2013-14)

16.3.9 Irregular payment to the contractors - Rs.109.27 million

According to Article-2, Clause-2.1(3) of the contract agreement between PESCO and M/s BARQAAB, "the consultant was required to verify material consumption as per installation at site and prepare reconciliation statements."

In Construction Circle PESCO, an amount of Rs.109.27 million was paid to contractors from July, 2010 to January, 2011 without verification by the consultant in violation of the contract clause. This resulted in irregular payment of Rs.109.27 million to the contractor upto 2012-13.

The matter was taken up with the management in April, 2012 and reported to Ministry in November, 2013. The management replied that

M/s BARQAAB was not supposed to verify the contractor bills. It was the responsibility of the department.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

Audit recommends to investigate the matter for fixing responsibility.

(Draft Para No. 493/2013-14)

16.3.10 Unnecessary procurement of electrical material - Rs.88.47 million

According to Para-5 of Memorandum dated January 17, 1978 on irregularities of purchases of stores and equipment, "purchases should be made only of such items and in such quantities as are required for a specific work. In no case should these purchases be made for storing an item for indefinite period".

In PESCO, material worth Rs.88.47 million was lying in store since March, 2000. The material was purchased without necessity / demand in violation of the instructions which lost its value and warranty. This resulted in blockage of Authority's funds of Rs.88.47 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that purchases were made according to requirement and due to change in system, consumption of specific material was low.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

Audit recommends to justify unnecessary procurement besides fixing the responsibility.

(Draft Para No. 354/2013-14)

16.3.11 Loss on account of interest due to delay in completion of work – Rs.44.99 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".

In Construction Circle PESCO, a work was handed over for construction of 11 KV feeder at Nasirpur, G.T Road, Peshawar at a cost of Rs.1.91 million. The management failed to execute the work within the scheduled time limit, whereupon the consumer filed the case in honorable court of law for refund of capital cost which was decided in favour of consumer along with interest @18% per annum on September 19, 2012. The capital cost was refunded to consumer on July 5, 2013. No inquiry was initiated to fix the responsibility of the loss of Rs.44.99 million on account of interest due to non-execution of work upto 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in November, 2013. The management replied that only principal amount of Rs.1.91 million deposited by contractor had been refunded and interest amount neither been paid nor claimed by sponsor.

DAC directed in its meeting held on December 4-5, 2013 to investigate the matter through an inquiry committee and provide its report within 30 days.

Audit recommends to implement the DAC directives.

(Draft Para No. 400/2013-14)

16.3.12 Irregular expenditure due to delay in completion of works – Rs.36.59 million

As per Note-2, under Clause-B Section-II of the Delegation of Financial Power WAPDA revised upto 2003, "in case of excess expenditure more than 10% of Admn approval, approval of the next higher Authority shall be obtained".

In PESCO, 81 works were approved at an estimated cost of Rs.88.38 million. According to the procedure, the works were required to be completed within estimated cost and scheduled time but only 63 works were completed and remaining 18 works were still in progress since 1990. An amount of Rs.124.96 million was incurred against the estimated cost of Rs.88.38 million. Thus, an extra expenditure of Rs.36.59 million was incurred which needed to be regularized.

The matter was taken up with the management April, 2012 and July, 2013 and reported to Ministry in November, 2013. The management replied that works observed by Audit were capital works carried out under ADP out of capital fund. Hence, there was no financial loss to PESCO nor any recovery was due from any agency.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 30 days.

Audit recommends to investigate the matter for fixing the responsibility besides regularizing the extra expenditure.

(Draft Para No. 398 & 494/2013-14)

16.3.13 Illegal drawal of electrical material - Rs.28.88 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".

In PESCO, electrical material comprising transformers and conductors worth Rs.27.69 million was drawn since 2006 by field staff for rehabilitation work without prior approval of competent authority. The works were not completed upto October, 2013. An inquiry committee was constituted on April 30, 2013 but fact finding report was still awaited. Moreover, electrical material worth Rs.1.19 million was drawn against 17 works after their completion which was irregular. No departmental inquiry was initiated. This resulted in loss of Rs.28.88 million during 2012-13.

The matter was taken up with the management during April, 2012 and October, 2013 and reported to Ministry in November, 2013. It was stated that the final reply was under preparation.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

Audit recommends to investigate the matter for fixing the responsibility for illegal drawal of material besides making good the loss.

(Draft Para No. 307, 402 & 490/2013-14)

16.3.14 Unlawful new connection at the defaulter premises - Rs.25.49 million

According to Clause-2.3 (b) of Consumer Service Manual-2010, "an affidavit will be obtained from the owner of the premises that no connection existed previously at the premises for which connection is applied for and that he shall pay the Company any outstanding dues in respect of any previous connection which existed at the premises in question, if noticed later on."

In PESCO, a new electricity connection in the name of Ahmed Steel Mills was energized whereas an amount of Rs.25.49 million was outstanding against the same premises under name of Premier Steel Mills. Energization of new connection at the defaulter's premises was serious violation of Consumer Service Manual. This resulted in non-recovery of outstanding amount of arrears of Rs.25.49 million during 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that the case was under investigation with NAB, however, the connection was disconnected.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

Audit emphasizes expeditious recovery of outstanding amount from consumers besides fixing the responsibility.

(Draft Para No. 345/2013-14)

16.3.15 Loss due to payment of decrial amount to land owners - Rs.20.47 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".

In GSC Circle PESCO, an amount of Rs.20.47 million was paid to seven owners on account of decrial amount for delays in the payment of land compensation from July, 2012 to April, 2013. This resulted in loss of Rs.20.47 million due to unjustified payment of decrial amount to land owners during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management replied that LAC would be asked to go through the cases and furnish the comprehensive reply to Audit.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

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

(Draft Para No. 377/2013-14)

16.3.16 Loss due to time bared WEPS claims - Rs.19.64 million

According to General Manager (Ins & Pen) WAPDA office memo dated December 7, 2012, "if any case where the claim proforma is received after the period of six months of the date of loss or is incomplete and not completed within the period of six months then the claim will be treated as time bared."

In GSO Circle PESCO, 24 claims amounting to Rs.19.64 million pertaining to the period from August, 2007 to March, 2012 were not lodged with WEPS as per instructions of the Authority. This resulted in loss of Rs.19.64 million due to non-submission of claims as per procedure upto 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. It was stated that the reply was under preparation.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

Audit recommends to investigate the matter for fixing the responsibility for non-submission of insurance claims well in time besides making good the loss.

(Draft Para No. 372/2013-14)

16.3.17 Loss due to non-recovery of cost of substations and fixed charges - Rs.17.96 million

As per Schedule of Tariff issued by Government of Pakistan (Ministry of Water and Power) the load exceeding 25 KW falls under tariff B-2 (two part tariff for billing purpose).

In Operation Circle Mardan PESCO, 57 consumers got the load of energy connections sanctioned upto 10 KW under tariff B-1, without paying the sharing/full cost of the substations with connivance of technical staff. As per Maximum Demand Indicator (MDI) reading, the consumers extended the load of energy connections illegally beyond 25 KW without depositing cost of substation and fixed charges of Rs.17.96 million. This resulted in non-recovery of capital cost & fixed charges amounting to Rs.17.96 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that necessary notices would be issued for regularization of load and action would be taken as per rules.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

Audit recommends to regularize the connections as per SOP besides fixing the responsibility.

(Draft Para No. 246/2013-14)

16.3.18 Irregular issuance of transformer - Rs.13.75 million

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

In PESCO, transformers of various capacities worth Rs.13.75 million were issued from Field Store, D.I. Khan in March, 2010 and March, 2011 without fulfilling the codal formalities. Inquiry committee was constituted on May 15, 2013 for fixing responsibility on the official at fault and furnishing report within seven days however, the report was still awaited. This resulted in irregular issuance of transformers valuing Rs.13.75 million during 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that the matter would be investigated through high powered inquiry committee and Audit would be informed accordingly.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

Audit recommends to expedite the inquiry proceedings besides justifying the irregular issuance of transformers.

(Draft Para No. 339/2013-14)

16.3.19 Irregular procurement of laptops – Rs.11.60 million

According to the additional features of the tender document for the procurement of two hundred and fifty laptops: All relevant software will be installed in laptops, supplier must have proper office setup in Peshawar from last 7 years and must be an authorized dealer for manufacturer / company, 3 years insurance against theft/breakage / loss to be with parts, service and batter life minimum 3 hours (from insurance company end), trouble shooting and replacement policy, 24 hours within Peshawar and 48 hours outside Peshawar and one day trainings of all officer of PESCO in all circles.

In PESCO, 250 laptops (Core i-3, 2nd Generation) worth Rs.11.60 million were procured from M/s Lucid Technology Lahore through purchase order dated January 10, 2013. The procurement was made from the supplier who was not Peshawar based and he also failed to provide training and insurance coverage. The management also preferred the procurement of the older technology of Core i-3 2nd Generation (Sandy Bridge) over the advanced technology of Core i-3 2nd Generation (Ivy Bridge). This resulted in procurement of irregular and outdated laptops amounting to Rs.11.60 million during 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that the purchase had been made in transparent manner and no violation of PPRA Rules-2004 had been committed.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 30 days.

Audit recommends to investigate the matter for fixing the responsibility besides justifying the irregular procurement.

(Draft Para No. 378/2013-14)

16.3.20 Unjustified expenditure on engagement of consultants - Rs.10.74 million

According to Rule-21 of PPRA Rules-2004, "the procurement agencies shall engage in open competitive bidding relating to procurement of material, execution of works and hiring of services".

In Construction Circle PESCO, an amount of Rs.10.74 million was paid to M/s BARQAAB Consultants on account of consultancy services for Rural Electrification Program (REP), System Augmentation Program (SAP) and deposit works by direct contracting instead of open tendering. Violation of PPRA Rules-2004 resulted in unjustified expenditure of Rs.10.74 million during 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in November, 2013. The management replied that the para would be referred to M/s BARQAAB for detailed reply.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

Audit recommends to investigate the matter for fixing the responsibility for non-observance of PPRA Rules-2004.

(Draft Para No. 399/2013-14)

16.3.21 Undue benefit given to consumers on account of capital cost – Rs.10.13 million

According to Director General (Commercial) WAPDA office letter dated November 11, 2006, "it was clarified that industrial connections having load upto

10 H.P. (7.46 KW) can be given from the exiting transformer, if the required load is available but the transformer will not be augmented to give such connections".

In Operation Circle Mardan PESCO, the sanctioned load of 54 consumers was upto 7 KW but they utilized load ranging from 8 to 24 KW. Cost of substation and additional security was recoverable from consumer as per SOP which was not recovered. This resulted in non-recovery of capital cost of Rs.10.13 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that action would be taken according to Authority's instructions.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

Audit recommends to regularize the connections besides fixing the responsibility.

(Draft Para No. 336/2013-14)

16.3.22 Non-recovery of LD from supplier – Rs.7.21 million

According to Purchase Order Clause-14-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".

In PMU PESCO, a purchase order for supply of store material was placed with M/s Shamxi Herong Electric Group, China on October 29, 2010 but the contractors could not supply the material within stipulated time period. As such, the supplier was liable to pay the liquidated damages amounting to Rs.7.21 million which was not done. This resulted in non-recovery of liquidated damages amounting to Rs.7.21 million during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013. It was stated that the liquidated damages were adjusted through JV.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 30 days.

Audit emphasizes expeditious recovery of LD from supplier besides fixing the responsibility.

(Draft Para No. 384/2013-14)

16.3.23 Non-recovery from employees on account of store shortages - Rs.6.31 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".

In PESCO, an amount of Rs.6.31 million was imposed as penalty by the competent authority upon various employees on account of shortage/ misappropriation of electrical material. But no recovery was made from the employees. This resulted in non-recovery from employees of Rs.6.31 million on account of store shortages during 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in October and November, 2013. The management replied that recovery from officers/officials were being made.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in respect of completed actions and finalize pending actions within 15 days.

