AUDIT REPORT
ON
THE ACCOUNTS OF
WATER AND POWER
DEVELOPMENT AUTHORITY
AUDIT YEAR 2014-15

AUDITOR-GENERAL OF PAKISTAN

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ABBREVIATIONS AND ACRONYMS

ACSR	Aluminum Conductor Steel Re-enforced
ADB	Asian Development Bank
AEDB	Alternative Energy Development Board
AEL	Annual Energy Losses
AJ&K	Azad Jammu and Kashmir
ALM	Assistant Line Man
B&C	Budget & Consolidation
BOD	Board of Directors
BOOT	Built, Own, Operate and Transfer
BOQ	Bill of Quantity
BPCs	Bulk Power Consumers
BPS	Basic Pay Scale
BTU	British Thermal Unit
CAATs	Computed Assisted Auditing Techniques
CCC	Central Contract Cell
CCPP	Combined Cycle Power Plant
CDA	Capital Development Authority
CDL	Cash Development Loan
CDWP	Central Development Working Party
CEO	Chief Executive Officer
CFL	Compact Florescent Lamps
CHASNUPP	Chashma Nuclear Power Plant
COBOL	Common Business Oriented Language
CP	Commercial Procedure
CP	Commercial Procedure
CPGCL	Central Power Generation Company Limited
CPPA	Central Power Purchasing Agency
CRBC	Chashma Right Bank Canal
CRRK	Chief Resident Representative Karachi
CSA	Consultancy Services Agreement
DAC	Departmental Accounts Committee
DDO	Drawing & Disbursing Officer
DG	Director General
DHA	Defence Housing Authority
DISCOs	Distribution Companies
DoP	Development of Power
DP	Draft Para
E&M	Electrical & Mechanical
ECC	Economic Coordination Committee
ECNEC	Executive Committee of the National Economic Council
EHV	Extra High Voltage
ELR	Energy Loss Reduction
EMB	Electrical Measurement Bank
EOT	Extension of Time
EPC	Engineering Procurement and Construction
EPC	Engineering, Procurement & Construction
ERO	Equipment Removal Order
ERP	Enterprise Resource Planning
FATA	Federally Administered Tribal Area
FBR	Federal Board of Revenue

FC	Frontier Constabulary
FCC	Foreign Currency Component
FCC	Fuel Cost Component
FCC	Fixed Cost Component
FCS	Free Consignee Store
FESCO	Faisalabad Electric Supply Company
FIA	Federal Investigation Agency
FIDIC	Federation International Des Ingenieurs-Conseils
FIR	First Information Report
FPA	Fuel Price Adjustment
FWO	Frontier Works Organization
GBHP	Ghazi Barotha Hydropower Project
GCC	Gas Cost Component
GENCOs	Generation Companies
GEPCO	Gujranwala Electric Power Company
GFR	General Financial Rules
GHCL	GENCO Holding Company Limited
GM	General Manager
GoP	Government of Pakistan
GSC	Grid System Construction
GSO	Grid System Operation
GST	General Sales Tax
GTPS	Gas Thermal Power Station
GWH	Gegawatt Hours
GZD	Gomal Zam Dam
HESCO	Hyderabad Electric Supply Company
HFO	High Speed Furnace Oil
HP	Horse Power
HPP	Hydro Power Project
HPS	Hydel Power Station
HSD	High Speed Diesel
HT	High Tension
IAS	International Accounting Standards
IDC	Interest During Construction
IESCO	Islamabad Electric Supply Company
IPC	Interim Payment Certificate
IPPs	Independent Power Producers
IRSA	Indus River System Authority
ISRIP	International Sedimentation Research Institute, Pakistan
JICA	Japan International Co-operation Agency
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 Pukhtunkhwa
KV	Kilo Volt
KVA	Kilo Volt Amps
KW	Kilo Watt
KWh	Kilo Watt Hours
LAC	Land Acquisition Collector
LC	Letter of Credit
LD	Liquidated Damages

LESCO	Lahore Electric Supply Company
LOI	Letter of Intent
LPGCL	Lakhra Power Generation Company Limited
LT	Low Tension
M.S	Medical Superintendent
MD	Managing Director
MDI	Maximum Demand Indicator
MDR	Mangla Dam Raising
MDRP	Mangla Dam Raising Project
MEPCO	Multan Electric Power Company
MFDAC	Memorandum for Departmental Accounts Committee
MIS	Management Information System
MKWH	Million Kilo Watt Hour
MMBTU	Million British Thermal Unit
MMCFT	Million Cubic Feet
MRN	Material Return Note
MT	Metric Ton
MVA	Mega Volt Ampere
MW	Mega Watt
NAB	National Accountability Bureau
NEO	Net Electric Output
NEPRA	National Electric Power Regulatory Authority
NGPS	Natural Gas Power Station
NJHPC	Neelum Jhelum 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
PAC	Public Accounts Committee
PAEC	Pakistan Atomic Energy Commission
PC Poles	Pre-stressed Concrete Poles
PCC	Particular Condition of Contract
PC-I	Planning Commission Proforma-I
PCRET	Pakistan Council of Renewable Energy Technology
PD	Project Director
PDP	Proposed Draft Para
PEC	Pakistan Engineering Council
PEPCO	Pakistan Electric Power Company
PESCO	Peshawar Electric Supply Company
PHPL	Power Holding Private Limited
PITC	Power Information Technology Company
PMU	Project Management Unit
PMU	Project Management Unit
POL	Petrol, Oil and Lubricants
POs	Provisional Orders
PPA	Power Purchase Agreement
PPIB	Pakistan Power Infrastructure Board
PPRA	Public Procurement Regulatory Authority
PRES	Pakistan Renewable Energy Society
PSC	Power Sector Companies
PSCs	Public Sector Companies
PSDP	Public Sector Development Programme

PSO	Pakistan State Oil
PWP	Peoples Works Programme
QESCO	Quetta Electric Supply Company
RBOD	Right Bank Outfall Drainage
RCO	Reconnection Order
REAP	Renewable Energy Association Pakistan
RFO	Residual Furnace Oil
RPP	Rental Power Project
SAP	System Augmentation Project
SCARP	Salinity Control and Reclamation Project
SEPCO	Sukkur Electric Power Company
SEPCOL	Southern Electric Power Company Limited
SHPS	Small Hydel Power Station
SHYDO	Sarhad Hydro Development Organization
SMS	Secured Metering System
SNGPL	Sui Northern Gas Pipelines
SO	System Operator
SOPs	Standard Operating Procedures
SPP	Small Power Producer
SRO	Statutory Regulatory Order
SSGC	Sui Southern Gas Company
STG	Secondary Transmission Lines and Grids
T&D	Transmission & Distribution
T&T	Transformation and Transmission
TBM	Tunnel Boring Machine
TDS	Tariff Differential Subsidy
TESCO	Tribal Areas Electric Supply Company
TLC	Transmission Line Construction
TNO	Transmission Network Operator
TNO	Transmission Network Operator
TOU	Time of Use
TPS	Thermal Power Station
UDC	Upper Division Clerk
UOSC	Use of System Charges
VO	Variation Order
WAPDA	Water and Power Development Authority
WASC	WAPDA Administrative Staff College
WEPS	WAPDA Equipment Protection System
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 2013-14 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 2014-15 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 observations 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: March 18, 2015

(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 fifty one (151) out of two hundred and eighty eight (288) formations was conducted by utilizing twenty two thousand one hundred and forty one (22,141) man-days incurring expenditure of Rs 181.96 million.

a. Scope of Audit

Total auditable expenditure and revenue budget for the financial year 2013-14, under the jurisdiction of Director General Audit WAPDA were Rs 658,423 million and Rs 603,779 million respectively. The Director General Audit WAPDA conducted audit of the above expenditure and receipts up to the amount of Rs 601,315 million (91%) and Rs 603,758 million (99%) 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 909,567.56 million was pointed out at the instance of Audit and recovery of Rs 892,048.32 million was established during the audit year 2014-15. Recovery of Rs 399.38 million was effected from January, 2014 to December, 2014.

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 242,289.62 million from various defaulters and recovery drive has been launched by various distribution companies after being pointed out by Audit. Procurement of material and consultancy services at various WAPDA/PEPCO formations involved violation of PPRA Rules, provision of PC-I and contract clauses. On the instance of Audit, now the management is 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 was deteriorating day by day as increase in cases of unauthorized extension of load, non-implementation of EROs, violation of PPRA Rules were indicating failure of controls.

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

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

f. The key audit findings of the report;

i. 127 cases of irregular expenditure/unjustified payments and violation of rules amounting to Rs 231,727.80 million.[1]

ii. 27 cases of embezzlement of public money, theft and misuse of funds amounting to Rs 3,079.27 million. [2]

iii. 2 cases pertaining to accounting errors and misclassification amounting to Rs 97,801.72 million. [3]

iv. 14 cases pertaining to weaknesses of internal control systems amounting to Rs 874.54 million. [4]

v. 79 cases pertaining to recoveries and overpayments amounting to Rs 492,294.23 million. [5]

vi. 4 cases of non-production of record involving Rs 29,043.22 million.[6]

vii. 12 cases pertaining to others, accidents, negligence, etc. amounting to Rs 199,079.04 million. [7]

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[1]Para-1.3.2, 1.3.3, 1.3.5, 1.3.6, 1.3.8, 1.3.9, 1.3.10, 1.3.12, 1.3.13, 1.3.15, 1.3.17, 1.3.18, 1.3.19, 1.3.21, 1.3.23, 1.3.25, 1.3.26, 1.3.27, 2.3.3, 2.3.4, 2.3.6, 2.3.9, 2.3.10, 2.3.12, 2.3.14, 2.3.15, 2.3.17, 2.3.19, 2.3.20, 3.3.2, 3.3.3, 3.3.4, 3.3.5, 3.3.6, 3.3.7, 3.3.8, 3.3.10, 3.3.12, 3.3.13, 3.3.14, 4.1.6, 4.1.7, 4.1.9, 4.1.10, 5.3.1, 6.2.1, 6.2.2, 6.2.3, 6.2.5, 6.2.7, 6.2.8, 7.2.4, 7.2.5, 7.2.6, 7.2.7, 7.2.9, 7.2.10, 7.2.11, 7.2.12, 8.3.1, 9.3.5, 9.3.7, 9.3.10, 9.3.11, 9.3.12, 9.3.13, 9.3.14, 9.3.15, 9.3.17, 9.3.18, 9.3.20, 9.3.21, 9.3.22, 10.4.7, 10.4.8, 10.4.12, 10.4.14, 11.3.3, 11.3.4, 11.3.8, 11.3.9, 11.3.11, 11.3.13, 12.3.2, 12.3.6, 13.3.4, 13.3.7, 13.3.10, 13.3.11, 13.3.12, 14.3.3, 14.3.5, 14.3.6, 14.3.7, 14.3.14, 14.3.15, 14.3.16, 14.3.17, 14.3.19, 14.3.21, 14.3.24, 15.4.5, 15.4.6, 15.4.7, 15.4.8, 15.4.12, 15.4.16, 15.4.18, 16.3.1, 16.3.3, 16.3.4, 16.3.10, 16.3.17, 16.3.18, 16.3.19, 16.3.20, 16.3.21, 16.3.23, 16.3.24, 16.3.25, 16.3.28, 17.3.7, 17.3.10, 17.3.11, 17.3.12, 18.2.5, 18.2.6

[2]Para-1.3.4, 4.1.1, 6.2.4, 7.2.1, 10.4.1, 10.4.2, 10.4.3, 10.4.13, 11.3.7, 12.3.9, 13.3.1, 13.3.5, 14.3.20, 15.4.1, 15.4.17, 16.3.6, 16.3.7, 16.3.9, 16.3.12, 16.3.16, 16.3.29, 17.3.1, 17.3.5, 18.2.1, 18.2.2, 19.2.1, 19.2.3

[3]Para-10.4.6, 14.3.1

[4]Para-1.3.14, 1.3.16, 2.3.18, 6.2.9, 9.3.16, 9.3.23, 9.3.25, 14.3.10, 14.3.18, 14.3.22, 15.4.13, 15.4.14, 16.3.14, 16.3.27