Audit emphasizes expeditious recovery besides fixing the responsibility.

(Draft Para No. 194 & 403/2013-14)

16.3.24 Non-recovery of standard rent - Rs.5.11 million

According to clarification given by the Director Finance (Regulation), WAPDA Lahore vide letter dated January 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."

In PESCO, an amount of Rs.5.11 million was lying outstanding against nine PESCO employees living in WAPDA colonies from November, 1993 to June, 2013 beyond their entitlement. The said amount was required to be recovered which was not done. This resulted in non-recovery of standard rent Rs.5.11 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that the matter of recovery of standard rent would be inquired and Audit would be informed accordingly.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

Audit emphasizes expeditious recovery of standard rent besides fixing the responsibility.

(Draft Para No. 343/2013-14)

16.3.25 Loss due to non-replacement of transformers damaged under warranty period - Rs.4.36 million

According to the Warranty Clause-9 "the contractor will provide a 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 12-months from the date of completion of supply, contractor will be held responsible for all losses and that the unacceptable goods shall be substituted with the acceptable goods at contractor's expense and cost".

In PESCO, 13 transformers of various capacities worth Rs.4.36 million were damaged under warranty period. The transformers were not got replaced from the manufacturer. This resulted in loss of Rs.4.36 million due to non-replacement of transformers damaged under warranty period during 2012-13.

The matter was taken up with the management during August and October, 2013 and reported to Ministry in October, 2013. The management replied that all the transformers were returned to store for replacement from manufacturers.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 15 days.

Audit recommends to expedite the replacement of transformers from manufacturers besides fixing the responsibility.

(Draft Para No. 197/2013-14)

16.3.26 Non-recovery of sharing cost of grid station - Rs.4.07 million

According to Clause-3 of General Manager (C&M) Power WAPDA, WAPDA House, Lahore office memo dated 02.01.2003, "sharing cost of Grid Station and cost of land shall be recovered as:

i) 50% of the cost shall be borne by WAPDA,

ii) 25% of the cost shall be paid by the sponsors of Housing Society (ies) i.e. in lump sum in advance,

iii) 25% of the cost shall be recovered from the plot owners at the time of giving new connections to them".

In PESCO, 13 housing schemes, flats and towers were completed but recovery of 25% cost sharing of grid station on the part of individual plots owners was not evident from the record. This resulted in non-recovery of sharing cost of grid station of Rs.4.07 million during 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management stated that final reply was under preparation.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

Audit emphasizes expeditious recovery of sharing cost from consumers besides fixing the responsibility.

(Draft Para No. 305/2013-14)

16.3.27 Loss due to low profit rate on invested amount - Rs.3.69 million

According to Ministry of Finance OM dated July 02, 2003, "in case total working balance exceeds Rs.10 million, not more than 50% of such balance, shall be kept with one bank. The selection of the bank as well as the terms of deposit will be approved by the concerned Board of Directors/Governing Body on the basis of competitive bids at least three independent banks".

In GSC PESCO, an amount of Rs.122.88 million (on average for 12 months) meant for the land acquisition, was deposited into Allied Bank Limited at the profit rate of 8% only without any bidding or market comparison of profit rate. The Company sustained a loss of Rs.3.69 million as a difference of profit rate from 8% to 11% per annum. This resulted in loss due investment at low profit and irregular placement of funds amounting to Rs.3.69 million during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in October, 2013. The management replied that fifty percent of deposited amount would be transferred to another bank after obtaining profit rate from various banks or this amount would be transferred to treasury after approval and receiving profit.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

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

(Draft Para No. 218/2013-14)

16.3.28 Unjustified written off receivables from the permanent disconnected consumers - Rs.3.24 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".

In Operation Circle Bannu, PESCO, an amount of Rs.3.24 million relating to 53 permanent disconnected/defaulters of industrial and agricultural consumers was written off without approval of the competent authority. This resulted in written off receivables of Rs.3.24 million from the permanent disconnected consumers during 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in October, 2013. The management replied that matter would be investigated through an inquiry committee and outcome would be intimated to Audit.

DAC directed in its meeting held on December 4-5, 2013 to finalize the inquiry proceedings and submit revised reply with justification/ documentation to Audit within 30 days.

Audit recommends to implement the DAC directives besides justifying the written off amount in question.

(Draft Para No. 193/2013-14)

16.3.29 Misuse of public funds due to illegal electrification of housing schemes - Rs 2.48 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".

In PESCO, an amount of Rs.2.48 million was spent on electrification of four private housing schemes and PTDC Hotel, Mingora from the funds meant for village electrification. Departmental action was initiated on December 5, 2012 and February 14, 2013 which was not finalized. This resulted in misuse of public fund of Rs.2.48 million during 2012-13.

The matter was taken up with the management during July and October, 2013 and reported to Ministry in November, 2013. The management replied that the matter was under investigation by an inquiry committee.

DAC directed in its meeting held on December 4-5, 2013 to finalize investigation and provide copy of inquiry report to Audit within 30 days.

Audit recommends to expedite the inquiry proceedings besides justifying the misuse of public funds.

(Draft Para No. 349 & 405/2013-14)

16.3.30 Loss due to non-installation of independent transformers - Rs.2.98 million

According to Authority's instructions issued vide letter dated November 21, 2006, "industrial connections having load upto 10 HP (7.46 KW) can be given from the existing transformer, if the required load is available but the transformer will not be augmented to give such connection"

In Operation Circle Peshawar PESCO, 17 shopping plazas having load above 15 KW were electrified from the general distribution transformers. The management extended undue favour to the consumers by not providing them with independent transformers valuing Rs.2.98 million. This resulted in loss of Rs.2.98 million due to non-installation of independent transformers during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in October, 2013. The management replied that matter would be inquired on case to case basis and action would be taken as per SOP.

DAC directed in its meeting held on December 4-5, 2013 to finalize inquiry proceedings and submit revised reply along with justification/ documentation within 30 days.

Audit recommends to expedite the inquiry proceedings besides making good the loss.

(Draft Para No. 209/2013-14)

16.3.31 Unjustified extension in time to the supplier - Rs.2.24 million

According the Delivery Clause-2(b), "full consignment is to be supplied to consignee i.e. Manager (MIS) Peshawar Computer Center, WAPDA House Peshawar with the following delivery schedule: 1st consignment 50% within 25 days from the date of issuance of PO; 2nd consignment 50% within 45 days from the date of issuance of PO. As per Failure and Termination Clause-12 (iii), "the contract would be terminated at contractor's risk and cost".

In PESCO, a purchase order valuing Rs.2.24 million for supply of computer stationery items was issued to M/s Farhan Raza Printers, Islamabad on May 03, 2006. The supplies were to be completed within 45 days but the same was not done. Instead of canceling the contract at the supplier's risk and cost, the BOD accorded approval for extension in time on May 28, 2013 after seven years of issuance of purchase orders which was not justified. This resulted in undue favor to the contractor amounting to Rs.2.24 million upto 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. It was stated that final reply was under preparation.

DAC directed in its meeting held on December 4-5, 2013 to submit revised reply with justification/documentation to Audit within 15 days.

Audit recommends to investigate the matter for fixing the responsibility besides justifying the grant of extension in time.

(Draft Para No. 340/2013-14)

16.3.32 Illegal electrification of village - Rs.1.83 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".

In PESCO, a project of electrification of village Markhan Godar was approved under rural electrification program during 2007 but material worth Rs.1.83 million provided in estimate was used to electrify another village Ashar Bantar. Inquiry committee was constituted on February 25, 2013 for probing the matter within seven days but fact findings report was still awaited. This resulted in illegal electrification of village amounting to Rs.1.83 million during 2012-13.

The matter was taken up with the management in October, 2013 and reported to Ministry in November, 2013. The management replied that the matter was under investigation by an inquiry committee.

DAC directed in its meeting held on December 4-5, 2013 to finalize the investigation and submit the report to Audit within 30 days.

Audit recommends to expedite the inquiry proceedings besides justifying the irregular electrification.

(Draft Para No. 350/2013-14)

16.3.33 Irregular grant of private tube well connections - Rs.1.16 million

According to Director General (Commercial) WAPDA, letter dated March 11, 2006, "the tube well connections should not be granted from the transformers meant for electrification of village / dera."

In Bannu Circle PESCO, two private tube wells connections were approved by utilizing the transformers dedicated for village electrification instead of recovering the cost of sub-stations and electrical equipment amounting to Rs.1.16 million from the consumer. This resulted in irregular grant of private tube well connections amounting to Rs.1.16 million during 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in October, 2013. The management replied that the matter would be investigated through an inquiry committee.

DAC directed in its meeting held on December 4-5, 2013 to finalize the inquiry proceedings and submit its report to Audit within 30 days.

Audit recommends to investigate the matter for fixing the responsibility besides recovering capital cost from consumers.

(Draft Para No. 192/2013-14)

CHAPTER-17

QUETTA ELECTRIC SUPPLY COMPANY LIMITED (QESCO)

(271-276)

17. QUETTA ELECTRIC SUPPLY COMPANY LIMITED

17.1 Introduction

Quetta Electric Supply Company Limited (QESCO) 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 Quetta.

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 the Company 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 Dispatch Company (NTDC) and sells it to the consumers in the Province of Baluchistan.

QESCO receives supply from NTDC on 220 KV Grid Stations at Sibi and Quetta. The jurisdiction of QESCO includes four Operation Circles, one Grid System Construction Circle, one Construction Circle and one Grid System Operation Circle.

17.2 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
QESCO	1996-97	1	1 (Para No. 10)	-	-
	2000-01	1	1 (Para No. 69)	-	-
	2006-07	4	1 (Para No. 16.7)	1 (Para No. 16.6)	2 (Para No. 16.4 & 16.5)

Position of compliance with PAC directives is not satisfactory.

17.3 AUDIT PARAS

17.3.1 Loss due to misappropriation of electrical material by contractors – Rs.8.99 million

According to 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”.

In QESCO, electrical material worth Rs.8.99 million was drawn in excess of actual requirement by the contractors which were not returned to store. This resulted in a loss of Rs.8.99 million due to misappropriation of material during 2012-13.

The matter was taken up with management during July and August, 2013 and reported to Ministry in September, 2013. The management replied that all the material had been recovered from contractors.

DAC directed in its meeting held on December 30-31, 2013 to provide relevant record in support of reply within 15 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 28 & 89/2013-14)

17.3.2 Non-refund of excessively paid GST - Rs.10,891.71 million

According to Para-28 (1) of Sales Tax Rules-2006, "monthly sales tax return filed by a claimant shall be treated as a refund claim once all the supportive documents including the requisite data in the format or software (RCPS) has been received.

In QESCO, a huge amount of Rs.10,891.71 million was lying outstanding for want of refund from FBR on account of GST excessively credited to FBR. The amount was required to be received through GST refund claims. Non-claiming of excessively paid GST resulted in blockage of funds to the tune of Rs.10,891.71 million upto 2012-13.

The mater was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management replied that the case of receivable from FBR for an amount of Rs.10,891.71 million was under process and the progress / status of the case would be intimated to Audit.

DAC directed in its meeting held on December 30-31, 2013 to expedite the finalization of GST claims with FBR within 30 days.

Audit recommends to expedite the matter for claiming of GST with FBR besides fixing the responsibility.

(Draft Para No. 617/2013-14)

17.3.3 Loss due to non-realization of GST from consumers - Rs.8,366.97 million

According to 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".

In QESCO, a huge amount of GST Rs.8,366.97 million appearing in trial balance upto May, 2013 was not yet realized/recovered from the consumers. The Company was paying GST to the FBR on the basis of assessment instead of actual realization of GST from consumers. The amount of GST paid to FBR but not yet collected/recovered from the consumers was accumulated to Rs.8,366.97 million. This resulted in loss of Rs.8,366.97 million due to non-realization of GST from consumers upto 2012-13.