[5]Para-1.3.7, 1.3.11, 1.3.21, 1.3.23, 1.3.25, 2.3.2, 2.3.5, 2.3.7, 2.3.8, 2.3.11, 2.3.13, 2.3.16, 3.3.9, 3.3.11, 4.1.2, 4.1.4, 4.1.5, 4.1.8, 5.3.2, 7.2.3, 7.2.8, 7.2.13, 7.2.14, 9.3.2, 9.3.4, 9.3.6, 9.3.9, 9.3.19, 9.3.24, 10.4.4, 10.4.5, 10.4.9, 10.4.10, 10.4.11, 10.4.15, 11.3.1, 11.3.2, 11.3.5, 11.3.6, 11.3.10, 11.3.12, 12.3.1, 12.3.3, 12.3.4, 12.3.5, 12.3.7, 12.3.8, 12.3.10, 13.3.2, 13.3.3, 13.3.6, 13.3.8, 14.3.2, 14.3.8, 14.3.9, 14.3.11, 14.3.12, 15.4.2, 15.4.3, 15.4.4, 15.4.9, 15.4.10, 15.4.11, 15.4.15, 16.3.2, 16.3.5, 16.3.8, 16.3.11, 16.3.13, 16.3.15, 17.3.2, 17.3.3, 17.3.4, 17.3.6, 17.3.8, 17.3.9, 18.2.2, 18.2.3, 18.2.4, 19.2.2

[6]Para-1.3.1, 2.3.1, 3.3.1, 9.3.1

[7]Para-4.1.3, 4.1.11, 6.2.6, 7.2.2, 9.3.3, 9.3.8, 13.3.9, 14.3.4, 14.3.13, 14.3.23, 16.3.22, 16.3.26

Audit paras for the Audit Year 2014-15 involving procedural violations including internal controls weaknesses and irregularities, not considered significant enough to report to the Parliament, have been included in MFDAC Report (Annexure-I).

g. Recommendations

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

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

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

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

vi. For effective inventory management it is suggested to purchase material in accordance with the inventory demand. The management needs to 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 for years together as per disposal procedures.

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

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

SUMMARY TABLES & 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*	21	658,423.22	603,779.32
2	Total formations in audit jurisdiction.	288	658,423.22	603,779.32
3	Total entities audited	19	601,315.32	603,757.84
4	Total formations audited	151	**601,315.32	603,757.84
5	Audit & Inspection Reports	151	-	-
6	Special Audit Report	1	-	-
7	Performance Audit Reports	1	-	-
8	Other Reports		-	-

* *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	3,079.27
2	Weak financial management	724,022.03
3	Weak internal controls relating to financial management	98,676.26
4	Others	228,122.26
	Total	***1,053,899.82**

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 2014-15 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	5,380.73	62,272.65	533,661.94	603,757.84	1,205,073.16	1,259,359.50
2	Amount placed under audit observation/ irregularities of auditee	3,821.93	111,090.84	3,023,472.46	21,432.51	*3,159,817.74	4,207,436.79
3	Recoveries pointed out at the instance of audit	258.96	1574.02	891,003.65	16,730.93	909,567.56	31,898.382
4	Recoveries accepted/ established at the instance of audit	7.16	111.59	878,605.29	13,324.28	892,048.32	5,538.83
5	Recoveries realized at the instance of audit	15.16	5.92	22.53	355.77	399.38	1,481.98

* *The total audit observations amounting to Rs 3,159,817.74 million includes data of balances of previous years.*

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.	699,163.09
2.	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	13,784.55
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.	712,947.64
4.	Weaknesses of internal control systems.	199,872.59
5.	Recoveries and overpayments, representing cases of establishment overpayment or misappropriations of public moneys.	892,048.32
6.	Non-production of record.	29,435.18
7.	Others, including cases of accidents, negligence etc.	612,566.37
	Total	**3,159,817.74**

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 ***(Rs in million)***

Sr. No.	Description	2014-15	2013-14	2012-13
1	Outlays Audited (Item 1 of Table 3)	1,205,073.16	1,259,359.50	403,145.18
2	Expenditure on Audit	181.96	190.56	141.69
3	Recoveries realized at the instance of Audit	399.38	1,481.98	1,097.84
	Cost-Benefit Ratio	1:2.19	1:7.78	1:7.75

MINISTRY OF WATER AND POWER

(A) WATER AND POWER DEVELOPMENT AUTHORITY (WAPDA)

CHAPTER-1

WATER WING

1. WATER WING

1.1 Introduction

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

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

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

Eighteen million acres of land has 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.

Mirani Dam, Sabakzai Dam and Greater Thal Canal Phase-I projects have been completed in June, 2007, June, 2009 and December, 2009 respectively, which are cultivating 395,500 acres of land. National Drainage Programme in four provinces has been completed in June, 2007.

Gomal Zam Dam was inaugurated by the Minister of Water and Power in September, 2013 and work on irrigation component is in progress. Work on Rainee Canal (Phase-I), Kachhi Canal (Phase-I) Projects and on Drainage Schemes RBOD-I & III in Sindh and Baluchistan is in progress. Civil works of Mangla Dam Raising Project have been completed in December, 2009 whereas resettlement works are scheduled to be completed by December, 2014.

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, 2014)

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	1998-99	2	-	-	2 (Para No. 7 & 8)
	2007-08	5	-	-	5 (Para No. 1.1, 1.2, 1.4, 1.5 & 1.7)
	2010-11	8	-	-	8 (Para No. 1.3.1.1, 1.3.3.2, 1.3.3.3, 1.3.3.4, 1.3.3.5, 1.3.3.6, 1.3.3.7 & 1.3.3.8)
	2011-12	19	-	-	19 (Para No. 1.3.1, 1.3.2, 1.3.3, 1.3.4, 1.3.5, 1.3.6, 1.3.8, 1.3.9, 1.3.12, 1.3.13, 1.3.14, 1.3.17, 1.3.18, 1.3.19, 1.3.20, 1.3.21, 1.3.22, 1.3.23 & 1.3.25)

Position of compliance with PAC directives is not satisfactory.

1.3 AUDIT PARAS

1.3.1 Non-production of record – Rs 29.82 million

Public Accounts Committee issued the directives on June 30, 2004 to the department to make available all information/record to Audit as and when required by them, otherwise, disciplinary action will be initiated against persons responsible for the delay under Section-14C (2&3) of the Auditor-General's Ordinance, 2001.

In Chashma Right Bank Canal Project, an expenditure of Rs 29.82 million was incurred on account of POL and repair during the financial year 2013-14 but the relevant record of vehicles/assets was not produced to Audit. In absence of the record of assets, the authenticity of the said expenditure could not be ascertained. Violation of PAC directives resulted in non-production of record of Rs 29.82 million during the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in November, 2014. The management replied that the record was being produced to Branch Audit Officer for examination.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record for examination within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to inquire the matter for fixing responsibility for non-production of record besides ensuring production of record to Audit.

(DP No. 1861/2014-15)

1.3.2 Defective civil works of Gomal Zam Dam Project - Rs 4,770.43 million

According to Clause-2.3 (Section-VII) of Contract No.GZD-02, seepage quantities and pressure shall be limited to prevent internal erosion, piping and/or uplift that could cause instability. Moreover, as per design (Revision-3) page-69 of Gomal Zam Dam Project, submitted by contractor/sublet contractor, minimum and maximum seepage limits would be ranged between 0.18 m^3/sec to 0.2 m^3/sec.

In Gomal Zam Dam Project, as per monthly progress of April, 2014, the overall actual seepage was around 2.0 m^3/sec from dam foundation and right & left abutment of dam against the prescribed normal range between 0.18 m^3/sec to 0.2 m^3/sec. The contractor was already advised on June 21, 2011 to control the seepage but it could not be controlled despite lapse of three years. Audit was of the view that due to defective civil works of dam and hydropower component, the wetted surfaces appearing in the main dam body and power house may cause damage to dam and its allied structures. The uncontrolled seepage not only caused depletion of reservoir, revenue loss, less generation of power and time based requirements of irrigation supplies but also the expenditure of Rs 4,770.43 million would go waste in case of any major mishap. Non-observance of contract clause resulted in defective civil works of the Project valuing Rs 4,770.43 million up to financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in December, 2014. The management replied that the seepage required standards were not met but would be attained with the passage of time. However, Dam Safety Organization monitors the project on annual examination basis.

The DAC in its meeting held in January, 2015 directed the management to provide progress reports of Dam Safety Organization for the analysis of risk within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to inquire the matter for fixing responsibility of defective construction of Dam and allied structures besides taking the corrective measures to control the seepage at the risk and cost of the contractor.

(DP No. 1888/2014-15)

1.3.3 Loss of generation due to defective (E&M) works of dam and hydropower component – Rs 951.66 million

Clause-8.2 of the general conditions of Contract No. GZD-02 provides that the contractor shall complete the whole of the works, and each Section (if any), within the time for completion for the works or section (as the case may be), including; a) achieving the passing of tests on completion, and b) completing all works which is stated in the contract as being required for the Works or Section to be considered to be completed for the purpose of taking over under sub clause 10.1. Moreover, as per Para-7.7 of the minutes of the Authority's meeting dated June 07, 2013, the dam and hydropower component of contract was to be completed and handed over to WAPDA by June 15, 2013.

In Gomal Zam Dam Project, the dam and hydropower component was to be completed by the contractor and handed over to WAPDA up to June 15, 2013 which was not done up to June, 2014. The defect free performance of all equipments could not be proved even in the defect liability period w.e.f. June 16, 2013 to June 15, 2014. The power house had generated only 26.51 million kwh up to June 30, 2014 against the required generation of 158.69 million kwh. Violation of the contract clause resulted in revenue loss of Rs 951.66 million due to less generation of electricity during the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in October, 2014. The management replied that the defects were being removed after adding in the punch list and defect liability period was being extended.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry at Authority level for fixing the responsibility and submit its report within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 1850/2014-15)

1.3.4 Doubtful expenditure on installation of equipments without witness of tests – Rs 667.49 million

Clause-2.7 (Section-VII) of contract states that the material, equipment, etc. related to or intended for incorporation in the works, shall be subject to such tests and inspections as may be necessary to prove compliance with the requirements of the contract documents. The contractor shall, upon reasonable notice, grant the employer's representative, at all times, free access to his factories and workshops.

In Gomal Zam Dam Project, the employer's representative was not provided the opportunity to witness the tests of E&M equipment at the sublet contractor's/manufacturers shop in China during manufacturing and assembly of turbine & generation units before shipment. The equipment did not prove the satisfactory operation during test as per punch list of defective works issued by the Engineer. Non-compliance of contract clause resulted in doubtful expenditure of Rs 667.49 million due to installation of equipments without witness of tests by the Employer's representative during the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in October, 2014. The management replied that the equipment was installed without test as per WAPDA specifications.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry at Authority level for fixing the responsibility and submit its report within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 1851/2014-15)

1.3.5 Wasteful expenditure due to fabrication of penstock with unspecified steel – Rs 39.78 million

According to the Clause 2.14 (Section VII), of Contract No. GZD-02, all materials used in the permanent works and workmanship shall generally be of standard quality available in Pakistan and except where otherwise specifically instructed or where specific standards are referred to, comply with any of the latest issues of the relevant Standards and Codes of Practices.

In Gomal Zam Dam Project, according to punch list of defective (E&M) works, an expenditure of Rs 39.78 million was incurred on the construction of intake tunnel under BOQ item No. 3.2 of contract as the penstock was fabricated with unspecified steel other than the steel of quality prescribed by the contractor/sublet contractor. Violation of contract clauses resulted in wasteful expenditure of Rs 39.78 million due to fabrication of penstock with unspecified steel during the financial 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in October, 2014. The management replied that there was a problem of compatibility of Chinese and American standards and the material at site was under testing as per specification.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry at Authority level for fixing the responsibility and submit its report within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1848/2014-15)

1.3.6 Wasteful expenditure due to Installation of non-confirming transformer with employer's requirement – Rs 13.83 million

According to Clause-6.1 (Section-VII) of Contract No. GZD-02, in order to connect the plant to the grid, a 1 MVA, 132/11 KVA transformer with necessary switchgear will be provided at the Power Plant Switchyard for local area loads.