The mater was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management replied that the amount of GST not yet realized was receivable from consumers and the Company was making efforts for recovery.

DAC directed in its meeting held on December 30-31, 2013 to expedite the finalization of GST claim with FBR within 30 days.

Audit recommends to investigate the matter for fixing responsibility besides justifying the delay in realization of GST from consumers.

(Draft Para No. 616/2013-14)

17.3.4 Blockage of the Company's funds - Rs.360.77 million

According to Para-5 of memorandum dated January 17, 1978, "the material is required to be purchased keeping in view its maximum utilization in near future".

In PMU QESCO, electrical material valuing Rs.360.77 million comprising transformers, meters, clamp, conductor, insulator, steel structure, etc. were procured under ADP loan during December, 2009. The electrical material was lying unconsumed since the date of procurement. Non-utilization of material revealed that un-necessary procurement was made resulting into blockage of company's funds amounting to Rs.360.77 million.

The matter was taken up with management in July, 2013 and reported to Ministry in October, 2013. The management replied that material mentioned in para was procured to utilize the loan amount but could not install on time due to worst law and order situation.

DAC directed in its meeting held on December 30-31, 2013 to conduct physical checking of the material and submit report to Audit within 30 days.

Audit recommends to investigate the matter for fixing the responsibility besides justifying the procurement of unnecessary electrical material.

(Draft Para No. 149/2013-14)

17.3.5 Recoverable amount of GST Rs.316.09 million and unjustified/wrongly written off electricity dues – Rs.1,975.57 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."

In QESCO, electricity dues of Rs.1,975.57 million against the departments of Provincial Government were written off through CP-139 as whole instead of consumers wise through Adjustment Notes (CP-52). Hence, unjustified/wrongly written off electricity dues not only deprived the Company of its revenue of Rs.1,975.57 million but put the loss of Rs.316.09 million paid to FBR as GST on accrual basis at the time of billing. This resulted in recoverable GST of Rs.316.09 million from FBR and unjustified/wrongly written off electricity dues of Rs.1,975.57 million upto 2012-13.

The mater was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management replied that matter regarding recoverable amount of GST was under pursuance with FBR through Finance Director.

DAC directed in its meeting held on December 30-31, 2013 to complete pending actions and provide minutes of the meeting for written off recoverable amount within 15 days.

Audit recommends to investigate the matter through high power committee for fixing the responsibility regarding unjustified written off the Company's revenue.

(Draft Para No. 593/2013-14)

17.3.6 Non-return of public funds - Rs.106.90 million

According to the Supreme Court of Pakistan's decision dated July 22, 2013, "if such schemes are found not to be in the public interest or feasible, the same shall be abandoned subject to the approval of the competent authority i.e. on whose behalf the schemes were initiated; and the funds so made available shall be deposited with public exchequer."

In Construction Circle QESCO, an amount of Rs.112.20 million for 65 electrification schemes (PWP-I & II) was received from November, 2012 to April, 2013. Only one scheme was completed and in the other schemes poles were erected at an expenditure of Rs.5.30 million upto May 06, 2013. The balance funds of Rs.106.90 million pertaining to 63 schemes were required to be returned to the public exchequer which was not done. This resulted in non-return of public funds amounting to Rs.106.90 million during 2012-13.

The matter was taken up with the management in August, 2013 and reported to Ministry in November, 2013. The management replied that funds had not yet been credited to PD Construction.

DAC directed in its meeting held on December 30-31, 2013 to finalize pending actions within 30 days.

Audit recommends to investigate the matter for fixing the responsibility besides ensuring the return of public funds into Government Treasury.

(Draft Para No. 290/2013-14)

17.3.7 Loss due to non-replacement of transformers damaged under warranty period - Rs.20.41 million

According to the Warranty Clause-9 "the contractor will provide 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 12 months from the date of completion of supply, contractor will be held responsible for all losses and that the unacceptable goods shall be substituted with the acceptable goods at contractor's expense and cost".

In QESCO, 57 transformers of various capacities worth Rs.20.41 million were damaged under warranty period. The transformers were not got replaced from the manufacturer. Hence, the Company suffered a loss to the stated extent. This resulted in loss of Rs.20.41 million due to non-replacement of transformers damaged under warranty period during 2012-13.

The matter was taken up with the management during July and September, 2013 and reported to Ministry in September and November, 2013. The management replied that the major portion of the material had been received back and the efforts were being made to get back the remaining portion of material from supplier.

DAC directed in its meeting held on December 30-31, 2013 to provide relevant record for completed actions and insert Clause-for specifying time period for replacement of transformers in purchase orders.

Audit recommends to expedite the replacement of transformers from manufacturers besides fixing the responsibility.

(Draft Para No. 90, 447 & 553/2013-14)

17.3.8 Non-recovery of GST and NJS from employees – Rs.14.80 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."

In QESCO, GST amounting to Rs.13.48 million was paid to FBR on supply of free electricity to the Company employees. GST and other taxes was the responsibility of employees instead of employer i.e. purchaser not seller. The management was required to recover the amount from the employees. Moreover, an amount of Rs.1.32 million was also not recovered from the employees on account of NJS. This resulted in non-recovery of Rs.14.80 million from the employees during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management replied that free electricity was provided to WAPDA employees as per policy of the Authority.

DAC directed, in its meeting held on December 30-31, 2013, the Internal Audit to take up the case with Ministry for review of policy.

Audit emphasizes expeditious recovery from employees besides fixing the responsibility.

(Draft Para No. 445 & 555/2013-14)

CHAPTER-18

SUKKUR ELECTRIC POWER COMPANY (SEPCO)

(279-289)

18. SUKKUR ELECTRIC POWER COMPANY LIMITED

18.1 Introduction

Sukkur Electric Power Company Limited (SEPCO) started its operation as a Public Limited Company in 2011and 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). 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 dispatched energy to SEPCO from its two 500 KV Grid Stations Dadu & Jamshoro and three 220 KV Grid Stations situated at Lodra (Shikarpur). SEPCO also received 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.

18.2 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
SEPCO	2006-07	5		1 (Para No. 11.4 & 11.9)	3 (Para No. 11.6, 11.8 & 11.12)

Position of compliance with PAC directives is not satisfactory.

18.3 AUDIT PARAS

18.3.1 Loss due to misappropriation of GP Fund deductions – Rs.5.68 million

According to Section-2.3.3 of Accounting Manual (Vol-I), “for GPF and WWF, the DISCO makes deduction from salaries of the employees and remits these amounts to the funds established by WAPDA through their allotted GPF / EFP number.”

In Operation Circle Sukkur SEPCO, an amount of Rs.5.68 million deducted from salaries of the employees on account of GP Fund was not remitted to DG Funds WAPDA House, Lahore since February, 2010. No action was taken by the management against delinquents. This resulted in loss of Rs.5.68 million due to non-remittance of GP Fund deductions upto 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in November, 2013. The management replied that the matter was under the inquiry proceedings/FIA and the honorable Sindh High Court, Sukkur and further steps would be taken after finalization of the matter.

DAC directed in its meeting held on December 30-31, 2013 to provide the copy of inquiry committee’s report, conduct special audit by Internal Audit for the entire period and take up the matter with State Bank of Pakistan for taking action against the concerned bank within 30 days.

Audit recommends to implement the DAC directives besides ensuring the recovery of loss from delinquents.

(Draft Para No. 507/2013-14)

18.3.2 Irregular/excess payment to CPPs – Rs.777.98 million

According to Clause-7.3(a), Chapter-II of NEPRA Act-1997, Power and Function of NEPRA is “to determine tariff, rates, charges and other terms and conditions for supply of electric power services by the generation, transmission and distribution companies and recommend to the Federal Government for notification”. As per Clause-23 of approval of Power Acquisition Request dated January 9, 2013, NEPRA directed SEPCO to adjust payments, if any, made to CPPs in the light of above order.

In SEPCO, two power purchase agreements (PPA) were made with M/s Shikarpur Power and M/s Dadu Energy for purchase of 16 MW and 19.2 MW respectively on September 7, 2010 but the electricity tariff was determined without the approval of NEPRA. The PAR was got approved from NEPRA on January 9, 2013 at rates lower than that determined in PPA but the payment to the captive power producer was being made as per the previous agreement. This resulted in irregular / excess payment of Rs.777.98 million upto June, 2013.

The matter was taken up with the management in September, 2013 and reported to Ministry in December, 2013. The management replied that the payments were made as per agreements made between SEPCO and CPPs and subject to re-adjustable as per tariff determination by NEPRA. Meanwhile, the Sindh High Court suspended the tariff determined by NEPRA and case was under process in court of law.

DAC directed in its meeting held on December 30-31, 2013 to conduct fact finding inquiry within 30 days and pursue the court case vigorously.

Audit recommends to pursue the court case vigorously besides effecting expeditious recovery.

(Draft Para No. 699/2013-14)

18.3.3 Recoverable amount of GST Rs.1,568 million from FBR and unjustified/wrongly written off electricity dues – Rs.9,800 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."

In SEPCO, electricity dues of Rs.9,800 million against the departments of Provincial Government were written off through CP-139 as whole instead of consumers wise through Adjustment Notes (CP-52). Hence, unjustified/wrongly written off electricity dues not only deprived the Company of its revenue of Rs.9,800 million but put the loss of Rs.1,568 million paid to FBR as GST on accrual basis at the time of billing. This resulted in recoverable GST of Rs.1,568 million from FBR and unjustified/wrongly written off electricity dues of Rs.9,800 million upto 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in December, 2013. The management replied that the amount was written off against each connection and GST unpaid was adjusted after completing all codal formalities.

DAC directed in its meeting held on December 30-31, 2013 to work out the actual paid GST and take up matter with FBR for adjustment of GST.

Audit recommends to investigate the matter through high power committee for fixing the responsibility regarding unjustified written off the Company's revenue.

(Draft Para No. 749/2013-14)

18.3.4 Non-return of dismantled and replaced electrical material - Rs.82.69 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".

In SEPCO, 185 transformers of various capacities valuing Rs.81.47 million were drawn for replacement against renovation/augmentation works but no dismantled and replaced transformers were returned to store. Moreover, electrical material of four works valuing Rs.1.22 million was dismantled from June, 2012 to March, 2013 but the same was not returned to store. This resulted in non-return of dismantled and replaced transformers/ material valuing Rs.82.69 million during 2012-13.

The matter was taken up with the management during August and September, 2013 and reported to Ministry in November and December, 2013. The management replied that 75 transformers had already been returned to store while efforts were being made to get return the remaining transformers from employees.

DAC directed in its meeting held on December 30-31, 2013 to provide relevant record in respect of completed action and finalize pending actions within 15 days.

Audit recommends to investigate the matter for fixing responsibility besides ensuring the return of dismantled/replaced electrical material to store.

(Draft Para No. 503 & 728 /2013-14)

18.3.5 Loss due to payment of GST on credit adjustment of wrong billing - Rs.29 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."

In Operation Circle Larkana SEPCO, 12 million electricity units amounting to Rs.176.34 million were credited to the various consumers as a result of redressing the consumer complaints regarding excess/wrong billing. The Company had already paid an amount of Rs.29 million as 16% GST on this credit amount in advance. The amount of GST was neither claimed from Tax Department nor adjusted against fresh accruals which resulted in loss of Rs.29 million during 2013-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in September, 2013. The management replied that in adjustment/ refund cases, consumers accounts were credited along with GST. The reply was not tenable as GST had never been adjusted against credit adjustments.

DAC directed in its meeting held on December 30-31, 2013 to provide relevant record in support of reply within 15 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 21/2013-14)

18.3.6 Wasteful expenditure on account of inter-connection charges – Rs.17.30 million

According to Clause-5.8 of Power Purchase Agreement between HESCO and Naudero Engineering Private Limited (NEPL), “if the Company fails to achieve Commercial Operation Date (COD) for an extended period of 180 days over and above COD period of 240 days then the Company will be responsible to reimburse all the interconnection charges incurred by the purchaser, provided however the power purchaser will provide the audited account with the invoice for reimbursement of interconnection charges.”

In SEPCO, a power purchase agreement was made with NEPL on September 24, 2010 with Commercial Operation Date period of 240 days. The contractor failed to achieve the commercial operation upto September, 2013 despite several revisions / extensions in time limit. An amount of Rs.17.30 million was incurred by the Company on account of interconnection charges which were required to be recovered from the NEPL but the same was not done. Non-adherence to agreement provision resulted in non-recovery of Rs.17.30 million upto 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in December, 2013. The management replied that the item note would be put up in coming BOD meeting for taking decision either reimbursement the inter connection charges or to extend the period of COD.

DAC directed in its meeting held on December 30-31, 2013 to submit revised reply and impose LDs for the period of non-operation of COD within 30 days.

Audit recommends to investigate the matter for fixing responsibility besides providing decision of BOD.

(Draft Para No. 698/2013-14)

18.3.7 Irregular hiring of consultants in violation of PPRA Rules-2004 - Rs.15.45 million

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

In Construction Circle SEPCO, a contract for consultancy services in rural electrification, SAP and deposit works was awarded to M/s BARQAAB consultants by direct hiring the services instead of open competitive bidding. Resultantly, irregular payment of consultancy fee during 2012-13 amounting to Rs.15.45 million was made to M/s BARQAAB in violation of PPRA Rules-2004.

The matter was taken up with the project management in August, 2013 and reported to Ministry in October, 2013. The management replied that SEPCO had complied with the orders of Authority like other companies as the consultancy of M/s BARQAAB was implemented throughout Pakistan.

DAC directed in its meeting held on December 30-31, 2013 to get directive from PEPCO for discontinuation of agreement and re-bidding within 30 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 167/2013-14)

18.3.8 Unjustified/irregular payment of Qualification Pay - Rs.15.13 million

According to Finance Division WAPDA's letter dated May 06, 2011,"the Authority has accorded approval to the discontinuation of Qualification Pay on passing departmental promotion examination, to AB&AO/ B&AO/ Sr.B&AO/ Director (B&A) and AO/ AOs/ Sr. Audit Officer/ Dy. Chief Auditor, with immediate effect".

In SEPCO, an amount of Rs.15.13 million was paid to the employees on account of qualification pay contrary to the instructions of the Authority upto June, 2013. Non-adherence to Authority's instructions and poor financial management resulted in unjustified/irregular payment of qualification pay amounting to Rs.15.13 million during 2012-13.

The matter was taken up with management in September, 2013 and reported to Ministry in December, 2013. The management replied that the qualification pay pertained to Accounts/Audit staff which had been discontinued.

DAC directed in its meeting held on December 30-31, 2013 to process the case with Finance Division GoP for clarification through Ministry of Water and Power within 30 days.

Audit recommends to implement the DAC directives besides fixing the responsibility.

(Draft Para No. 714/2013-14)

18.3.9 Loss due to non-recovery of fixed charges on account of wrong tariff – Rs.6.35 million

According to General Condition-I of Industrial Supply Tariff, "a supply for bonafide industrial purpose in factories including offices and normal working of industry and also for water pumps and tube wells operating on or reclamation of agriculture meant for irrigation or reclamation agricultural land". As per Ministry of Water and Power Notification dated May 06, 2011, "Tariff D-I(b) is applicable to Scarp and agricultural tube wells having 5 KW and above and fixed charges are to be levied on those connections".

In SEPCO, 24 scarp and agricultural tube-wells were charged under Tariff D-I(a) instead of D-I(b) in violation of tariff conditions. The Company sustained a loss of Rs.6.35 million due to non-recovery of fix charges from these consumers during 2012-13.

The matter was taken up with the management in July and August, 2013 and reported to Ministry in September and November, 2013. The management replied that concerned revenue officer had been directed to change the tariff from D-1(a) to D-1(b) and debit the amount against each consumer.

DAC directed in its meeting held on December 30-31, 2013 to provide relevant record in respect of completed actions within 15 days.

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

(Draft Para No. 31 & 511/2013-14)

18.3.10 Unjustified payment of GST and NJS on free supply of electricity to employees - Rs.6 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."

In Operation Circle Larkana SEPCO, GST and NJS amounting to

Rs.6 million was paid by the Company on supply of free electricity to SEPCO employees. GST and NJS was the responsibility of employees instead of employer/SEPCO i.e. purchaser not seller. This resulted in un-justified payment of Rs.6 million on account of GST and NJS on behalf of employees during 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in September, 2013. The management replied that as per Authority's standing instructions, free electricity was allowed to WAPDA employees.

DAC directed in its meeting held on December 30-31, 2013 the Internal Audit to take up the case with Ministry for review of policy.

Audit emphasizes expeditious recovery from employees besides fixing the responsibility.

(Draft Para No. 32/2013-14)

18.3.11 Less recovery of capital cost from industrial consumers - Rs.5.84 million

According to instructions issued by Director General (Commercial) WAPDA dated November 21, 2006, "industrial connection having load upto 10 H.P (7.46 KW) can be given from existing transformer, if load is available."

In Operation Circle Larkana SEPCO, 17 industrial consumers having sanctioned load more than 8 KW were energized from general duty transformers instead of providing the independent substations valuing Rs.5.84 million. This resulted in less recovery of capital cost of Rs.5.84 million during 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in September, 2013. The management replied that demand notices had been issued but recovery was awaited.

DAC directed in its meeting held on December 30-31, 2013 to finalize pending actions within 15 days.

Audit emphasizes expeditious recovery of capital cost after regularization of connections besides fixing the responsibility.

(Draft Para No. 29/2013-14)

18.3.12 Loss due to non-finalization/lodging of insurance claims - Rs.5.52 million

According to the notification of Director General (Ins & Pen) WAPDA, the board of management of WAPDA Equipment Protection Scheme (WEPS) in its 4th meeting held on August 02, 2011 has decided that, "time limit for lodging of claim through claim proforma is fixed as six months from the date of occurrence of incidence of loss. In case where the claims proforma receives after six months of date of loss or is incomplete and not completed within a period of six months then the claim will be treated as time barred".

In GSO Circle SEPCO, 27 incidences of damages of electrical equipment were occurred from October, 2011 to July, 2013. Out of which 24 insurance claims amounting to Rs.4.77 million were lodged with DG Insurance WAPDA which were not indemnified and three insurance claims amounting to Rs.0.75 million were declared time barred. Resultantly, the Company deprived of indemnification of Rs.5.52 million for which no departmental inquiries were conducted upto 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in October, 2013. The management replied that all the cases were pending with Director General Insurance WAPDA, Lahore.

DAC directed in its meeting held on December 30-31, 2013 to pursue the cases with Director General Insurance WAPDA, Lahore for finalization of claims within 30 days.

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

(Draft Para No. 168/2013-14)

18.3.13 Non-accountal of electrical material – Rs.3.51 million

According to Para-4 of Section-III of WAPDA Accounting Manual, "an executive division using material will not have any storage arrangements of its own. It will not draw material from the stores officer for use at some further date. Only such quantities will be drawn as are actually required for immediate use on work in progress on which the materials are to be used. As per paragraph 16 of the said section" All goods except petrol diesel oil and lubricants purchased for direct consumption and entered in the log books of WAPDA vehicles, when received will be entered in a measurement Book".

In Operation Circle Sukkur SEPCO, electrical material comprising transformers, 3-Phase meters and cable, etc. valuing to Rs.3.51 million were drawn from store from July, 2012 to January, 2013 by the line staff for installation at various sites. The whereabouts of the material was not forthcoming from EMBs, CA-21 and site account register, etc. This resulted in non-accountal of material amounting to Rs.3.51 million during 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in November, 2013. The management replied that concerned LS had been directed to get verified the record of material from Audit.

DAC directed in its meeting held on December 30-31, 2013 to stop the salary of concerned officials till production of record.

Audit recommends to investigate the matter for fixing the responsibility besides ensuring the accountal of material.

(Draft Para No. 514/2013-14)

18.3.14 Loss due to non-recovery of penalty imposed on employees – Rs.3.15 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".

In Operation Circle Sukkur SEPCO, disciplinary proceedings were initiated against four officials in June, 2011 and July, 2012 for damages of electrical equipment worth Rs.3.11 million and an amount of Rs.0.04 million was recoverable from three officials on account of penalty imposed in October, 2012 for illegal shifting of LT structures. This resulted in loss of Rs.3.15 million during 2012-13.

The matter was taken up with the management in July, 2013 and reported to Ministry in November, 2013. The management replied that an amount of Rs.0.025 million had been recovered.

DAC directed in its meeting held on December 30-31, 2013 to expedite the recovery and provide recovery record for verification within 30 days.

Audit emphasizes expeditious recovery of penalty imposed on employees.

(Draft Para No. 509/2013-14)

18.3.15 Non-encashment of performance bond – Rs.1.87 million

According to Clause-16-I (a) of the purchase order, "the purchaser will have the right to forfeit the security bond/guarantee (performance bond) if the supplier fails to supply the goods within time specified."

In SEPCO, a purchase order for the supply of 15,000 11-KV steel arms was issued to M/s Metropolitan Steel Corporation Ltd., Karachi with a delivery period of 90 days. The supplier failed to supply the material within the prescribed period. The purchase order was terminated but the performance bond valuing Rs.1.87 million was not forfeited during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in December, 2013. The management replied that the performance bond would be forfeited and the concerned bank had been approached to remit the amount in the SEPCO account but the guarantor was favouring the default party.

DAC directed in its meeting held on December 30-31, 2013 to take up the matter with State Bank of Pakistan for taking action against HBL management. DAC also directed the management to take action against the Finance Director SEPCO who had taken up the matter with guarantor.

Audit recommends to investigate the matter for fixing the responsibility for delay in encashment of performance bond.

(Draft Para No. 701/2013-14)

18.3.16 Loss due to purchase of conductor at higher rates – Rs.1.45 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".

In SEPCO, two purchase orders for supply of ACSR Rabbit Conductor were placed on M/s Mutahir Metal Works @ Rs.45,343 per km and M/s Atlas Cables @ Rs.43,786 per km on October 10, 2012, for supply of same material on same date. The Company sustained a loss of Rs.1.45 million due to difference of purchase rates during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in December, 2013. The management replied that the Company had to award the contract for supply of 800 KM ACSR Rabbit Conductor to M/s Mutahir Matal Works, Lahore as it was extremely needed by SEPCO. The procuring agency could not negotiate with lowest bidder.

DAC directed in its meeting held on December 30-31, 2013 to conduct the inquiry for fixing responsibility within 30 days.

Audit recommends to implement the DAC directives besides making good the loss.

(Draft Para No. 700/2013-14)

CHAPTER-19

TRIBAL AREAS ELECTRIC SUPPLY COMPANY LIMITED (TESCO)

(293-294)

19. TRIBAL AREAS ELECTRIC SUPPLY COMPANY LIMITED

19.1 Introduction

Tribal Areas Electric Supply Company Limited (TESCO) was incorporated on July 03, 2002 as a public limited company under the Companies Ordinance, 1984 having its registered office situated at Lahore. 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 which was effective from July 01, 2003. 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 includes one Operation Circle, one Construction Division, and one SS&TL Division.

19.2 AUDIT PARAS

19.2.1 Loss due to damage of grid station - Rs.24 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".

In TESCO, various types of electrical material/equipment of 66 KV Ghiljo Grid station (Orakzai Agency) valuing Rs.24 million were damaged during the operation of Army shelling during 2009 causing closure of Grid Station up till now. This resulted in loss of Rs.24 million due to damage of grid station equipment during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in October, 2013. The management replied that as per findings of inquiry committee no officer/official was responsible as the grid was damaged in shelling during army action against militants.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 30 days.

Audit recommends to investigate the matter to decide the fate of loss.