In Gomal Zam Dam Project, the contractor installed a 1 MVA, 145/11 KVA transformer valuing Rs 13.83 million instead of 132/11 KVA transformer. The installed transformer was non-confirming with Employer's requirement. Violation of contract provision resulted in wasteful expenditure of Rs 13.83 million due to installation of non-specified transformer during the financial year 2013-14

The matter was taken up with the management in August, 2014 and reported to the Ministry in October, 2014. The management replied that the contractor had agrred to replace the transformer at his own cost and the transformer would be replaced as per WAPDA's specification.

The DAC showed its concern over non-observance of pre-DAC's decision i.e. replacement of transformer at the risk and cost of the contractor and the DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry for non-replacement of transformer within timelines and submit its report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1849/2014-15)

1.3.7 Excess payment of price adjustment – Rs 5.80 million

According to Sub-Clause 13.8 of Contract, the contract price shall be adjusted for rises and falls in the cost of specified elements as per Para-7 of the Standard Procedure and Formula for price adjustment, (July, 2005) issued by the Pakistan Engineer Council (PEC).

In Gomal Zam Dam Project, labour escalation of Rs 19.52 million was paid to contractor against his claim of Rs 13.72 million in IPC-56 & 58 for the months of February, March and June, 2013. Violation of contract provisions resulted in excess payment of Rs 5.80 million on account of price adjustment of labour up to 2013-14.

The matter was taken up with the management and reported to the Ministry in August, 2014. The management replied that no excess payment against overall price adjustment was made to the contractor rather a saving of Rs 368.54 million was accrued on the basis of physical verification of quantities. The departmental reply was not accepted by Audit.

The DAC in its meeting held in January, 2015 directed the management to conduct a fact finding inquiry and submit its report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1827/2014-15)

1.3.8 Non-renewal of insurance policies in contracts – Rs 1,316.94 million

As per Clause-25.3 of the contracts, if the contractor fails to effect and keep in force any of the insurances required under the contract, then in any such case the Employer may effect and keep in force any such insurances and pay any premium as may be necessary and from time to time deduct the amounts so paid from any monies due to the contractor, or recover the same as a debt due from the contractor.

In Mangla Dam Raising Project, insurance policies of Contracts MDR-32, MDR-34 and MDR-36A were expired on December 31, 2009 and December 11, 2011 respectively but these were not got renewed from the contractors up to the date of completion of the project. Violation of contract clauses resulted in non-renewal of insurance policies valuing Rs 1,316.94 million up to 2013-14.

The matter was taken up with the management in June, 2014 and reported to the Ministry in June, 2014. The management replied that insurance policies would be got renewed from Adamjee Insurance on allocation of funds.

The DAC in its meeting held in January, 2015 directed the management to take up the matter with higher-ups for allocation of funds, intimate reasons for delay in chronological order, provide detail evidence of expenditure incurred and renewal of insurance policy to Audit for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1816/2014-15)

1.3.9 Inadmissible payment to the contractor on account of escalation on general items of contract – Rs 41.92 million

According to BOQ Item No. 1.1 of general items of contract for construction of Nai Gaj Dam Project, there was a lump sum provision of Rs 920 million for care and handling of water including dewatering arrangements.

In Nai Gaj Dam Project, the payment of Rs 41.92 million was made to the contractor on account of escalation in IPC-5 & IPC-6, on the cost of general item i.e. care and handling of water including dewatering. The general item was a lump sum payment item of Rs 920 million hence, the escalation was not to be paid against this item. Violation of contract provision resulted in inadmissible payment of Rs 41.92 million to contractor on account of escalation on general items of contract during the financial year 2013-14

The matter was taken up with the management in April, 2014 and reported to the Ministry in December, 2014. The management replied that only day work, contract variations and provisional sums were not subject to that price adjustment. However, it was not mentioned anywhere in contract that lump sum items were excluded from price adjustment. Audit did not agree with the departmental stance.

The DAC in its meeting held in January, 2015 directed the management to take up the matter with CCC for opinion and report to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1894/2014-15)

1.3.10 Infructuous expenditure due to non-execution of project Rs 250.70 million

According to PC-I proforma, the Kurram Tangi Dam was to be completed up to June, 2008 at a cost of Rs 17,205.27 million.

In Kurram Tangi Dam Project, an amount of Rs 250.70 million was incurred against consultancy, land, administrative and miscellaneous expenditure up to May 31, 2014 but no construction activities were started at the project site despite lapse of six years beyond completion schedule. Non-execution of project as per schedule of PC-I resulted in infructuous expenditure of Rs 250.70 million up to 2013-14.

The matter was taken up with the management in June, 2014 and reported to the Ministry in June, 2014. The management replied that the project could not be started due to law and order situation prevailing in the area. The departmental reply was considered unsatisfactory.

The DAC in its meeting held in January, 2015 directed the management to submit detailed reply regarding reasons for delay in execution of work in chronological order and to devise a plan to cope with such instances as the cost of the project was increasing simultaneously. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter for fixing the responsibility for infructuous expenditure.

(DP No. 1817/2014-15)

1.3.11 Non-recovery of advance and interest income – Rs 42.58 million

Clause-6.4(a)(i) of consultancy services agreement (CSA) provides that the client shall pay to the consultants an advance payment to meet the initial funding requirements of the consultants @ 10% of the contract amount against a bank guarantee. The consultants shall submit the bank guarantee within 15 days from the date of effectiveness of contract. The advance payment shall be recoverable by client in 12 equal monthly installments, starting from Consultant's 3^{rd} running bill.

In Kurram Tangi Dam Project, an advance of Rs 48.42 million was granted to M/s MM Consultants Pakistan in February, 2012. The recovery of the advance payment was to be effected from April, 2012 to March, 2013 but the company submitted invoices (1 to 15) in June, 2013 and only an amount of Rs 15.39 million was adjusted leaving a balance of Rs 33.03 million. Non-submission of monthly invoices on due dates, delayed the recovery of Rs 42.58 million (advance of Rs 33.03 million + interest income of Rs 9.55 million).

The matter was taken up with the management in May, 2014 and reported to the Ministry in July, 2014. The management replied that amount of mobilization advance was recovered but the interest was not recoverable as mobilization advance was interest free.

The DAC in its meeting held in January, 2015 directed the management to produce the recovery record for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter for fixing the responsibility besides recovery of balance amount of advance along-with interest from the consultants.

(DP No. 1818/2014-15)

1.3.12 Unauthorized expenditure on running and maintenance of vehicles Rs 1.20 million

According to Para-11.4 (b) of DDO's Handbook, the funds allotted to a Ministry/Division, it's attached or subordinate offices are to be spent for the purpose for which they are allocated.

In Kurram Tangi Dam Project, four vehicles were being utilized by office of the General Manager (Projects) North, Peshawar and by Ministry of Water and Power, Islamabad. The running and maintenance expenditure of Rs 1.20 million on these vehicles was incurred out of the project's budget/funds during financial year 2013-14. Utilization of vehicles other than the project purpose and charging their expenditure to project was contrary to rules which resulted in unauthorized expenditure of Rs 1.20 million on running and maintenance of vehicles.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that the vehicles were used to attend meetings at Peshawar & Islamabad. Departmental stance was not accepted by Audit.

The DAC in its meeting held in January, 2015 directed the management to submit revised reply along with justification for unauthorized expenditure within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 1876/2014-15)

1.3.13 Non-submission of adjustment account of advances Rs 343.64 million

According to Paras-26 & 28 (Chapter-VI) of WAPDA Act-1958, complete and accurate books of accounts of all projects/schemes and transactions relating to the Authority shall be maintained to the satisfaction of the Federal Governmnet on whose behalf the accounts of the Authority shall be audited every year by the Auditor-General of Pakistan.

In Greater Thal Canal Project, an advance payment of Rs 343.64 million was made to LAC and other departments to acquire land and execute works during the years 2004-05, 2007-08 and 2009-10. The adjustment accounts along with supporting documents were not submitted by the respective departments to the project Authorities. The project was completed and handed over to the Irrigation and Power Department, Government of the Punjab on October 2, 2009 but the actual expenditure was yet to be charged to the project. Non-adherence to the WAPDA Act resulted in non-submission of adjustment accounts of advances amounting to Rs 343.64 million up to 2012-13.

The matter was taken up with the management in December, 2013 and reported to the Ministry in October, 2014. The management replied that the matter was consideration at Ministerial level with Government of the Punjab and a last reminder issued on January 19, 2015 for submission of adjustment account of advances.

The DAC in its meeting held in January, 2015 directed the management to pursue the matter at Ministerial level vigorously. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 1847/2014-15)

1.3.14 Financial burden due to poor performance of consultants Rs 260.59 million

Article-3.1.1 of CSA states that the consultants of the project shall perform the services and carry out their obligations with all due diligence, efficiency and economy in accordance with generally accepted professional techniques and practices and shall observe sound management practices and employ appropriate advanced technology and safe methods.

In Kachhi Canal Project, the consultants resumed their services after 2.7 years of the termination of their original CSA for supervision of remaining works of Phase-I (Part-A) for timely completion of project through Amendment No. 04 for four contracts by June 30, 2014. After re-hiring the services of consultants, the physical progress of the project remained 16% in contract Nos. KC-04 & 05, 23% in KC-6A and 8% in KC-6C. No contract was completed 100% up to the expiry date of implementation schedule of CSA as per said Amendment. The expenditure of Rs 260.59 million incurred on consultancy services after re-hiring during the financial year 2013-14 proved merely a financial burden on the project.

The matter was taken up with the management in August, 2014 and reported to the Ministry in November, 2014. The management replied that the slow progress of KCP was mainly due to performance and poor resource management by the contractor. Thus, the consultant could not be made responsible for undue financial burden on the project. Audit did not acct departmental view point.

The DAC in its meeting held in January, 2015 directed the management to justify the financial progress with physical progress of work along with documentary evidence within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1866/2014-15)

1.3.15 Unjustified expenditure on hiring the services of an expert Rs 4.30 million

Original contract for consultancy services dated December, 2003 for Kachhi Canal Project does not provide any provision of the post of Claim & Contract Expert.

In Kachhi Canal Project, Mr. Badar-ud-Din Memon, (a retired General Manager w.e.f. May 01, 2012 drawing last pay of Rs 0.13 million) was hired as a Claim & Contract Expert under the amendment No.4 of contract for consultancy services at monthly salary of Rs 0.48 million. He was paid Rs 4.30 million up to March, 2014. The engagement of a Claim & Contract Expert at abnormal high salary in violation of original contract provision was unjustified besides no remarkable progress was achieved at the project buy utilizing his services. This resulted in unjustified expenditure of Rs 4.30 million on hiring the services of a Claim & Contract Expert during the year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in December, 2014. The management replied that it was the obligation of the consultants to provide sophisticated and expert engineering team. The consultant could hire any expert and pay according to consultancy agreement.

The DAC did not accept the explanation of the management and in its meeting held in January, 2015 directed to submit revised reply in the light of consultancy agreement's provision and criteria followed for hiring the services of a claim and contract expert within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1873/2014-15)

1.3.16 Cost over-run of the project

As per Table-9.2.13 Annual Distribution Schedule of Feasibility Study submitted by JICA, the project was to be completed up to 2009 at a cost of US$1,149 million i.e. Rs 57,450 million up to December, 2000.

In Mohmand Dam Hydropower Project, the project cost was revised from Rs 57,450 million to Rs 215,600 million due to abnormal delay in completion of project as the project remained under the feasibility phase up to June, 2014. Non-adherence to contractual provisions resulted in cost over-run of Rs 158,150 million up to June, 2014.

The matter was taken up with management in September, 2014 and reported to the Ministry in December, 2014. The management replied that the loss due to cost overrun could be attributed to withdrawal of Japanese

Government from project funding due to security reservations and non-allocation of PSDP by Govt. of Pakistan. The departmental reply was not considered satisfactory.