(Draft Para No. 158/2013-14)

19.2.2 Non-recovery of supply charges against temporary connections - Rs.1.43 million

According to Special Condition of Supply under Tariff-E of Schedule of Electricity Tariff, "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".

In Operation Circle FATA TESCO, an amount of Rs.1.43 million was outstanding against the temporary connections as evident 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. This resulted in non-recovery of supply charges of Rs.1.43 million during 2012-13.

The matter was taken up with the management in September, 2013 and reported to Ministry in November, 2013. The management replied that para did not relate to temporary connections. Actually, it pertained to tariff adjustment which was being made accordingly.

DAC directed in its meeting held on December 4-5, 2013 to provide relevant record in support of reply within 30 days.

Audit emphasizes expeditious recovery of energy charges from consumers besides fixing the responsibility.

(Draft Para No. 249/2013-14)

CHAPTER-20

PRIVATE POWER AND INFRASTRUCTURE BOARD (PPIB)

(297-302)

20. PRIVATE POWER AND INFRASTRUCTURE BOARD (PPIB)

20.1 Introduction

The Private Power and Infrastructure Board (PPIB) was created on August 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.

20.2 AUDIT PARAS

20.2.1 Loss due to non-encashment of performance guarantee – Rs.155.29 million

As per Letter of Support issued to M/s Grange Power Limited (GPL), the Project shall achieve the Financial Closing not later than the September 06, 2013 (the "Extended Financial Close Date") failing which PPIB shall be entitled to encash the Performance Guarantee in the full amount thereof without any notice to or demand on the main sponsor/the project company. The Performance Guarantee shall secure the Main Sponsors' and the Project Company's obligation to cause the execution of Power Purchase Agreement (PPA) and to achieve the financial close as per terms of LOS.

In PPIB Islamabad, a power project of 146.5 MW Grange Power Limited was initiated during April, 2008 under "Fast Track Initiative" with COD deadline of December 31, 2010. The tariff of the Project was determined by NEPRA in December, 2009. The financial close date was extended to October 11, 2012 and was further extended to March 6, 2013, June 6, 2013 and September 6, 2013 and accordingly the COD deadline was extended to October 11, 2013. However, NTDC did not agree to sign the PPA on RFO based plant with current estimated tariff of Rs.20 per kwh in August, 2013. PPIB continuously granted extensions in time instead of encashment of performance guarantee valuing Rs.155.29 million as the project was not beneficial. This resulted in loss of Rs.155.29 million due to non-encashment of performance guarantee upto 2012-13.

The matter was reported to the management in November, 2013 and reported to the Ministry in January, 2014 but no reply was given.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious encashment of performance guarantee besides fixing the responsibility.

(Draft Para No. 824/2013-14)

20.2.2 Loss due to non-doubling the performance guarantee at the time of extension – Rs.53 million

According to Para-38 of Power Policy-2002, "Once the bid is accepted and tariff approved by PPIB, the successful bidder will be issued its LOS by PPIB against delivery of a Performance Guarantee in favour of PPIB in the required amount valid upto three months beyond the Financial Closing date specified in the LOS, and upon payment of the cost of the feasibility study to

PPIB. Under normal circumstances, no extensions in achieving Financial Closing will be granted. However, on the Sponsors' request, if the Committee, under the chairmanship of the Secretary, Ministry of Water & Power and comprising representatives of PPIB, WAPDA, KESC, the Planning & Development Division, the concerned Provincial/AJK PPC or SCA (for coal based projects in Sindh), 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%".

In PPIB Islamabad, a letter of support (LOS) dated April 27, 2010 was granted to M/s Mira Pakistan Ltd. for Kotli Hydropower Project located at district Kotli. As per LOS, the financial close was required to be achieved not later than April 29, 2011. Subsequently, the project company requested for an extension in the validity of LOS due to circumstances beyond its reasonable control. Contrary to the above clauses, the PPIB amended the LOS in August, 2011 and granted the extension upto April 29, 2013 without doubling the amount of performance Guarantee. Later on, the IPP could not achieve the financial close within the permissible time limit and guarantee amounting to US$ 500,000 equivalent to Pak Rs.53 million was en-cashed. Hence, PPIB sustained a loss of Rs.53 million due to non-doubling of the guarantee at the time of according the extension upto 2012-13.

The matter was reported to the management in November, 2013 and reported to the Ministry in January, 2014 but no reply was given.

DAC was not convened by the department till the finalization of the report.

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

(Draft Para No. 820/2013-14)

20.2.3 Excess payment on account of leave encashment - Rs.16.73 million

According to Clause-38(A)(iv) of the Leave Rules, "no House Rent Allowance or Compensatory (City) Allowance shall be payable."

In PPIB Islamabad, an excess payment of Rs.16.73 million was made to the employees on account of leave encashment by including the house rent allowance from 2008-09 to 2012-13. The inclusion of house rent allowance in the basic pay was against the rules which resulted in excess payment of Rs.16.73 million during 2012-13.

The matter was reported to the management in November, 2013 and reported to the Ministry in January, 2014. The management replied that in PPIB Regulations-2013, the leave encashment rule had been amended and not only house rent had been excluded but also encashment of earned leaves had been reduced to 30 days. The reply was not tenable as the amount of house rent was included in pay while calculating the payment of leave encashment from 2008-09 to 2012-13 which was required to be recovered from the employees.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious recovery of excess payment from the employees besides fixing the responsibility.

(Draft Para No. 823/2013-14)

20.2.4 Loss due to non-recovery/adjustment of advance tax – Rs.8.90 million

According to Section-144(4)(a) of the Income Tax Ordinance, "any taxpayer who is required to make payment of advance tax in accordance with sub-Section-(4), shall estimate the tax payable by him for the relevant tax year, at any time before the last installment is due. In case the tax payable is likely to be more than the amount he is required to pay under sub-Section-(4), the taxpayer shall furnish to the Commissioner an estimate of the amount of tax payable by him and thereafter pay such amount after making adjustment for the amount (if any) already paid in terms of sub-Section-(4)."

In PPIB Islamabad, an amount of Rs.8.90 million was receivable from the tax authorities on account of advance tax for the tax years 2009, 2010 and 2011. The management neither recovered the advance tax nor adjusted the same despite lapse of four years. This resulted in loss of Rs.8.90 million due to non-recovery/ adjustment of advance tax upto 2012-13.

The matter was reported to the management in November, 2013 and reported to the Ministry in January, 2014. The management replied that efforts were being made for refund of income tax. The reply was not tenable as the adjustment of advance tax should have been made while making the payment of current instalment.

DAC was not convened by the department till the finalization of the report.

Audit emphasizes expeditious recovery / adjustment of advance tax besides fixing the responsibility.

(Draft Para No. 821/2013-14)

20.2.5 Un-justified payment of honoraria and TA/ DA to the employees of the Ministry of water & power - Rs.1.16 million

According to Para-11.4 (b) of Hand Book for Drawing and Disbursing Officers, "funds allotted to a Ministry/Division and its attached or subordinate offices are spent for the purpose for which they are allocated".

In PPIB Islamabad, an amount of Rs.1.16 million was paid on account of honorarium and foreign TA/DA to the employees of Ministry of Water and Power which was not justified as the Ministry had its own separate budget. This resulted in irregular payment of Rs.1.16 million upto 2012-13.

The matter was reported to the management in November, 2013 and reported to the Ministry in January, 2014. The management replied that the honoraria / foreign TA/DA was granted to the employees of Ministry on the direction of the Secretary / Federal Minister. The reply was not tenable as the Ministry had its own separate budget hence, the payment was not justified.

DAC was not convened by the department till the finalization of the report.

Audit recommends to justify the irregular payment besides making good the loss.

(Draft Para No. 822/2013-14)

20.2.6 Loss due to non-utilization of gas for power generation-Rs.58,692 million and undue favour to IPP - Rs.1,136.32 million

According to Para-38 of Power Policy-2002, "once the bid is accepted and tariff approved by PPIB, the successful bidder will be issued its LOS by PPIB against delivery of a Performance Guarantee in favour of PPIB in the required amount valid up to three months beyond the Financial Closing date specified in the LOS and upon payment of the cost of the feasibility study to PPIB. Under normal circumstances, no extension in achieving Financial Closing will be granted. However, on the Sponsors' request, if the Committee, under the chairmanship of the Secretary, Ministry of Water & Power and comprising representatives of PPIB, WAPDA, KESC, the Planning & Development Division, the concerned Provincial/AJK PPC or SCA (for coal based projects in Sindh), 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%".

In PPIB Islamabad, a letter of support (LOS) dated October 25, 2006 was issued to M/s Star Power Generation Limited ('SPGL') for Star Thermal Power Project located at Daharki, Sindh. As per LOS, the financial close was required to be achieved not later than October 25, 2006. Subsequently, the project company requested many times for extension in achieving the financial close and then extensions in time were granted by the PPIB in violation to the Policy i.e. by not doubling the performance guarantee worth Rs.1,136.32 million. Further, 44 MMCFD gas was allocated to the Project from Mari Deep Gas field which was remained unutilized since Oct 31, 2006 due to frequent extensions granted to the Company. Later on, upon the request of PEPCO, the said gas was re-allocated to WAPDA's Guddu Power Project for a period of two years during March, 2012. Hence, the said gas remained unutilized from 31st October, 2006 to 28th February, 2012 and electricity valuing Rs.58,692 million was not generated.

The matter was reported to the management in November, 2013 and reported to the Ministry in January, 2014, but no reply was given.

DAC was not convened by the department till the finalization of the report.

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

(Draft Para No. 825/2013-14)

ANNEXURE
(305-316)

ANNEXURE-I

AUDIT PARAS, NOT CONSIDERED SIGNIFICANT ENOUGH TO REPORT TO THE PARLIAMENT, INCLUDED IN MFDAC

Sr. No.	Entity	Ind. No.	Draft Para No.	Subject	Rupees (in million)
1	WAPDA	1	1655	Loss due to damage of vehicles – Rs.2.00 million	2.00
2	WAPDA	2	1658	Non-recovery of principal amount along with interest from contractor - Rs.10.09 million	10.09
3	WAPDA	3	1659	Non-submission of adjustment account of advances - Rs.266.15 million	266.15
4	WAPDA	4	1660	Excess payment of escalation in violation of contract - Rs.384.84 million	384.84
5	WAPDA	5	1661	Non-written off/disposal of loss due to flood in 2010- Rs.240.18 million	240.18
6	WAPDA	6	1663	Loss due to concealment of income earned from non-WAPDA patients - Rs.2.09 million	2.09
7	WAPDA	7	1664	Irregular distribution fee received from non-WAPDA patients - Rs.5.98 million	5.98
8	WAPDA	8	1665	Irregular award of contracts in violation of PC-I provision - Rs.9,747.82 million	9,747.82
9	WAPDA	9	1666	Avoidable currency exchange loss - Rs.13.95 million	13.95
10	WAPDA	10	1667	Loss due to purchase of defective material - Rs.11.50 million	11.50
11	WAPDA	11	1670	Undue favour to contractor due to less recovery of performance security – Rs.376.08 million	376.08
12	WAPDA	12	1672	Irregular payment to contractor without insurance of work Rs.1,476.95 million	1,476.95
13	WAPDA	13	1674	Non-recovery of LD - Rs.162.40 million	162.40
14	WAPDA	14	1675	Unjustified increase in the cost of PC-I due to non construction of project colony, site office & facilities and access roads – Rs. 1,246.62 million	1,246.62
15	WAPDA	15	1676	Avoidable expenditure on account of financing charges - Rs.619.16 million	619.16
16	WAPDA	16	1677	Un-authorized payment against security measures - Rs.142.54 million	142.54
17	WAPDA	17	1680	Irregular award of contracts - Rs.39,145.27 million	39,145.27
18	WAPDA	18	1682	Undue favor to the contractor due to non-fulfilling the contractual obligations - Rs. 7.14 million	7.14
19	WAPDA	19	1683	Irregular purchase of luxury vehicles - Rs. 4.08 million	4.08
20	WAPDA	20	1684	Unjustified payment to the contractor on account of income tax in EOT claims - Rs.28.15 million	28.15
21	WAPDA	21	1687	Unjustified parallel expenditure against security measures - Rs.28.09 million	28.09
22	WAPDA	22	1690	Undue favour to contractor due to non-recovery of mobilization advance - Rs.2,760.66 million	2,760.66
23	WAPDA	23	1691	Un-authorized expenditure against variation orders - Rs.12,101.83 million	12,101.83
24	WAPDA	24	1698	Unjustified payment on account of composition cost due to external aggregate brought at C-1 - Rs.1.96 million	1.96

Sr. No.	Entity	Ind. No.	Draft Para No.	Subject	Rupees (in million)
25	WAPDA	25	1705	Unauthorized expenditure on hiring of consultants in violation of PC I - Rs.466.52 million	466.52
26	WAPDA	26	1707	Wasteful expenditure on inauguration ceremony of project – Rs.1.56 million	1.56
27	WAPDA	27	1709	Excess payment on account of labor escalation - Rs.11.81 million	11.81
28	WAPDA	28	1710	Excess payment on account of maintenance charges of vehicles - Rs. 3.27 million	3.27
29	WAPDA	29	1711	Non-submission of adjustment account of land acquisition/damages of property - Rs.432.27 million	432.27
30	WAPDA	30	1713	Un-authorized expenditure in violation of contract provision - Rs.3.18 million	3.18
31	WAPDA	31	1715	Excess payment of maintenance charges - Rs. 0.71 million	0.71
32	WAPDA	32	1716	Loss due to non-enhancement of rent of WAPDA buildings - Rs.3.10 million	3.10
33	WAPDA	33	1717	Non-submission of adjustment accounts - Rs.708.59 million	708.59
34	WAPDA	34	1720	Illegal encroachment of WAPDA Land - Rs.88.60 million	88.60
35	WAPDA	35	1726	Unjustified provision of 15% contingencies and 7% P&G in variation orders - Rs.2,467.39 million	2,467.39
36	WAPDA	36	1727	Loss due to over-valuation of variation order - Rs.2.72 million	2.72
37	WAPDA	37	1728	Irregular procurement of vehicles - Rs.1.69 million	1.69
38	WAPDA	38	1730	Loss due to damage of power transformer - Rs. 56.56 million	56.56
39	WAPDA	39	1731	Excess payment to the contractor against the provision of the contract - Rs.5.79 million	5.79
40	WAPDA	40	1732	Excess payment to the contractor - Rs.41.01 million	41.01
41	WAPDA	41	1733	Unjustified payment of contractor's claims - Rs.258.67 million	258.67
42	WAPDA	42	1735	Wasteful expenditure on account of training of TBM operation - Rs.39.05 million	39.05
43	WAPDA	43	1736	Non-renewal of insurance policies in contracts valuing - Rs.2,465.43 (M)	2,465.43
44	WAPDA	44	1738	Unauthorized expenditure beyond the provision of PC-I-Rs.2,693.20 million	2,693.20
45	WAPDA	45	1740	Undue favour to contractors due to non-renewal of performance bank guarantees - Rs.220.59 million	220.59
46	WAPDA	46	1743	Loss due to non-recovery of fees and funds from cadets - Rs.0.62 million	0.62
47	WAPDA	47	1745	Loss due to less deduction of income tax – Rs.19.00 million	19.00
48	WAPDA	48	1746	Unjustified expenditure on account of labour charges - Rs.7.83 million	7.83
49	WAPDA	49	1752	Loss due to damaged/defective transformers – Rs.4.29 million	4.29
50	WAPDA	50	1754	Loss due to non-recovery of rent of machinery from contractors/offices - Rs.1.18 million	1.18
51	WAPDA	51	1755	Irregular expenditure on account of additional structures - Rs.154.32 million	154.32
52	WAPDA	52	1757	Loss due to non-deposit of GST into Government Treasury - Rs.1.72 million	1.72

Sr. No.	Entity	Ind. No.	Draft Para No.	Subject	Rupees (in million)
53	WAPDA	53	1758	Non-submission of adjustment accounts – Rs.6,888.22 million	6,888.22
54	WAPDA	54	1760	Loss due to non-reimbursement of GST – Rs.2.21 million	2.21
55	WAPDA	55	1761	Unjustified payment of claim to the contractor - Rs.18 million	18.00
56	WAPDA	56	1762	Un-authorized expenditure on account of purchase of vehicles - Rs.15.57 million	15.57
57	WAPDA	57	1763	Loss due to non-recovery of community service charges - Rs.2.48 million	2.48
58	WAPDA	58	1764	Irregular award of purchase orders – Rs.17.82 million	17.82
59	WAPDA	59	1766	Loss due to non-acceptance of lowest bid – Rs.3.15 million	3.15
60	WAPDA	60	1769	Non-recovery of secured advance from the contractor - Rs.17.08 million	17.08
61	WAPDA	61	1770	Excess payment against the approved cost of a variation order - Rs.24.61 million	24.61
62	WAPDA	62	1772	Unjustified payment to the contractor against variation order - Rs.29.28 million	29.28
63	WAPDA	63	1776	Non-receipt of performance guarantees from the contractors – Rs.11.32 million	11.32
64	WAPDA	64	1778	Excess admn. expenditure than the limit prescribed in PC-I - Rs.63.94 million	63.94
65	WAPDA	65	1779	Irregular award of works – Rs.6.40 million	6.40
66	WAPDA	66	1781	Unjustified/irregular purchase of polythene bags – Rs.1.37 million	1.37
67	WAPDA	67	1784	Excess payment to the contractor in violation of contract - Rs.41.18 million	41.18
68	WAPDA	68	1785	Irregular purchase of medical equipments in violation of PPRA Rules-2004 – Rs.15.35 million	15.35
69	WAPDA	69	1787	Non-remittance of interest earned to Authority's account – Rs.0.56 million	0.56
70	WAPDA	70	1788	Loss due to non-deduction of income tax – Rs.2.91 million	2.91
71	WAPDA	71	1789	Non-recovery from parking stand contractor - Rs. 0.58 million	0.58
72	WAPDA	72	1792	Irregular procurement of office equipment - Rs.0.35 million	0.35
73	WAPDA	73	1793	Un-justified payment made to advisor honorarium - Rs.0.32 million	0.32
74	WAPDA	74	1795	Irregular/unjustified purchases of misc items - Rs.0.87 million	0.87
75	WAPDA	75	1796	Misuse of funds in violation of Authority's decision – Rs.48.44 million	48.44
76	WAPDA	76	1799	Un-justified payment of internship stipend - Rs.1.85 million	1.85
77	WAPDA	77	1801	Irregular purchase of equipment due to violation of PPRA rules – Rs.3.64 million	3.64
78	WAPDA	78	1804	Irregular purchase of medicines in violation of PPRA Rules – Rs.9.98 million	9.98
79	WAPDA	79	1805	Irregular purchase of medicines - Rs.5.15 million	5.15
80	WAPDA	80	1806	Loss due to irregular award of parking stand contract - RS.0.73 million	0.73

Sr. No.	Entity	Ind. No.	Draft Para No.	Subject	Rupees (in million)
81	WAPDA	81	1808	Undue favour extended to contractor - Rs.1.46 million	1.46
82	WAPDA	82	1809	Irregular procurement of office equipment - Rs.2.40 million	2.40
83	WAPDA	83	1813	Undue financial assistance to contractor – Rs.486.57 and non-recovery of interest thereof - Rs.15.72 million	502.29
84	WAPDA	84	1814	Unjustified grant of additional mobilization advance and non-recovery of interest thereof - Rs.13.57 million	13.57
85	PEPCO	1	176/2013-14	Loss due to placement of funds at lower rate of interest without competitive bidding - Rs.2.43 million	2.43
86	GENCO-I	1	108/2013-14	Loss due to non-supply of furnace oil according to the required ordered quantity - Rs.209.02 million	209.02
87	GENCO-I	2	655/2013-14	Loss due to damage of turbine blade – Rs.888.01 million	888.01
88	GENCO-I	3	656/2013-14	Non-disposal of dismantled material - Rs.25.81 million	25.81
89	GENCO-I	4	688/2013-14	Loss due to derated capacity of power plant – Rs.809.58 million	809.58
90	GENCO-I	5	689/2013-14	Loss due to non-installation of power plant – Rs.1.65 million	1.65
91	GENCO-I	6	694/2013-14	Unjustified expenditure on purchase of HSD Oil in violation of PPRA Rules - Rs.22.13 million	22.13
92	GENCO-I	7	724/2013-14	Unjustified expenditure on purchase of HSD/furnace oil in violation of PPRA rules – Rs.3,586.63 million	3,586.63
93	GENCO-I	8	740/2013-14	Irregular expenditure worth Rs.40.24 million	40.24
94	GENCO-I	9	741/2013-14	Irregular award of supply/work orders - Rs.306.37 million	306.37
95	GENCO-I	10	742/2013-14	Loss due to non-supply of furnace oil as per ordered quantity - Rs.54.26 million	54.26
96	GENCO-II	1	137/2013-14	Loss due to poor maintenance and management of Thermal Power House Guddu - Rs.13,423.55 million	13,423.55
97	GENCO-II	2	157/2013-14	Loss due to bogus/ fictitious billing of electricity consumption to the private consumers - Rs.26.74 million	26.74
98	GENCO-III	1	309/2013-14	Unjustified award of contract beyond the provision of PC-I - Rs.8,471.76 million	8,471.76
99	GENCO-III	2	711/2013-14	Unauthorized procurement of furnace oil in violation of PPRA Rules	-
100	GENCO-III	3	767/2013-14	Loss due to non-replacement of material damaged during warranty period - Rs.0.53 million	0.53
101	GENCO-III	4	832/2013-14	Extra expenditure due to procurement of store material in violation of PPRA Rules - Rs.60.48 million	60.48
102	GENCO-III	5	834/2013-14	Non-mutation/transfer of WAPDA property - Rs.113.10 million	113.10
103	GENCO-III	6	835/2013-14	Non clearance of advances to suppliers/contractors – Rs.3.59 million	3.59
104	NTDC	1	35/2013-14	Non-indemnification of loss from Director General Insurance - Rs.48.37 million	48.37
105	NTDC	2	37/2013-14	Loss due to non-transfer of grid sharing cost - Rs.18.94 million	18.94