The DAC in its meeting held in January, 2015 directed the management to submit the detailed reply in chronological order with timelines i.e. 1st study by WAPDA, JICA study and then transfer to PPIB within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1917/2014-15)

1.3.17 Wasteful investment due to rejection of sub-standard feasibility report – Rs 5,688 million

As per Paras-2, 3 & 8 of LOI issued by Private Power & Infrastructure Board (PPIB), Ministry of Water & Power on April 02, 2004, in the event of failure to meet the relevant milestone / standards to carry out feasibility study and complete it at internationally accepted standards, the PPIB will terminate the LOI and encash the bank guarantee.

In Mohmand Dam Hydropower Project, the Ministry of Water & Power in May, 2004 assigned the task to M/s AMZO Corporation for taking up the project on built, own, operate and transfer (BOOT) basis through PPIB. M/s AMZO incorporated M/s MHL for execution of project by investing Rs 1,470 million. The feasibility report was submitted to PPIB in July, 2006, which was rejected both by KPK Government and WAPDA due to delayed time and technical flaws. Against this decision, both the parties M/s AMZO & MHL filed suits for Rs 5,688 million. WAPDA also filed Civil Suit counter claim of Rs 98,000 million against these companies for compensation and damages. The cases were still in litigation. Non-adherence to contractual provisions resulted in wasteful investment of Rs 1,470 million and civil suits of Rs 5,688 million up to June, 2014.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that the case was subjudice.

The DAC in its meeting held in January, 2015 directed the management to pursue the court case vigorously and intimate its progress to Audit. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to take up the matter with PPIB authorities for seeking justification of such defective planning, incorrect decision, mismanagement and abnormal delay in start of vital National Project.

(DP No. 1922 & 1923/2014-15)

1.3.18 Loss due to wasteful expenditure incurred on feasibility report of JICA – Rs 199.81 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 Mohmand Dam Hydropower Project, the initial feasibility study of the project was completed by WAPDA with technical assistance of Government of Japan (JICA) in March, 2000 at the cost of Rs 199.81 million and was approved by CDWP on August 02, 2001. Instead of taking steps towards construction of project on the basis of that feasibility study, the Ministry of Water & Power assigned the task to M/s AMZO Corporation in May, 2004 for taking up the project on BOOT basis through PPIB. Thus, the expenditure of Rs 199.81 million incurred on feasibility study by JICA was therefore, gone waste.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that the matter was related to PPIB. The departmental reply was not considered satisfactory.

The DAC in its meeting held in January, 2015 directed the management to submit the detailed reply in chronological order with time lines i.e. 1st study by WAPDA, JICA study and then transfer to PPIB within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to take up the matter with PPIB authorities for seeking justification of such defective planning, incorrect decision, mismanagement and abnormal delay in start of vital National Project.

(DP No. 1921/2014-15)

1.3.19 Loss due to non-furnishing and encashment of bank guarantee Rs 145.04 million

Para-7 of LOI provides that in case of delay in completion of the feasibility study within the validity of LOI, a one time extension may be granted up to a maximum period of 180 days. Extension in validity of the LOI will only be provided upon submission of a bank guarantee in double the original amount and valid beyond six months of the extended LOI period. Para-8 provides that in the event of failure to meet the relevant milestones/ standards PPIB will terminate the LOI and encash the bank guarantee.

In Mohmand Dam Hydropower Project, the PPIB assigned the task to M/s AMZO Corporation on May 11, 2004 for taking up the project on BOOT basis within 18 months from the date of LOI. The bank guarantee valuing US$ 1,000 per MW in favour of PPIB was furnished by M/s AMZO. The extension for completion of feasibility study was granted to M/s AMZO for 180 days without doubling the bank guarantee. As such, neither the double amount of bank guarantee was obtained from M/s AMZO nor bank guarantee of Rs 145.04 million (US$1.48 million) was forfeited.

The matter was taken up with management in September, 2014 and reported to the Ministry in December, 2014. The management replied that the case was subjudice.

The DAC in its meeting held in January, 2015 directed the management to pursue the court case vigorously and intimated its progress to Audit. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 1924/2014-15)

1.3.20 Non-recovery of standard rent and utility charges – Rs 47.02 million

As per clarification issued by Director Finance (Regulation), WAPDA on 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 WAPDA, an amount of Rs 47.02 million was to be recovered from sixty eight employees on account of standard rent and utility charges for the period from January, 2001 to October, 2014 as detailed below:

Sr. No.	PDP No.	Formation	Amount (Rs in million)
1	1820	GTC, D.G Khan	6.34
2	1883	G.M (Water) South, Hyderabad	1.47
3	1920	Mangla Dam Organization	39.21
		TOTAL	**47.02**

Violation of the Authority's instructions resulted in non-recovery of standard rent and utility charges amounting to Rs 47.02 million up to financial year 2013-14.

The matter was taken up with the management from December, 2013 to November, 2014 and reported to the Ministry from July to December, 2014. The management replied that an amount of Rs 12.3 million had been recovered and efforts were being made to recover the remaining amount.

The DAC in its meeting held in January, 2015 directed the management to produce the recovery record for verification within 15 days and expedite the remaining recovery. DAC also directed to take disciplinary action against responsible. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1820, 1883 & 1920/2014-15)

1.3.21 Blockage of funds due to non-completion of work – Rs 24.05 million

According to Clause-48.1 of the Contract, when whole of the works have substantially been completed by the Contractor, the Contractor may give a notice to the Engineer with a copy to the Employer, accompanied by a written undertaking to finish with due expedition any outstanding work during the Defects Liability Period.

In Chashma Right Bank Canal Project, a contract for construction of "flood management structures at Bari Sidqi Nullah, District Tank was awarded to a contractor on October 14, 2011 at a cost of Rs 35.97 million. The work was required to be completed within 270 days i.e. up to July 14, 2012 but the same remained incomplete by June, 2014 after incurring an expenditure of Rs 24.05 million. The contractor had neither carried out the remaining work nor applied for issuing the substantial completion certificate. Violation of contract clauses resulted in blockage of funds of Rs 24.05 million due to non-completion of work up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in October, 2014. The management replied that work belonging to District Tank was suspended due to law & order situation and operation Zarb-e-Azb which was still suspended. The reply was not tenable as the work was required to be completed up to July, 2012 and operation

Zarb-e-Azb was started during the year 2014.

The DAC in its meeting held in January, 2015 directed the management to submit revised reply along with justification for delay within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to inquire the matter for fixing responsibility besides taking action against the contractor as per contractual provisions.

(DP No. 1860/2014-15)

1.3.22 Non-recovery of cost of deposit work – Rs 19.78 million

According to Clause-C (Note-1) of Section-III of WAPDA Book of Financial Powers 2003, 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 Chashma Barrage and Chashma-Jhelum Link Canal Project, a deposit work for raising banks on right side of CJ Link Canal was carried out by WAPDA on demand of Pakistan Atomic Energy Commission (PAEC). An expenditure of Rs 19.78 million incurred to complete the work was required to be recovered from PAEC prior to undertaken the work, which was not done. Poor financial management resulted in non-recovery of cost of deposit work amounting to Rs 19.78 million up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the work belongs to Atomic Energy Commission and the cost would be recovered.

The DAC in its meeting held in January, 2015 directed the management to conduct inquiry for fixing the responsibility for undertaking the work without depositing the cost and submit report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 1868/2014-15)

1.3.23 Irregular expenditure on hiring of consultancy firm - Rs 40.95 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 the office of Director General Finance (B&C) WAPDA, an amount of

Rs 40.95 million was paid directly to M/s ACE-BARQAAB-ESAE PAK (Joint Venture) for consultancy services to carry out study for diversion of rain/flood water to Thar Desert. The services of that consultancy firm were hired which was already engaged in consultancy for constructions of canals in Sindh Province instead of hiring the services of consultancy through open competitive bidding. Non-adherence to PPRA rules resulted in unjustified payment of Rs 40.95 million to the Consultant during the financial year 2013-14.

The matter was taken up with management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the appointment of the consultants was made under the approval of Authority. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to conduct inquiry for non-observance of PPRA rules and provide its report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1907/2014-15)

1.3.24 Loss due to payment of non-construction charges to CDA Rs 5.48 million

As per CDA letter No.2312 dated June 19, 2013, the Authority was liable to pay non-construction/delayed charges.

In the office of General Manager (Water) WAPDA, an amount of Rs 5.48 million was paid to Capital Development Authority (CDA) on account of non-construction/delayed charges for the period from July, 2011 to June, 2014. The payment was made against 24,200 sq. yards plot leased for construction of WAPDA Hospital. Resultantly, the Authority sustained loss to the stated extent.

The matter was taken up with management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the construction work of WAPDA Hospital could not be done due to non-availability of funds which caused payment of non-construction charges. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 viewed seriously the non-construction of WAPDA Hospital and payment of non-construction charges and directed to make a procedure and plan for construction of hospital. It was further directed to conduct inquiry for making payment of non-construction charges to CDA within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1905/2014-15)

1.3.25 Unjustified expenditure on hiring of advisors – Rs 4.20 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 Human Resource & Admn Directorate WAPDA Lahore, two personnel were appointed as advisor/consultant by the Authority on contract basis without open competitive bidding. Thus, the undue favour extended to the officers resulted in unjustified expenditure of Rs 4.20 million up to the financial year 2013-14.

The matter was taken up with management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the appointment of the consultants was made under the approval of Authority. The departmental reply was not considered satisfactory.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry for non-observance of PPRA rules and provide its report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1901/2014-15)

1.3.26 Irregular payment of salaries to newly hired retired army personnel Rs 4.20 million

As per Para-3(i) of Finance Division (Government of Pakistan) SRO dated November 01, 1992, the appointments against the civil posts of the serving/retired armed forces officers in future shall be made strictly in accordance with the laid down Government policy giving detailed terms and conditions of induction/re-employment on contract basis only.

In the office of Director General Finance (B&C) WAPDA, some retired officers of armed forces were re-employed on regular basis in contravention of the above instructions and even in the presence of ban imposed on recruitment by Government of Pakistan. Non-adherence to SRO resulted in irregular payment of salaries amounting to Rs 4.20 million due to re-employment of retired officers of armed forces up to the financial year 2013-14.

The matter was taken up with management in November, 2014 and reported to the Ministry in December, 2014. The management replied that there was a general practice in WAPDA through which only retired personnel were hired and being regularized after doing the needful. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to justify the regularization of retired Army personnel services in presence of ban on recruitment within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1906/2014-15)

1.3.27 Irregular/unjustified procurement of SMGs along with ammunition Rs 2 million

According to the instructions contained in Paras-3 & 4 of the Ministry of Interior, Government of Pakistan letter dated July 23, 2008 issued to WAPDA, the Demand Note authorizes the holder to purchase the said weapon from the recognized/authorized arm dealer and register in the office of concerned D.C.O/D.C/Political agent.

In Tarbela Dam Project, twenty five small machine guns (SMGs) 7.62 mm along with ammunition were procured from local market in June, 2009 by drawing advance of Rs 2 million by Mr. Wali Ayaz Khan, Field Security Officer instead of procuring the said weapons from the recognized/authorized arms dealers. The registration of said arms was also not made in the office of the concerned DCO/DC. Violation of the Government instructions resulted in irregular/unjustified procurement of SMGs and ammunition valuing Rs 2 million during the financial year 2008-09.

The matter was taken up with the management in December, 2009 and reported to the Ministry in September, 2014. The management replied that the inquiry committee was constituted on January 25, 2015 to probe into the matter and its findings were awaited.

The DAC in its meeting held in January, 2015 directed the management to finalize the inquiry and provide its report to Audit within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1833/2014-15)

CHAPTER-2

WAPDA HYDRO ELECTRIC POWER

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.

Power Wing is headed by Member (Power). After re-structuring in 2007, Power Wing was split up into 15 companies i.e. NTDC, 10 DISCOs & 4 GENCOs and separated from WAPDA. Power wing now looks after Hydropower Generation only. Mandate of Residual WAPDA Power Wing is operation & maintenance of Hydel Power Station, technical monitoring of electrical & mechanical works of new projects and training activities for capacity building.

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.

Khan Khwar Hydro Power Project (72 MW) is in Commercial Operation since November, 2010. Satpara Dam (Unit No. 1 & 2) are in Commercial Operation since October, 2007 & December, 2008 respectively and two units (Power House No. 3 & 4) in June, 2013. Allai Khwar HPP (121 MW) and Jinnah HPP (96 MW) inaugurated by the President of Pakistan on March 4, 2013.

The ground breaking commencing ceremony of Diamer Basha Dam was graced by the Prime Minister of Pakistan on October 18, 2011. Other dams namely Kurram Tangi Dam (83.4 MW), Akhori Dam (600 MW) and Munda Dam (740 MW) are also at tendering and design stage.

Duber Khwar Hydropower Project 130 MW started commercial operation in March, 2014. Golen Gol Hydropower Project 106 MW and Neelum Jhelum 969 MW Hydropower Projects are under construction. Detailed engineering design and tender documents of Phandar 80 MW, by WAPDA and Lawi 69 MW on EPC basis by PHYDO are under progress and nearing completion. Feasibility study of Palas Valley 665 MW, Spat Gah 496 MW, Thakot 4,000 MW, Basho 40 MW, Harpo 34.5 MW and Patan 2,200 MW is in progress. Civil works of

Tarbela 4th Extensions is in progress. Dasu Hydropower Project (HPP) 4,320 MW have been taken up under World Bank Loan, Prime Minister of Pakistan has conducted the ground breaking ceremony of the Dasu HPP on June 25, 2014.

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).

(Source: Monthly Progress Report on Water Sector Projects June, 2014)

Non-completion/finalization of Financial Statements

As per Companies Ordinance-1984, the Company is required to finalize the financial statements within four months from the close of financial year. The Company could not finalize the financial statements up till December 31, 2013. The matter was taken up with the management since December 05, 2013. It was replied that the finalization of financial statement for the year ended June 30, 2013 was under process and would be submitted after completion of audit and approval of board of directors. This directorate is, therefore, unable to offer comments on the financial position of the Company.

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)	2007-08	2	-	-	2 (Para No. 2.13 & 2.15)
	2010-11	1		-	1 (Para No. 2.3.2.1)
	2011-12	5	-	-	5 (Para No. 2.3.1, 2.3.2, 2.3.3, 2.3.4 & 2.3.6)

Position of compliance with PAC directives is not satisfactory.

2.3 AUDIT PARAS

2.3.1 Non-production of record regarding award of contracts Rs 28,611.20 million

Public Accounts Committee issued the directives on June 30, 2004 to the department to make available all information/record to audit as and when required by them, otherwise, disciplinary action will be initiated against persons responsible for the delay under Section-14C (2&3) of the Auditor-General's Ordinance, 2001.

In Golen Gol Hydro Power Project, two contracts i.e. Lot-3.2 (E&M) and Lot-4 (Transmission Line) worth Rs 8,862.71 million were awarded to the contractors. The record relating to the pre-qualification of firms, bidding documents of contracts and bid evaluation reports, etc. was not produced to examine the transparency in award of contracts as per PPRA rules. Moreover, in Neelum Jhelum Hydropower Company, payments of Rs 19,748.49 million were made to different firms and formations during the year 2013-14. All the payments were made from the main account of the company but documentary evidence in support of the payment vouchers were not produced to Audit for scrutiny during the financial year 2013-14.

The matter was taken up with the management in September & October, 2014 and reported to the Ministry in September & December, 2014. The management replied that the record was ready for examination.

The DAC in its meeting held in January, 2015 showed its concern over non-implementation of pre-DAC's directives and directed the management to initiate disciplinary action against the officers/officials for non-production of record to Branch Audit Officer. The DAC also directed to produce record to Audit for examination up to March 31, 2015. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility for non-production of record.

(DP No. 1836 & 1867/2014-15)

2.3.2 Less recovery of income tax and non-deduction of education cess from contractors/consultants – Rs 3,326.41 million

According to Section-152 (1A) (a) Division-II Part-III of First Schedule of Income Tax Ordinance 2001, income tax at the rate of 6% is to be recovered from the gross amount payable to the contractor. As per Section-2 (3) of Education Cess Act 1975, w.e.f July 2006, the education cess shall be chargeable on the amount of tax as defined under Sub Section-63 (Section-2) of the Income Tax Ordinance, 2001 (as enforced in AJ&K) except salaried employees of Government, Semi Government and Autonomous Bodies.

In two formations of WAPDA, income tax amounting to Rs 3,143.35 million was less deducted from the payment made to contractors through IPCs up to June, 2014 and education cess amounting to Rs 183.06 million was not deducted from contractor as detailed below:-

Sr. No.	PDP No.	Formation	Amount (Rs in million)
1	1825	P.D NJHPC, AJK	3,269.89
2	1839	Golen Gol Hydro Project	10.76
3	1843	Golen Gol Hydro Project	45.76
		TOTAL	**3,326.41**

Violation of Income Tax Ordinance and Education Cess resulted in less recovery of income tax and non-deduction of education cess of Rs 3,326.41 million up to the financial year 2013-14.

The matter was taken up with the management from January, 2013 to September, 2014 and reported to the Ministry from August, 2014 to December, 2014. The management replied that in one case, income tax was withheld in accordance with Income Tax Ordinance 2001 except where exemptions were granted by Commissioner Income Tax, Mirpur AJK, whereas in remaining two cases, the deduction of income tax would be made from next IPCs submitted by the contractors. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to provide evidence of deduction of income tax & education cess, exemption certificates, if applicable, and get it verified within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1825, 1839 & 1843/2014-15)

2.3.3 Cost over-run due to delay in bidding process – Rs 5,224.61 million

According to Table-15(1) of original PC-I, the estimated cost for hydro mechanical / electrical equipment at Power House of Golen Gol Hydro Power Project was Rs 425.51 million. Moreover, as per notice for inviting tenders, the date for invitation of bids for hydro mechanical and electrical works under Lot-3.2 at Golen Gol Hydropower Project was initially fixed as May 30, 2013

In the office of General Manager (Projects) North, Peshawar, the date for invitation of bids for hydro mechanical and electrical works under Lot-3.2 at Golen Gol Hydropower Project was subsequently extended nine times up to November 26, 2013. The said works were awarded to M/s Andritz Hydro Gmloh Andritz (China) Ltd. consortium at a cost of Rs 5,650.12 million against the provision of original PC-I for hydro mechanical/electrical equipments of Rs 425.51 million due to delay in bidding process. This resulted in cost over-run by Rs 5,224.61 million up to the financial year 2012-13.

The matter was taken up with the management in June, 2014 and reported to the Ministry in December, 2014. The management replied that the matter was with NAB/FIA and Transparency International.

The DAC in its meeting held in January, 2015 directed the management to submit revised/comprehensive reply along with documentary evidence within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1885/2014-15)

2.3.4 Loss due to mismanagement in award of contract – Rs 1,014.53 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 Golen Gol Hydropower Project, three bidders participated in the bidding process of contract Lot-3.2 (EME Works) on June 30, 2011 and M/s Andritz Consortium was declared as 1st lowest bidder @ Rs 4,635.59 million. The contract was awarded to 2nd lowest bidder M/s Rainpower JV @ Rs 4,671.04 million on February 29, 2012. The petitions was filed against the irregular award of contract in various Honorable courts of law which were annulled by the NAB on October 15, 2012 and all the bids were cancelled /rejected by the competent authority on April 12, 2013. The contract was re-tendered and finally awarded to M/s Andritz Consortium at higher rate of Rs 5,650.12 million. Due to ignoring the 1st lowest bidder at the first instance, the work was delayed and re-tendered which caused a loss of Rs 1,014.53 million.

The matter was taken up with the management and reported to the Ministry in December, 2014. The management replied that the work pertained to EME and was subjudice with apex courts.

The DAC in its meeting held in January, 2015 directed the management to pursue the court case vigorously. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 1911/2014-15)

2.3.5 Excess payment to contractor due to change of basic rate of cement in price adjustment factor – Rs 24.07 million

According to the Golen Gol Hydro Power Consultants JV letter dated May 14, 2012, the base index number for cement for March, 2010 as published by the Federal Bureau of Statistics (Index numbers of wholesale prices by commodities for building materials) is approved as Rs 124.02.

In Golen Gol Hydropower Project, an amount of Rs 24.07 was paid to the contractor on account of escalation for the period from May, 2013 to January, 2014 by changing the basic rate of bulk cement from Rs 124.02 to Rs 114.40. Non-observance of the approved basic rate of cement resulted in excess payment of Rs 24.07 million to the contractor up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in October, 2015. The management replied that the contractor had submitted the IPC and excess payment would be deducted accordingly. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to deduct the excess payment from the invoices of the contractor and get it verified from Audit within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 1840/2014-15)

2.3.6 Un-authorized payment to contractor against un-approved variations in contract – Rs 63.09 million

Clause-F of Section-V of Book of Financial Powers for WAPDA provides that variation/change orders in original contracts are to be sanctioned by the competent authority.

In Golen Gol Hydropower Project, a payment of Rs 63.09 million was made to a contractor in June, 2014 against the execution of those items of work which was not included in the contract. Before execution of work, variation/change order was required to be got approved by the competent authority which was not done. Violation of the contract clause and the book of financial powers for WAPDA resulted in un-authorized payment of Rs 63.09 million to contractor during the financial year 2013-14.

The matter was taken up with the management in June and August, 2014 and reported to the Ministry in October, 2014. The management replied that variation order was under process for approval.

The DAC in its meeting held in January, 2015 directed the management to produce a copy of variation order approved by the competent authority within 15 days to Audit for verification. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to inquire the matter for fixing responsibility besides regularizing the payment through variation order.

(DP No. 1838/2014-15)

2.3.7 Non-recovery of Neelum Jhelum surcharge from DISCOs Rs 5,165.42 million

SRO dated January 04, 2008 states that there shall be levied an additional charge at the rate of Rs 0.10/kwh on the consumption of electricity w.e.f January 1, 2008 till December 31, 2015. The amount should be kept in the ESCROW Account of the Neelum Jhelum Company for exclusive use for the NJHP Project".

In Neelum Jhelum Hydropower Company, an amount of Rs 5,165.42 million was not recovered from DISCOs on account of Neelum Jhelum Surcharge @ Rs 0.10/kwh up to June, 2014. Non-compliance to the SRO resulted in non-recovery of Neelum Jhelum surcharge amounting to Rs 5,165.42 million up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the DISCOs were not regularly transferring the Neelum Jhelum Surcharge to NJHPC accounts. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to take up the matter at Ministerial level for recovery within a week. Further progress was not reported till finalization of the report.

Audit emphasizes expeditious transfer of NJS from DISCOs.

(DP No. 1870/2014-15)

2.3.8 Excess payment of escalation to contractors – Rs 3,833.92 million

Clause-70.5 of the contract states that 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 IPC is related.

In NJHPC, excess payment of escalation Rs 3,833.92 million was made to contractors due to applying excess rates/escalation factor in indices for erection and other work and indices for local transport (local currency components) in various IPCs for the months varying from June, 2012 to July, 2013 in violation of contract provision as detailed below:-

Sr. No.	PDP No.	Formation	Amount (Rs in million)
1	1822	NJHP, Muzaffarabad	34.06
2	1824	NJHP, Muzaffarabad	3,799.86
		TOTAL	**3,833.92**

Violation of contract provisions resulted in excess payment of escalation of Rs 3,833.92 million up to the financial year 2013-14.

The matter was taken up with the management in from April, 2014 to September, 2014 and reported to the Ministry in August, 2014 and October, 2014. The management replied that rates were got vetted from Central Contract Cell WAPDA and no excess payment was made. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1822 & 1824 /2014-15)

2.3.9 Non-obtaining of performance security from contractor Rs 2,883 million

According to Sub Clause-10.3 of contract, the amount of performance security required under the contract shall be extended to cover the amount of the variation order and provided to employer within 30 days of signing the variation order. No payment will be made under this variation order in case the contractor fails to provide the performance security covering the amount of the variation order.

In NJHPC, the payment of Rs 15,130 million was made to the contractor up to IPC No.66 for March, 2014 against Variation Order No. 22 for supply and operation of tunnel boring machine (TBMs). The payment was made without obtaining the performance security valuing Rs 2,883 million as required under the contract.