Sr. No.	Entity	Ind. No.	Draft Para No.	Subject	Rupees (in million)
106	NTDC	3	40/2013-14	Blockage of authority's funds - Rs.33.09 million	33.09
107	NTDC	4	248/2013-14	Less recovery of liquidated damages - Rs.15.16 million	15.16
108	NTDC	5	291/2013-14	Loss due to snatch of vehicle - Rs.2.78 million	2.78
109	NTDC	6	652/2013-14	Blockage of funds due of non-indemnification of insurance claims – Rs.138.48 million	138.48
110	NTDC	7	753/2013-14	Loss due to award of contract at ex-works price instead of FCS price - Rs.1.16 million	1.16
111	NTDC	8	754/2013-14	Non-recovery of cost of stolen material from contractor - Rs.4.51 million	4.51
112	NTDC	9	755/2013-14	Loss due to misappropriation of tower accessories - Rs.12.93 million	12.93
113	NTDC	10	756/2013-14	Irregular payment due to acceptance of material below specification - Rs.20.01 million	20.01
114	NTDC	11	757/2013-14	Non-transparency in award of contracts due to splitting of procurement within the limited contractors - Rs.336.57 million	336.57
115	NTDC	12	759/2013-14	Loss due to non-acceptance of the lowest bid - Rs.10.85 million	10.85
116	NTDC	13	765/2013-14	Irregular award of work due to splitting - Rs.107.87 million	107.87
117	NTDC	14	785/2013-14	Loss on account of commitment charges - Rs.38.52 million	38.52
118	NTDC	15	786/2013-14	Loss due to award of contract at higher rates - Rs.20.36 million	20.36
119	NTDC	16	790/2013-14	Irregular payment due to supply of spare parts of Mexico make instead of Japan make - Rs.6.95 million	6.95
120	NTDC	17	792/2013-14	Loss due to placement of surplus funds in NIB bank at low rates - Rs. 21.99 million	21.99
121	NTDC	18	793/2013-14	Irregular payment on account of training of Crane Operator - 1.09 million	1.09
122	NTDC	19	802/2013-14	Unjustified payment against shifting of dismantled material – Rs.3.11 million	3.11
123	NTDC	20	804/2013-14	Irregular payment due to change of specification of Crane - Rs.129.82 million	129.82
124	NTDC	21	805/2013-14	Un-authorized expenditure on account of purchase of land - Rs.115.31 million	115.31
125	NTDC	22	806/2013-14	Extra expenditure on account of carriage of material - Rs.13.32 million	13.32
126	NTDC	23	808/2013-14	Un-authorized expenditure on construction of a temporary grid station - Rs.2,154.88 million	2,154.88
127	NTDC	24	809/2013-14	Un-authorized payment on account of variation in contract price - Rs.9.93 million	9.93
128	NTDC	25	810/2013-14	Non-return of dismantled material to store - Rs.3.01 million	3.01
129	NTDC	26	811/2013-14	Un-authorize award of consultancy services contracts - Rs.218.20 million	218.20
130	NTDC	27	813/2013-14	Un-authorized grant of bonus to employees – Rs.4.12 million	4.12
131	NTDC	28	814/2013-14	Non-provision of insurance cover against the contracts - Rs.7,565.83 million	7,565.83
132	NTDC	29	815/2013-14	Un-authorized advance payment to contractor - Rs.9.00 million	9.00

Sr. No.	Entity	Ind. No.	Draft Para No.	Subject	Rupees (in million)
133	NTDC	30	818/2013-14	Loss due to abnormal T&T losses beyond the targets set by NEPRA - Rs.355.07 million	355.07
134	NTDC	31	819/2013-14	Loss due to abnormal T&T losses beyond the targets set by NEPRA - Rs.2,288.86 million	2,288.86
135	NTDC	32	827/2013-14	Irregular payment to Power Holding Company to pay the liability of Government of Pakistan - Rs.13,695.28 million	13,695.28
136	NTDC	33	830/2013-14	Loss due to payment of unused capacity of independent power producers - Rs.3,017.28 million	3,017.28
137	NTDC	34	841/2013-14	Non-receipt of fund wrongly credited to GoP - Rs.416.70 million	416.70
138	NTDC	35	843/2013-14	Less deduction of income tax - Rs.0.95 million	0.95
139	NTDC	36	844/2013-14	Non-recovery of interest accrued on advance/revolving funds - Rs.3.72 million	3.72
140	FESCO	1	189/2013-14	Loss due to payment of demurrage charges - Rs.0.49 million	0.49
141	FESCO	2	420/2013-14	Unjustified/irregular payment of Qualification Pay - Rs.3.40 million	3.40
142	FESCO	3	427/2013-14	Over billing to the consumers - Rs.640.32 million	640.32
143	FESCO	4	430/2013-14	Loss due to excess measurement of work - Rs.2.02 million	2.02
144	FESCO	5	459/2013-14	Non-disposal of scrap material - Rs.69.39 million	69.39
145	FESCO	6	464/2013-14	Construction of grid station without mutation of land - Rs.38.99 million	38.99
146	FESCO	7	467/2013-14	Non recovery of security deposit from industrial consumer– Rs.2.48 million	2.48
147	FESCO	8	476/2013-14	Loss due to not claiming collection charges from Federal Board of Revenue (FBR) - Rs.154.66 million	154.66
148	FESCO	9	478/2013-14	Loss due to non-billing of electric supply- Rs.85.51 million	85.51
149	GEPCO	10	155/2013-14	Non-disposal of off road vehicles - Rs.4.00 million	4.00
150	GEPCO	11	174/2013-14	Excess expenditure against deposit works - Rs.2.28 million	2.28
151	GEPCO	12	272/2013-14	Loss due to undue favour to plaza consumer - Rs.0.58 million	0.58
152	GEPCO	13	480/2013-14	Loss due to less-recovery of capital cost - Rs.1.21 million	1.21
153	GEPCO	14	484/2013-14	Loss due to non-replacement of transformers damaged under warranty period - Rs.71.49 million	71.49
154	GEPCO	15	485/2013-14	Loss due to misuse of funds - Rs.1,642.92 million	1,642.92
155	GEPCO	16	515/2013-14	Non-recovery of standard rent - Rs.0.12 million	0.12
156	GEPCO	17	521/2013-14	Less deduction of income tax from employees - Rs.6.94 million	6.94
157	GEPCO	18	526/2013-14	Non-mutation of property by GEPCO – Rs. 1,927.58 million	1,927.58
158	GEPCO	19	527/2013-14	Unjustified/irregular payment of Qualification Pay - Rs. 0.73 million	0.73
159	GEPCO	20	528/2013-14	Unjustified payment of pay and allowances - Rs.0.78 million	0.78
160	GEPCO	21	530/2013-14	Non-encashment of security / performance bonds - Rs.0.94 million	0.94

Sr. No.	Entity	Ind. No.	Draft Para No.	Subject	Rupees (in million)
161	GEPCO	22	531/2013-14	Procurement of material in violation of PPR Rules-2004 – Rs.186.01 million	186.01
162	GEPCO	23	546/2013-14	Non-disposal of copper and oil - Rs.72.74 million	72.74
163	GEPCO	24	549/2013-14	Loss due to missing of HT/LT windings & oil of damaged transformers – Rs.0.78 million	0.78
164	HESCO	1	99/2013-14	Loss due to abnormal tripping – Rs.68.64 million	68.64
165	HESCO	2	595/2013-14	Non-recovery of subsidy from Government - Rs.572.13 million	572.13
166	HESCO	3	707/2013-14	Loss due to heavy rain and wind storm – Rs.1.91 million	1.91
167	HESCO	4	733/2013-14	Non-recovery of income tax from small power producers – Rs.295.94 million	295.94
168	HESCO	5	734/2013-14	Less charging of GST on free supply electricity - Rs.7.54 million	7.54
169	HESCO	6	737/2013-14	Loss due to defective agreement of power purchase from CPPs – 779.62 million	779.62
170	HESCO	7	739/2013-14	Loss due to payment for illegal crossing over railway track – Rs.9.00 million	9.00
171	HESCO	8	744/2013-14	Irregular expenditure on consultancy charges – Rs.36.42 million	36.42
172	HESCO	9	746/2013-14	Unjustified extension in time and refund of liquidated damages – Rs.28.53 million	28.53
173	HESCO	10	747/2013-14	Irrational expenditure on account of rent of office buildings – Rs.58.00 million	58.00
174	SEPCO	1	23/2013-14	Non-removal of electrical equipment and non-recovery of outstanding energy charges - Rs.54.05 million	54.05
175	SEPCO	2	30/2013-14	Loss due to abonormal line losses beyond the NEPRA's targets - Rs.867.26 million	867.26
176	SEPCO	3	152/2013-14	Irregular electrification work by non-recovery of capital cost from independent consumer – Rs.11.41 million	11.41
177	SEPCO	4	510/2013-14	Loss due to non-recovery of outstanding energy dues – Rs.4.88 million	4.88
178	SEPCO	5	512/2013-14	Non-recovery of energy dues from the running defaulters – Rs.55.01 million	55.01
179	SEPCO	6	513/2013-14	Non-recovery of energy charges against temporary connections - Rs.0.46 million	0.46
180	SEPCO	7	682/2013-14	Non-mutation of property – Rs.192.33 million	192.33
181	SEPCO	8	702/2013-14	Non-recovery of energy charges from defaulters - Rs.22,557.28 million	22,557.28
182	SEPCO	9	704/2013-14	Irregular award of contract in violation of PPRA Rules-2004 - Rs.31.53 million	31.53
183	SEPCO	10	705/2013-14	Non-completion of LT / HT proposals - Rs.46.03 million	46.03
184	SEPCO	11	713/2013-14	Loss due to theft of electricity by Kunda Connections - Rs.1,209.60 million	1,209.60
185	SEPCO	12	721/2013-14	Loss due to non-recovery of pending energy units – Rs.0.58 million	0.58
186	SEPCO	13	723/2013-14	Loss due to abnormal line losses beyond the NEPRA’s targets - Rs.1,334.39 million	1,334.39
187	SEPCO	14	727/2013-14	Undue retention of public funds due to non-surrendering - Rs.749.73 million	749.73

Sr. No.	Entity	Ind. No.	Draft Para No.	Subject	Rupees (in million)
188	SEPCO	15	729/2013-14	Non-capitalization of completed works - Rs.467.29 million	467.29
189	SEPCO	16	731/2013-14	Loss due to less billing to industrial consumers – Rs.0.52 million	0.52
190	SEPCO	17	736/2013-14	Loss due to non-affording of credit of dismantled transformers - Rs.1.34 million	1.34
191	IESCO	1	67/2013-14	Loss due to non-recovery of penalties imposed on employees - Rs.0.31 million	0.31
192	IESCO	2	123/2013-14	Loss due to application of wrong tariff – Rs.2.56 million	2.56
193	IESCO	3	124/2013-14	Loss due to non-levy of GST and income tax from the industrial consumers – Rs.81.49 million	81.49
194	IESCO	4	128/2013-14	Loss due to sabotage activities - Rs.4.77 million	4.77
195	IESCO	5	130/2013-14	Loss due to non-remittance of energy bills collected by the franchised dealers – Rs.0.58 million	0.58
196	IESCO	6	362/2013-14	Unauthorized advertisement charges - Rs.483.00 million	483.00
197	IESCO	7	386/2013-14	Unjustified/irregular appointment of Executive Director ((L&CA) and payment of pay & allowances - Rs.4.60 million	4.60
198	IESCO	8	387/2013-14	Loss due to substandard repair of vehicles - Rs.1.181 million	1.18
199	IESCO	9	413/2013-14	Loss due to un-justified payment of repair charges - Rs.7.07 million	7.07
200	IESCO	10	414/2013-14	Unjustified expenditure on vehicles having completed useful life - Rs.102.50 million	102.50
201	IESCO	11	429/2013-14	Irregular procurement of vehicles - Rs.35.72 million	35.72
202	IESCO	12	488/2013-14	Unjustified payment to daily wage staff - Rs.4.13 million	4.13
203	IESCO	13	499/2013-14	Irregular procurement of vehicles - Rs.64.50 million	64.50
204	LESCO	1	73/2013-14	Loss due to non-replacement of transformers damaged under warranty period - Rs.2.05 million	2.05
205	LESCO	2	74/2013-14	Non-return of replaced meters to store - Rs.7.44 million	7.44
206	LESCO	3	75/2013-14	Recoverable amount from independent consumers on account of energy losses beyond permissible limit - Rs.6.95 million	6.95
207	LESCO	4	85/2013-14	Blockage of revenue due to non-implementation of court orders - Rs. 6.76 million	6.76
208	LESCO	5	86/2013-14	Irregular award of contract - Rs.5.00 million	5.00
209	LESCO	6	105/2013-14	Recoverable amount from consumers on account of energy losses beyond permissible limit - Rs.65.25 million	65.25
210	LESCO	7	107/2013-14	Loss due to abnormal line losses beyond the targets set by NEPRA -Rs.1,209.04 million	1,209.04
211	LESCO	8	110/2013-14	Loss due to damage of electrical material - Rs.8.53 million	8.53
212	LESCO	9	111/2013-14	Loss due to non-replacement of material - Rs.100.13 million	100.13
213	LESCO	10	229/2013-14	Loss due to non-installation of independent transformers - Rs.1.76 million	1.76
214	LESCO	11	231/2013-14	Loss due to non-replacement of transformers damaged under warranty period - Rs.3.34 million	3.34