The matter was taken up with the management in October, 2014 and reported to Ministry in December, 2014. The management replied that upon approval of variation order of TBM, the performance guarantee would be adjusted. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry regarding non-obtaining of performance security from contractor and submit its report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 1904/2014-15)

2.3.10 Unauthorized expenditure on account of man months claim and direct cost – Rs 100.48 million

According to Addendum-I, Appendix D/R-1 (sheet-3) and Amendment No. 1, the detail of man months along with billing rates and direct cost are provided in the CSA.

In NJHPC, man months against different categories of staff were utilized excess than the provision of CSA and an amount of Rs 2.39 million was paid to consultants on this account. Besides, an amount of Rs 98.09 million was paid against the direct cost beyond the provision of agreement and its record was also not produced to Audit for scrutiny. Violation of agreement resulted in excess payment of Rs 100.48 million to consultants during the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the Addendum-2 of CSA was under process for regularization of excess man months.

The DAC in its meeting held in January, 2015 directed the management to expedite the matter for regularization of man months and produce the relevant record for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1900/2014-15)

2.3.11 Excess payment to contractor by shifting of an item of work from PO to VO – Rs 77.96 million

According to Clause-3.1.1 of CSA for engineering, the consultants shall always act, in respect of any matter relating to this contract or to the services, as faithful advisors to the client and shall at all times support and safeguard the client's legitimate interest in any dealings with sub-consultants or third parties.

In NJHPC, the items of works for underground excavation of tunnel cross section 72.27 m^2 and underground contour boreholes for perimeter blasting were paid @ Rs 203,639 and Rs 1,440 per meter instead of Rs 169,535.58 and Rs 1,096.52 per meter respectively. Due to change of rates and shifting of items from PO to VO, an excess payment of Rs 77.96 million was made to contractor up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the provisional orders were purely on rough estimates and when VO was finalized, the rates were adjusted as per approved VO.

The DAC in its meeting held in January, 2015 directed the management to produce the approved rates of VO for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1897/2014-15)

2.3.12 Unjustified provision of contingencies and P&G in the cost estimate of variation orders – Rs 27.90 million

As per PC-I of NJHP, the provision for contingencies was 3% to 5% and there was no provision for preliminaries and generals (P&G) charges against any variation order.

In NJHPC, an amount of Rs 27.90 million was added in the cost estimate of variation orders on account of 15% contingencies and 7% P&G, which was contrary to the provision of PC-I and without approval of the Authority. Violation of PC-I resulted in unjustified provision of contingencies and P&G of Rs 27.90 million in cost estimate of variation orders up to the financial year 2013-14.

The matter was taken up with the management in April, 2014 and reported to the Ministry in September, 2014. The management replied that no payment had been made till to date against P&G and contingencies in VOs. The reply was not tenable as no justification for provision of contingencies and P&G in variation orders No.23 & 35 was provided.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record to Audit for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 1830/2014-15)

2.3.13 Loss due to unjustified extra payment on account of land compensation – Rs 29.28 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses Due to Fraud or Negligence of Individuals, 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 the office of General Manager (Projects) North, Peshawar, excavation and blasting activities at access road and power house area of Golen Gol Hydropower Project resulted in damage of built infrastructure which caused stoppage of irrigation water supply and electricity to the residents of the area. A committee constituted by DCO Chitral analyzed the matter and recommended a compensation of Rs 6.24 million to the affectees. Instead of paying compensation amount of Rs 6.24 million, the management paid an amount of Rs 35.52 million which resulted in loss due to extra payment of Rs 29.28 million up to financial year 2013-14.

The matter was taken up with the management in June, 2014 and reported to the Ministry in December, 2014. The management stated that the reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to submit detailed reply along with justification for extra payment within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1886/2014-15)

2.3.14 Unjustified advance payments out of project funds – Rs 1,201.34 million

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

In Diamer Basha Dam Project, funds amounting to Rs 1,201.34 million were transferred to various departments/formations as advance payments for land acquisition and execution of works, etc. It included the amount of Rs 13.36 million as inauguration expenses advanced to Home Secretary, Gilgit Baltistan but no details were available. Likewise, an advance of Rs 900 million was given to National Highway Authority (NHA) for construction of bypass without detail drawing & design/estimates. Similarly, an amount of Rs 37.66 million was advanced to D.C Chillas and Kohistan without ascertaining the rate of acquiring of the land, etc. The adjustment accounts of advance payments of Rs 1,201.34 million were not submitted by the respective formations/departments up to June, 2014.

The matter was taken up with the management in September, 2014 and reported to the Ministry in November, 2014. The management replied that the adjustment accounts would be submitted upon completion of the works.

The DAC in its meeting held in January, 2015 directed the management to conduct fact findings inquiry for non-pursuance of adjustment accounts, delay on the part the officers/officials along with present status and submit its report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1864/2014-15)

2.3.15 Unjustified expenditure charged to project against interest during construction – Rs 1,510 million

According to Para-5 (Section-X) of WAPDA Accounting Manual, project expenditure will be controlled strictly according to the Annual Development Programme. Approval to the annual budget of all formations is granted by the Authority in the major and minor heads of budgets.

In Diamer Basha Dam Project, an expenditure of Rs 1,510 million was charged to the project on account of interest during construction (IDC) period up to September, 2013 without any provision in the budget. This resulted in unjustified expenditure of Rs 1,510 million on account of IDC up to the financial year 2013-14.

The matter was taken up with the management in March, 2014 and reported to the Ministry in October, 2014. The management replied that payment was made without provision in the budget. The matter was taken up with the Ministry of Water & Power for approval of cash development loan (CDL) in grant/GoP equity from the Ministry of Finance.

The DAC in its meeting held in January, 2015 directed the management to provide evidence regarding the matter taken up with the Ministry for examination within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1858/2014-15)

2.3.16 Non-recovery of liquidated damages – Rs 288.53 million

According to conditions of contract, the contractor shall pay liquidated damages (LD) in case of delay in completion of work/supply.

In three formations of WAPDA, thirteen contracts and one purchase order were awarded to the contractors/supplier for execution of civil works and supply of material from May to January, 2014 and April, 2014 respectively. However, the same could not be completed within the stipulated period. Hence, LD amounting to Rs 288.53 million was required to be recovered from the contractors/supplier as per contract provisions but the same were not recovered up to the financial year 2013-14 as detailed below:

Sr. No.	PDP No.	Formation	Clause of LD	Rate of LD	Amount (Rs in million)
1	1855	Diamer Basha Dam Project	47.1	0.1% per day subject to 10%	284.07
2	1878	SHPS, Mangla	2.5	0.05% per day subject to 10%	3.92
3	1913	Tarbela Power House, Tarbela	2.21	2% per month subject to 10%	0.54
				TOTAL	**288.53**

The matter was taken up with the management from August, 2014 to December, 2014 and reported to the Ministry from October, 2014 to December, 2014. The management replied that in one case, EOT case was under process, whereas in the remaining two cases, the amount of LD would be deducted from the liabilities of the contractors as per contract provisions. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to intimate updated status of EOT case and recover/adjust amount of LD from contractors within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1855, 1878 & 1913/2014-15)

2.3.17 Loss due to illegal encroachment of WAPDA land Rs 177.75 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud or Negligence of Individuals, 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 Small Hydel Power Stations Mangla, 118.5 acres of WAPDA land valuing Rs 177.75 million was occupied / encroached by the local people as well as government departments. Civil suits were filed by the management to vacate the WAPDA land in different courts but no progress had so far been observed. Non-adherence to WAPDA's guidelines resulted in loss of Rs 177.75 million due to illegal encroachment of WAPDA land up to the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in December, 2014. The management replied that the notices were served to encroachers in two cases but they lodged claim in the court of law. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January 2015, observed with great concern the encroachment of WAPDA land and directed the management to pursue the court case vigorously. The DAC also directed to get the WAPDA land vacated from the second encroacher as the case was decided in favour of WAPDA by the court. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1880/2014-15)

2.3.18 Wasteful expenditure due to poor planning of siphon Rs 23.62 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud or Negligence of Individuals, 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 Small Hydel Power Stations (HPS) Mangla, the siphon spillway at power station, Rasul constructed at a cost of Rs 23.62 million during 2004-05 did not work due to non-existence of water level and discharge matching with the design parameters. Subsequently, a modification work for converting the siphon to gated structure at the cost of Rs 135 million had to be done during the financial year 2013-14. Hence, the expenditure of Rs 23.62 had gone waste due to poor planning.

The matter was taken up with the management in August, 2014 and reported to the Ministry in December, 2014. The management replied that siphon portion was converted in gated style after 55 years as it was essential to change/modify with the passage of time. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to submit detailed reply with full justification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1879/2014-15)

2.3.19 Unjustified reimbursement of custom duty on replaced material Rs 4.99 million

Clause-14.1(c) of the contract provides that the custom duties, import charges, etc. paid by the contractor on import of all material/equipment for project shall be reimbursed by WAPDA.

In Jinnah Hydropower Project, an amount of Rs 4.99 million was paid to the contractor in April, 2012 on account of reimbursement of custom duty for import of certain replaced material. The reimbursement of custom duty of replaced material was not justified as it was not covered under the provisions of the contract as custom duty was admissible only once in acquiring the material.

The matter was taken up with the management in November, 2013 and reported to the Ministry in July, 2014. The management replied that the material was not replaced but inadvertently was verified and stamped as replaced. However, an inquiry committee had been constituted to investigate the matter.

The DAC in its meeting held in January, 2015 directed the management to constitute a high level inquiry committee and initiate disciplinary action against the Chief Engineer who stamped the invoice as replaced material within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 1819/2014-15)

2.3.20 Procurement of unspecified material – Rs 2.06 million

As per Clause-4 (specification of material) of purchase order, the supply of the material would be accepted subject to the general conditions and special conditions laid down in the purchase order.

In Chashma HPS, power station equipment (voltage balance relay and SF-6 Gas density monitor) valuing Rs 2.06 million were procured on May 20, 2013. At the time of inspection, the protection & instrument engineer clarified that three items were not according to the specification of the purchase order but the material was accepted without any rectification and payment was made to the supplier without any penalty. Non-adherence to the purchase order clauses resulted in procurement of unspecified material of Rs 2.06 million during the financial year 2013-14

The matter was taken up with the management in May, 2014 and reported to the Ministry in August, 2014. The management replied that the contractor agreed to replace the rejected material by 1st week of February, 2015.

The DAC in its meeting held in January, 2015 directed the management to get the material replaced from the contractor within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 1826/2014-15)

CHAPTER-3

(B) PAKISTAN ELECTRIC POWER COMPANY (PEPCO)

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.

Non-completion/finalization of Financial Statements

As per Company Ordinance-1984, the Company is required to finalize the financial statements within four months from the close of financial year. The Company could not finalize the financial statements up till December 31, 2014. The matter was taken up with the management since December 05, 2014. It was replied that the finalization of financial statement for the year ended June 30, 2014 was under process and would be submitted after completion of audit and approval of board of directors. This directorate is, therefore, unable to offer comments on the financial position of the Company.

3.2 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)	1998-99	8	-	8 (Para No. 17, 18, 21, 22, 23, 26, 27 & 30)	-

Position of compliance with PAC directives is not satisfactory.

3.3 Audit Paras

3.3.1 Non-production of record for electrification works - Rs 336.95 million

Public Accounts Committee issued the directives on June 30, 2004 to the department to make available all information/record to audit as and when required by them, otherwise, disciplinary action will be initiated against persons responsible for the delay under Section-14C (2&3) of the Auditor-General's Ordinance, 2001.

In Special Audit of PWP-II development schemes undertaken by

Distribution Companies (DISCOs) of PEPCO for the period 2012-13, it was observed that an expenditure of Rs 336.95 million was incurred for electrification works relating to all DISCOs. The relevant record i.e. job cards, measurement books and completion certificates, etc. was not produced to Audit. In absence of the said relevant record, the authenticity of expenditure could not be ensured. Violation of the PAC's instructions resulted in non-production of record of expenditure of Rs 336.95 million up to the financial year 2013-14.

The matter was taken up with the management and discussed in the DAC meeting held in October, 2013. The management replied that Chief Executive Officers were advised to produce the relevant record to Audit for examination. The DAC directed the management to produce relevant record for exainiation within 15 days.

The DAC in its meeting held in January, 2015 directed the management to implement the directives of previous DAC. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility for non-production of record.

(DP No. 599/2014-15)

3.3.2 Non-distribution of compact fluorescent lamps (CFLs) Rs 749.54 million

As per decision of Ministry of Water & Power, Islamabad circulated on March 24, 2014, the distribution of CFLs to the consumers should be completed up to April, 2014 by the DISCOs.

In PEPCO, 30 million CFLs were drawn for distribution among the consumers before April 30, 2014. Out of which 24.65 million CFLs were distributed and remaining 5.35 million CFLs valuing Rs 749.54 million were not distributed up to October 15, 2014. The warranty of un-distributed CFLs was December, 2014 which would not be claimed after its expiry date. Thus, the expenditure incurred on the purchase of undistributed CFLs might be gone waste. Non-adherence to decision of Ministry of Water & Power resulted in non-distribution of CFLs valuing Rs 749.54 million during the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the matter related to all DISCOs. The progress of distribution of CFLs had been slow down due to security reasons in all DISCOs. The departmental reply was not considered satisfactory by Audit.

The DAC took serious view of non-distribution of CFLs in its meeting held in January, 2015 and directed the management to conduct fact finding inquiry within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 587/2014-15)

3.3.3 Loss due to delay in completion of CFLs distribution project

As per PC-I for procurement of compact florescent lamps (CFL) for distribution to domestic consumers under Prime Minister's national CFL's Project, the project was scheduled to be completed up to June, 2011.

In PEPCO, a loan agreement of US$40 million was signed with ADB on April 29, 2010 for procurement of CFL's with envisaged revenue benefits of Rs 16,929 million per year on account of energy saved from domestic consumers and selling the same to high tariff consumers. Delay in completion of project for two years resulted in revenue loss of Rs 33,858 million up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the procurement of 30 million CFLs was completed during 2013-14 and distribution to the domestic consumers was near to completion. The benefit had been delayed but now would be achieved after the distribution of CFLs. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to produce detailed reply in chronological order along with documentary evidence within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 622/2014-15)

3.3.4 Un-justified expenditure due to unauthorized extension in service contract – Rs 27.73 million

PEPCO BoD accorded approval for the contract appointment of

Mr. Salman Iqbal, Executive Director PEPCO w.e.f. February 19, 1999 for a period of two years.

In PEPCO, the contract appointment of Mr. Salman Iqbal, Executive Director-Legal was extended from time to time by the BoD up to June 30, 2006. Subsequently, the contract was extended by the M.D PEPCO himself instead of seeking approval from BoD. Hence, an amount of Rs 27.73 million paid to him on account of pay & allowances up to the financial year 2013-14 was unjustified.

The matter was taken up with management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the ratification for extension in service from July 01, 2006 to December 31, 2014 and further extension of service from January 01, 2015 to December 31, 2015 was under approval with BoD. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to produce copy of BoD's approval along with full justification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 635/2014-15)

3.3.5 Irregular payment of miscellaneous expenditure to the Ministry of Water & Power – Rs 3.86 million

According to Para-11.4 (b) of DDO's Handbook, the funds allotted to a Ministry/Division, it's attached or subordinate offices are to be spent for the purpose for which they are allocated.

In PEPCO, an amount of Rs 3.86 million was paid to Ministry of Water & Power for contingent staff, club filling station, etc. from imprest account of PEPCO without any provision. The Ministry of Water & Power was a separate entity and had its own budget. Hence, the expenditure paid out of PEPCO's account during the financial year 2013-14 was irregular.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the expenditure was incurred on hired staff and consultants for implementation of World Bank Loan so PMU office was established in Ministry of Water & Power. Moreover, the payment was made from the loan's counterpart hence, no irregularity was found. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 observed that the payment was doubtful and directed the management to conduct a fact finding inquiry within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 594/2014-15)

3.3.6 Irregular procurement of office vehicle – Rs 3.95 million

According to the austerity measures issued by the Finance Division on July 24, 2012 during the financial year 2012-13, there was a ban on purchase of physical assets including all types of vehicles.

In GM Thermal PEPCO, one vehicle (Toyota Hiace van dual air conditioned) valuing Rs 3.95 million was purchased in May, 2013 in violation to the austerity measures announced by the Finance Division. Non-observance of austerity measures resulted in irregular procurement of vehicle valuing Rs 3.95 million up to the financial year 2013-14.

The matter was taken up with the management in January, 2014 and reported to the Ministry in June, 2014. The management replied that the vehicle was purchased to attend official meetings at Islamabad as there was no suitable vehicle in the transport pool. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to move case for condonation after approval from BoD within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 01/2014-15)

3.3.7 Loss on account of commitment charges – Rs 9.66 million

According to Para-1(c) of Ministry of Economic Affairs and Statistics (GoP) Islamabad's letter dated February 10, 2012, the borrower shall pay commitment charges of 0.15% per annum. Such charge shall accrue on the full amount of the loan (less amount withdrawn from time to time), commencing sixty days after the date of the loan agreement.

In PEPCO, an amount of Rs 9.66 million was paid to ADB as commitment charges on the un-disbursed loan. This amount was paid due to delay in completion of projects and non-utilization of loans as per PC-I. Poor financial management resulted in loss of Rs 9.66 million on account of commitment charges during the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the commitment charges were levied on full amount of loan. The commitment charges were not paid by the borrower but deducted at source by the ADB. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to provide justification in chronological order with reference to signing date of loan, effective date of loan and efficiency in utilization of loan within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 592/2014-15)

3.3.8 Unjustified expenditure on account of demurrage charges Rs 5.08 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 PEPCO, an expenditure of Rs 5.08 million was charged to the project on account of demurrage charges during the financial year 2013-14. Charging of expenditure of Rs 5.08 million to the Project's account was not justified as it was liability of the supplier under the contract agreement.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that an amount of Rs 1.63 million was recovered from the supplier.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification and conduct a fact finding inquiry within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 593/2014-15)

3.3.9 Loss due to non-recovery of penalty imposed by inquiry committee Rs 3.21 million

As per recommendations of inquiry committee constituted by MD PEPCO dated June 3, 2011, sixteen officers/officials were held responsible for incorrect billing and fictitious cash posting to MDI consumers and decided to impose the penalty for recovery of loss.

In PEPCO, a penalty of Rs 3.21 million was imposed on sixteen officers/officials under the recommendation of above inquiry committee but no amount was recovered from the delinquents. Non-implementation of recommendation of inquiry committee resulted in loss of Rs 3.21 million due to non-recovery of penalty up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the disciplinary action was initiated against Mr. Munawar Nazir Abbassi by issuing letter of explanation to him but decision of the case was awaited. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to finalize the matter and take action against the responsible within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 596/2014-15)

3.3.10 Non-completion of works against funds received from the Prime Minister's Secretariat – Rs 1,708.74 million

As per Para-4.1.6 of Distribution Rehabilitation Guidelines September, 2003, total time for approval of work, execution and preparation of completion report will be restricted to 130 days.

In Special Audit of PWP-II development schemes undertaken by Distribution Companies of PEPCO for the period 2012-13, it was observed that electrification schemes worth Rs 1,708.74 million were sanctioned but the works against these were not completed. Non-adherence to distribution guidelines resulted in non-completion of works amounting to Rs 1,708.74 million up to the financial year 2013-14.

The matter was taken up with the management and discussed in DAC meeting held in October, 2013. The management replied that Honorable Supreme

Court of Pakistan had directed to certify the satisfactory completion of works by Chief Executive Officer concerned personally. The DAC directed to comply with the orders of the Honorable Supreme Court of Pakistan dated July 22, 2013.

The DAC in its meeting held in January, 2015 directed the management to implement the directives of previous DAC. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 561/2014-15)

3.3.11 Non-surrendering of unspent funds to the Government of Pakistan Rs 1,084.64 million

As per instructions issued by the Prime Minister Secretariat on March 09, 2007, the executing agencies are liable to return 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 PEPCO, an amount of Rs 1,084.64 million was allocated through the Prime Minister's Directives for village electrification to all DISCOs during the financial year 2012-13. The amount was remained un-utilized due to non-execution of electrification schemes. The unspent amount of Rs 1,084.64 million along with interest, if any, was to be returned to the Government of Pakistan which was not done.

The matter was taken up with the management and discussed in the DAC meeting held in October, 2013. The management replied that surplus/left over funds would be surrendered to the government as per decision of the Honorable Supreme Court of Pakistan. The DAC directed to comply with the orders of the Honorable Supreme Court dated July 22, 2013.

The DAC in its meeting held in January, 2015 directed the management to implement the directives of previous DAC. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 598/2014-15)

3.3.12 Non-capitalization of completed PWP-II schemes – Rs 428.60 million

As per Para-4.1.6 of Distribution Rehabilitation Guidelines September, 2003, total time for approval of work, execution and preparation of completion report will be restricted to 130 days.

In Special Audit of PWP-II schemes under taken by distribution companies of PEPCO during 2012-13, 754 schemes worth Rs 428.60 million of different constituencies were completed and were handed over to the concerned operation divisions but were not capitalized. Non-adherence to distribution guidelines resulted in non-capitalization of completed works amounting to Rs 428.60 million up to the financial year 2013-14.

The matter was taken up with the management and discussed in DAC meeting held in October, 2013. The management replied that Honorable Supreme Court of Pakistan had directed to the Chief Executive Officer concerned to personally certify the completion of work while Audit emphasized that completed work needs to be capitalized in the financial statements. The DAC directed to comply with the orders of the Honorable Supreme Court of Pakistan dated July 22, 2013. The compliance of DAC directive was yet awaited.

The DAC in its meeting held in January, 2015 directed the management to implement the directives of previous DAC. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 565/2014-15)

3.3.13 Unlawful execution of electrification schemes – Rs 12.47 million

The Honorable Supreme Court of Pakistan in (constitution petition No. 20/2013) has ordered to stop forthwith the distribution of funds and payment in respect of electrification schemes.

In Special Audit of PWP-II funds allocated for DISCOs under PEPCO for the period 2012-13 electrification schemes worth Rs 12.47 million were carried out and got executed despite orders of the Honorable Supreme Court of Pakistan. Violation of Honorable Supreme Court of Pakistan orders resulted in unlawful execution of electrification schemes worth Rs 12.47 million up to the financial year 2013-14.

The matter was taken up with the management and discussed in DAC meeting held in October, 2013. The management replied that Honorable Supreme Court of Pakistan had directed to fix responsibility for irregular expenditures besides certifying the satisfactory completion of works by Chief Executive Officer concerned personally. The DAC directed to comply with the orders of the Honorable Supreme Court of Pakistan dated July 22, 2013 in letter & spirit.

The DAC in its meeting held in January, 2015 directed the management to implement the directives of previous DAC. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 563/2014-15)

3.3.14 Non-return of excess drawn material to store – Rs 4.04 million

As per basic Rule-2.2 of Distribution Stores Manual, the material in excess of requirement must not be drawn.

In Special Audit of PWP-II Schemes for the period 2012-13 in respect of Distribution Companies (DISCOs) under PEPCO, material valuing Rs 4.04 million was drawn in excess of requirement, as the said material remained unused and was not returned to store. In some case the works were cancelled but the material drawn against those works was also not returned to store. Non-observance of store manual resulted in non-return of excess drawn material to store worth Rs 4.04 million up to the financial year 2013-14.

The matter was taken up with the management and discussed in DAC meeting held in October, 2013. The management replied that Honorable Supreme Court of Pakistan had directed to fix responsibility for irregular expenditures besides certifying the satisfactory completion of works by Chief Executive Officer concerned personally. The DAC directed to comply with the orders of the Honorable Supreme Court of Pakistan dated July 22, 2013.