Sr. No.	Entity	Ind. No.	Draft Para No.	Subject	Rupees (in million)
215	LESCO	12	233/2013-14	Loss due to non-recovery from cable operators - Rs.11.84 million	11.84
216	LESCO	13	238/2013-14	Recoverable amount from independent consumers on account of energy losses beyond permissible limit - Rs.54.88 million	54.88
217	LESCO	14	239/2013-14	Loss due to non-installation of independent transformers - Rs.1.74 million	1.74
218	LESCO	15	255/2013-14	Loss due to non-recovery of feeder cost - Rs.32.55 million	32.55
219	LESCO	16	257/2013-14	Recoverable amount from independent consumers on account of energy losses beyond permissible limit - Rs.1.86 million	1.86
220	LESCO	17	261/2013-14	Non-disposal of scrap material - Rs.38.60 million	38.60
221	LESCO	18	263/2013-14	Un-due generation of revenue through over billing – Rs.2,475.47 million	2,475.47
222	LESCO	19	264/2013-14	Blockage of funds due to purchase of unnecessary material - Rs.19.99 million	19.99
223	LESCO	20	266/2013-14	Infructuous expenditure due to unnecessary construction of feeders - Rs.147.35 million	147.35
224	LESCO	21	292/2013-14	Non-encashment of security / performance bond - Rs.14.94 million	14.94
225	LESCO	22	295/2013-14	Recoverable amount from independent consumers on account of energy losses beyond permissible limit - Rs.16.15 million	16.15
226	LESCO	23	323/2013-14	Loss due to non-recovery of feeder cost and security deposit - Rs.13.85 million	13.85
227	LESCO	24	333/2013-14	Non-replacement of transformers damaged during warranty period – Rs.4.91 million	4.91
228	LESCO	25	579/2013-14	Loss due to non-replacement of transformers damaged under warranty period - Rs.5.69 million	5.69
229	LESCO	26	580/2013-14	Loss due to non-replacement of transformers damaged under warranty period - Rs.3.80 million	3.80
230	LESCO	27	582/2013-14	Non-utilization of idle line due to incomplete feeders-Rs.5.00 million	5.00
231	LESCO	28	583/2013-14	Loss due to electrification of housing schemes from public funds-Rs.2.48 million	2.48
232	LESCO	29	584/2013-14	Unlawful recovery on account of consultancy fee-Rs.9.36 million	9.36
233	LESCO	30	587/2013-14	Loss due to non-return of dismantled material - Rs.1.07 million	1.07
234	LESCO	31	588/2013-14	Non-recovery of cost of deposit works from sponsors - Rs.2.13 million	2.13
235	LESCO	32	592/2013-14	Loss on account of line losses due to cancellation of work of S-2 & S-5 feeders-Rs.21.63 million	21.63
236	LESCO	33	637/2013-14	Loss due to non-replacement of GSL wire-Rs.17.06 million	17.06
237	LESCO	34	643/2013-14	Non-return of excess material to store - Rs.1.06 million	1.06
238	LESCO	35	644/2013-14	Non-recovery of funds from sponsoring agencies for village electrification-Rs.2.21 million	2.21
239	LESCO	36	645/2013-14	Loss due to installation of more than one transformers-Rs.1.99 million	1.99
240	LESCO	37	647/2013-14	Non-completion of village electrification works – Rs.143.56 million	143.56

Sr. No.	Entity	Ind. No.	Draft Para No.	Subject	Rupees (in million)
241	LESCO	38	648/2013-14	Loss due to non-completion of work – Rs.14.69 million	14.69
242	LESCO	39	649/2013-14	Non-completion of feeder due to hindrance created by Housing Scheme-Rs.2.55 million	2.55
243	LESCO	40	657/2013-14	Non-disposal of off road vehicles - Rs.0.99 million	0.99
244	LESCO	41	658/2013-14	Non-recovery due to non-implementation of Section 54-C of Electricity Act 1910 – Rs.72.98 million	72.98
245	LESCO	42	684/2013-14	Non-recovery of supply charges against temporary connections -Rs.10.36 million	10.36
246	LESCO	43	685/2013-14	Non-recovery due to non-implementation of Section 54-C of Electricity Act 1910-Rs.207.12 million	207.12
247	LESCO	44	776/2013-14	Extra expenditure due to procurement of store material in violation of PPRA Rules - Rs.16.26 million	16.26
248	LESCO	45	778/2013-14	Loss due to abnormal line losses beyond the targets set by NEPRA - Rs.1,238.12 million	1,238.12
249	LESCO	46	781/2013-14	Blockage of funds owing to improper need assessment of electrical material – Rs.741.59 million	741.59
250	LESCO	47	784/2013-14	Irregular/unjustified expenditure on procurement of vehicles – Rs.26.88 million	26.88
251	MEPCO	1	09/2013-14	Non/less recovery of feeder rehabilitation charges – Rs.0.27 million	0.27
252	MEPCO	2	455/2013-14	Non/less recovery of feeder rehabilitation charges - Rs.0.23 million	0.23
253	MEPCO	3	565/2013-14	Blockage of revenue due to non-disposal of scrap material – Rs.41.44 million	41.44
254	MEPCO	4	626/2013-14	Unjustified/irregular payment of Qualification Pay - Rs.1.27 million	1.27
255	MEPCO	5	628/2013-14	Non-recovery from M/s Barqaab and employees - Rs.0.95 million	0.95
256	MEPCO	6	679/2013-14	Non-disposal of redundant transmission line – Rs.7.00 million	7.00
257	MEPCO	7	766/2013-14	Loss due to out of circuit capacitors - Rs.0.75 million	0.75
258	PESCO	1	201/2013-14	Loss of energy dues due to bogus bills prepared by the consumer - Rs.2.80 million	2.80
259	PESCO	2	204/2013-14	Non-recovery of energy dues from Government Departments - Rs.4.37 million	4.37
260	PESCO	3	205/2013-14	Loss due to non-recovery of energy dues from illegal consumers - Rs. 24.92 million	24.92
261	PESCO	4	206/2013-14	Loss due to illegal installation of transformers of - Rs. 1.16 million	1.16
262	PESCO	5	210/2013-14	Loss due to non-recovery of arrears from industrial consumers - Rs.46.14 million	46.14
263	PESCO	6	212/2013-14	Non-recovery of energy charges from the consumers - Rs.8.09 million	8.09
264	PESCO	7	217/2013-14	Loss due to sabotage activities - Rs.1.93 million	1.93
265	PESCO	8	219/2013-14	Non-disposal of dismantled material - Rs.2.00 million	2.00
266	PESCO	9	221/2013-14	Loss due to sabotage activities - Rs.2.67 million	2.67
267	PESCO	10	247/2013-14	Non-disposal of off road vehicles - Rs.4.81 million	4.81

Sr. No.	Entity	Ind. No.	Draft Para No.	Subject	Rupees (in million)
268	PESCO	11	304/2013-14	Irregular payment on account of private repair of transformers - Rs.275 million	275.00
269	PESCO	12	341/2013-14	Irregular procurement of vehicles - Rs.45.923 million	45.92
270	PESCO	13	347/2013-14	Non recovery of fix charges wrongly credited to the industrial consumers - Rs. 27.03 million	27.03
271	PESCO	14	348/2013-14	Unrealized amount of agreed audit notes - Rs.326.66 million	326.66
272	PESCO	15	351/2013-14	Un-justified payment of transport subsidy in lieu of option –I car - Rs.0.74 million	0.74
273	PESCO	16	353/2013-14	Loss due to non-replacement of transformers damaged under warranty period - Rs.1.47 million	1.47
274	PESCO	17	358/2013-14	Non-recovery from running and disconnected defaulters- Rs. 31.12 million	31.12
275	PESCO	18	367/2013-14	Loss due to sabotage activities - Rs.12.45 million	12.45
276	PESCO	19	369/2013-14	Non-disposal of dismantled material and off-road vehicles - Rs.105.11 million	105.11
277	PESCO	20	374/2013-14	Loss due to fire incident - Rs.3.20 million	3.20
278	PESCO	21	375/2013-14	Loss due to leakage of transformer oil - Rs.0.90 million	0.90
279	PESCO	22	379/2013-14	Recurring annual loss due to delay in completion of H.T. Proposals - Rs.1,710.41 million	1,710.41
280	PESCO	23	380/2013-14	Loss due to unjustified provision of higher capacity transformer – Rs. 2.354 million	2.35
281	PESCO	24	383/2013-14	Loss due to payment made for inspection of material – Rs.0.72 million	0.72
282	PESCO	25	385/2013-14	Loss due to shortage of material – Rs.0.57 million and non-accountal of surplus material - Rs.2.46 million	3.03
283	PESCO	26	401/2013-14	Loss due to damage of distribution system during flood – Rs.9.29 million	9.29
284	PESCO	27	404/2013-14	Loss on account of canceled work - Rs.0.48 million	0.48
285	PESCO	28	519/2013-14	Non - recovery of out standing energy dues from industrial consumers - Rs. 21.55 million	21.55
286	PESCO	29	520/2013-14	Non-recovery of income tax from pay - Rs.0.10 million	0.10
287	PESCO	30	544/2013-14	Irregular payment on account of private repair of transformers - Rs.23.896 million	23.90
288	PESCO	31	545/2013-14	Non - recovery of out standing energy dues from the consumers of Afghan refugee camp - Rs.5.48 million	5.48
289	QESCO	1	33/2013-14	Loss due to non-return of electrical material - Rs.2.22 million	2.22
290	QESCO	2	41/2013-14	Excess payment to contractor due to excessive measurement - Rs.8.76 million	8.76
291	QESCO	3	56/2013-14	Non-recovery of liquidated damages charges from contractors - Rs.1.76 million	1.76
292	QESCO	4	87/2013-14	Loss due to excess payment to M/s BARQAAB consultants– Rs.4.00 million	4.00
293	QESCO	5	88/2013-14	Non-completion of long outstanding abandoned works - Rs.3.06 million	3.06
294	QESCO	6	184/2013-14	Loss due to sabotage activities and non-return of material - Rs.8.62 million	8.62

Sr. No.	Entity	Ind. No.	Draft Para No.	Subject	Rupees (in million)
295	QESCO	7	432/2013-14	Blockage of funds due to non-completion of water supply schemes – Rs.8.87 million	8.87
296	QESCO	8	443/2013-14	Non-recovery of shifting charges - Rs.0.13 million	0.13
297	QESCO	9	444/2013-14	Loss due to unjustified credits afforded to the industrial consumers – Rs.2.04 million	2.04
298	QESCO	10	547/2013-14	Loss due to damage of equipment during sabotage activities - Rs.2.11 million	2.11
299	QESCO	11	552/2013-14	Non-recovery of liquidated damages from supplier - Rs.0.56 million	0.56
300	QESCO	12	554/2013-14	Recoverable amount of standard rent from the employees – Rs.0.65 million	0.65
301	QESCO	13	559/2013-14	Loss of due to non-payment of electricity dues from illegal tube-well connections - Rs.12,000 million	12,000.00
302	QESCO	14	560/2013-14	Unjustified/irregular payment of Qualification Pay - Rs.0.68 million	0.68
303	QESCO	15	561/2013-14	Non-mutation of property - Rs 105.90 million	105.90
304	TESCO	1	159/2013-14	Loss of electrical material due to wind storm/sabotage activities - Rs.1.10 million	1.10
305	TESCO	2	164/2013-14	Non-disposal of un-serviceable/dismantled material - Rs.8.77 million	8.77
306	TESCO	3	165/2013-14	Loss due to less recovery of security deposits - Rs.0.44 million	0.44
307	TESCO	4	169/2013-14	Loss due to selling of electrical material by the employees – Rs.0.58 million	0.58
				TOTAL	**202,456.20**