The DAC in its meeting held in January, 2015 directed the management to implement the directives of previous DAC. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 564/2014-15)

CHAPTER-4

COMMON ISSUES REGARDING NTDC & DISCOs

4. COMMON ISSUES REGARDING NTDC & DISCOs

4.1 AUDIT PARAS

4.1.1 Loss due to theft of electrical material and vehicles Rs 174.66 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 174.66 million was stolen by the culprits in 745 cases. FIRs were lodged with the concerned police station(s) but no administrative inquiry/action was carried out to fix the responsibility. Non-implementation of rules for safeguarding the companies' assets resulted in loss of Rs 174.66 million up to the financial year 2013-14 as detailed below:-

Sr. No.	Name of Company	Draft Para No.	No. of Cases	Amount (Rs in million)
1	FESCO	49, 53, 63, 65, 74, 83 & 218/2014-15	125	16.48
2	GEPCO	190, 192, 193, 220, 222, 239 & 241/2014-15	100	16.71
3	HESCO	72, 78 & 330/2014-15	13	3.07
4	IESCO	33, 81, 88, 90, 93, 136 & 440/2014-15	49	16.18
5	MEPCO	13, 21, 24, 27, 160, 326, 377 & 508/2014-15	143	30.55
6	PESCO	84, 99, 102, 106, 114, 115, 134 & 204/2014-15	142	42.87
7	NTDC	7 & 532/2014-15	02	1.60
8	LESCO	300, 309, 380, 382, 393, 397, 567, 576 & 625/2014-15	110	27.11
9	QESCO	39, 340, 346, 365 & 371/2014-15	16	9.09
10	SEPCO	166, 167, 178 & 206/2014-15	45	11.00
		TOTAL	**745**	**174.66**

The matter was taken up with management from January to December, 2014 and reported to the Ministry from August to December, 2014. 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.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record for verification in respect of completed action within 15 days and pending action be finalized within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

4.1.2 Huge receivables amount from running and dead defaulters Rs 242,289.62 million

According to Para-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 DISCOs & NTDC, an amount of Rs 242,289.62 million was recoverable from running & dead 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 242,289.62 million up to the financial year 2013-14 as detailed below:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs in million)
1	GEPCO	272/2014-15	14.96
2	IESCO	172, 442 & 459/2014-15	15,148.70
3	LESCO	314, 358, 402, 432 & 627/2014-15	554.72
4	MEPCO	519 & 521/2014-15	31,182.39
5	NTDC	632/2014-15	43,352.00
6	PESCO	107, 182, 199 & 252/2014-15	72,877.13
7	QESCO	334, 366 & 413/2014-15	20.02
8	SEPCO	290/2014-15	76,857.98
9	TESCO	149 & 151/2014-15	2,281.72
		TOTAL	**242,289.62**

The matter was taken up with the management from August to November, 2014 and reported to the Ministry from August to December, 2014. The management replied that it was a continuous process and either the recovery was made or recovery from running & dead defaulters was being pursued vigorously as per SoP of the department.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record within 15 days. The DAC also directed to provide age analysis of outstanding amount and take action against defaulters having age more than one year within a month. Further progress was not reported till finalization of the report.

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

4.1.3 Loss of revenue due to abnormal line losses beyond NEPRA's targets Rs 64,216.01 million

NEPRA fixed targets of energy losses for the financial year 2013-14 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, 3,906.86 million units were lost beyond the NEPRA's target which resulted in loss of revenue amounting to Rs 64,216.01 million during the financial year 2013-14 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	214/2014-15	9.13%	28.74	287.42
2	GEPCO	242 & 292/2014-15	11%	52.70	662.31
3	HESCO	76/2014-15	22%	218.95	2,627.35
4	IESCO	135/2014-15	12%	23.12	277.48
5	LESCO	424, 606 & 626/2014-15	12%	197.63	2,448.89
6	MEPCO	36, 161, 350, 356 & 489/2014-15	15%	414.37	4,982.88
7	PESCO	282 & 322/2014-15	20%	2,024.99	41,517.80
8	QESCO	338, 412 & 426/2014-15	21.50%	318.74	3,213.06
9	SEPCO	175 & 319/2014-15	17%	584.14	7,677.05
10	TESCO	281/2014-15	18.50%	43.48	521.77
			TOTAL	**3,906.86**	**64,216.01**

The matter was taken up with the management from August to December, 2014 and reported to Ministry from October to December, 2014. The management replied that high losses on feeders were due to (i) difference in date of reading cycle, (ii) non-allotment of coding to the feeders, (iii) shifting of units on self generation, (iv) dual source of supply.

The DAC in its meeting held in January, 2015 directed the management to carry out analysis of ten feeders of high losses in order to determine the percentage of energy losses and submit report within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

4.1.4 Non-removal of electrical equipment - Rs 10,354.84 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, 14,737 consumers of all categories defaulted the payment of energy charges. The equipment removal orders (EROs) issued but 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 10,354.84 million up to the financial year 2013-14 as detailed below:

Sr. No.	Name of Company	Draft Para No.	No. of EROs	Amount (Rs in million)
1	FESCO	62/2014-15	02	26.08
2	GEPCO	189, 267 & 273/2014-15	1,743	9,196.10
3	IESCO	32 & 92/2014-15	123	37.46
4	LESCO	395 & 398/2014-15	17	13.50
5	MEPCO	520/2014-15	12,566	917.74
6	PESCO	104/2014-15	47	19.81
7	QESCO	38, 333, 335 & 336/2014-15	239	144.15
		TOTAL	**14,737**	**10,354.84**

The matter was taken up with the management from July to October, 2014 and reported to Ministry from October to December, 2014. The management replied that most of the connections were permanently disconnected. In some cases, recovery/adjustment had been made, material had been removed while in remaining cases, action was under process.

The DAC in its meeting held in January, 2015 directed the management to produce the relevant record in support of reply for verification within 15 days.

The DAC also directed to implement the EROs in respect of all cases beyond 180 days of issuance and removed material be returned to store within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

4.1.5 Non-recovery of liquidated damages – Rs 969.69 million

According to conditions of contract, the rate of liquidated damages is 0.05% for each day or 2% per month of delay in completion of the works / supplies subject to a maximum of 10% of contract price.

In DISCOs & NTDC, forty seven contracts/purchase orders were awarded to different contractors/suppliers for execution of works and supply of material. The contractors/suppliers could not complete the works/supplies within the stipulated period. Resultantly, they were liable to pay the liquidated damages of Rs 969.69 million but the same were not recovered up to the financial year 2013-14 as detailed below:-

Sr. No.	Name of Company	Draft Para No.	No. of Contracts	Amount (Rs in million)
1	GEPCO	226, 265 & 316/2014-15	13	226.14
2	IESCO	450/2014-15	08	8.50
3	LESCO	601/2014-15	12	121.35
4	MEPCO	354/2014-15	05	1.41
5	PESCO	141/2014-15	02	0.73
6	NTDC	04, 448, 449 & 503/2014-15	07	611.56
		TOTAL	**47**	**969.69**

The matter was taken up with the management from May to October, 2014 and reported to the Ministry from July to December, 2014. The management replied that either amount of LD had been deducted or the material was supplied within stipulated time, hence, no LD was recoverable or the recovery of LD & extension of time (EOT) was under process.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record of completed actions for verification within a week and expedite the pending actions as per rules. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

4.1.6 Undue favour to the consumers on account of non-regularization of unauthorized extension of load – Rs 1,123.57 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, 2,458 industrial/commercial 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 1,123.57 million remained un-recovered from consumers on account of security deposit, feeder rehabilitation charges and substation cost up to the financial year 2013-14 as detailed below:-

Sr. No.	Name of Company	Draft Para No.	No. of Cases	Amount (Rs in million)
1	FESCO	47, 48, 51, 58, 61, 67 & 215 /2014-15	403	143.59
2	GEPCO	191, 219, 221, 223, 224 & 243/2014-15	282	139.79
3	HESCO	69, 77 & 171/2014-15	324	110.77
4	IESCO	34, 79, 87 & 89/2014-15	242	73.93
5	LESCO	297, 302, 315, 379, 381, 396, 571 & 628/2014-15	238	123.93
6	MEPCO	14, 15, 20, 25, 29, 159, 349, 416, 418 & 510/2014-15	362	75.25
7	PESCO	85, 100, 105, 108, 116, 126, 127, 128 & 200/2014-15	400	117.79
8	QESCO	37, 337, 341, 344, 368 & 410/2014-15	36	12.11
9	SEPCO	165 & 179/2014-15	125	20.82
10	TESCO	148/2014-15	46	305.59
		TOTAL	**2,458**	**1,123.57**

The matter was taken up with the management from July to December, 2014 and reported to the Ministry from August to December, 2014. The management replied 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.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record for verification in respect of completed action within 15 days and pending action be finalized within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC’s directives besides fixing the responsibility.

4.1.7 Non-disposal of off-road vehicles and unserviceable material Rs 1,008.95 million

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

In DISCOs & NTDC, 247 off-road vehicles and unserviceable material/equipment worth Rs 1,008.95 million had not been disposed off up to the financial year 2013-14. The vehicles and material were kept in the open and exposed to the adverse environmental effects, which resulted in deterioration and decrease in value with the passage of time as detailed below.

Sr. No.	Name of Company	Draft Para No.	No. of Vehicles	Amount (Rs in million)
1	FESCO	96, 97 & 255/2014-15	16	144.80
2	GEPCO	233 & 244/2014-15	00	164.43
3	HESCO	168, 331 & 332/2014-15	50	37.92
4	IESCO	94/2014-15	00	43.48
5	LESCO	301, 305, 357, 383, 391, 566, 580 & 604/2014-15	58	132.24
6	MEPCO	378, 429, 487, 513 & 514/2014-15	48	412.20
7	PESCO	98, 133, 201 & 231/2014-15	43	43.86
8	SEPCO	211/2014-15	32	20.60
9	NTDC	06/2014-15	00	9.42
		TOTAL	**247**	**1,008.95**

The matter was taken up with the management from January, 2012 to November, 2014 and reported to the Ministry from August to December, 2014. The management replied that either survey reports had been prepared or under preparation and disposal process was underway.

The DAC in its meeting held in January, 2015 directed the management to complete the disposal process within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC’s directives besides fixing the responsibility.

4.1.8 Recoverable amount from independent consumers on account of energy losses beyond permissible limit – Rs 928.47 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 136 independent feeders were ranging from 3.3% to 99.9% instead of the permissible limit of 3% which entailed loss of 76.95 million units costing Rs 928.47 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 928.47 million due to line losses beyond permissible limit during the financial year 2013-14 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	50, 52, 59 & 68/2014-15	28	6.08	3.9 to 17.9	71.68
2	IESCO	91, 157 & 443/2014-15	22	19.68	4.3 to 29	235.27
3	LESCO	359 & 577/2014-15	04	1.27	5.1 to 23.6	18.42
4	MEPCO	22 & 351/2014-15	14	3.14	3.3 to 9.9	43.25
5	PESCO	118 & 183/2014-15	48	43.85	3.9 to 99.9	526.10
6	QESCO	339 & 345/2014-15	11	1.35	4 to 54	10.86
7	SEPCO	176 & 205/2014-15	09	1.58	5.2 to 52.5	22.89
		TOTAL	**136**	**76.95**		**928.47**

The matter was taken up with the management from August to December, 2014 and reported to the Ministry from September to December, 2014. The management replied that high losses on independent feeders were due to (i) difference in date of reading cycle, (ii) non-allotment of coding to the feeders, (iii) shifting of units on self generation and (iv) dual source of supply.

The DAC in its meeting held in January, 2015 directed the management to carry out analysis of ten feeders of high losses in order to determine the percentage of actual energy losses and submit report within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

4.1.9 Non-return of dismantled/excess material to store – Rs 944.94 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 DISCOs & NTDC, electric material of various types worth Rs 944.94 million dismantled and found excess from various location were not returned to stores during the financial year 2013-14 as required under the rules. The detail was as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs in million)
1	FESCO	82/2014-15	3.56
2	GEPCO	225, 237 & 264/2014-15	32.12
3	HESCO	360/2014-15	48.81
4	IESCO	95 & 121/2014-15	473.20
5	LESCO	400 & 608/2014-15	10.26
6	MEPCO	30 & 430/2014-15	6.47
7	PESCO	86, 110, 143, 154, 251, 276 & 375/2014-15	277.51
8	QESCO	364, 374 & 408/2014-15	23.22
9	SEPCO	164, 248 & 362/2014-15	9.06
10	NTDC	610/2014-15	60.73
		TOTAL	**944.94**

The matter was taken up with the management from July to December, 2014 and reported to the Ministry from September to December, 2014. The management replied that in some cases, material had been returned to store whereas in other cases, the material would be returned to store.

The DAC in its meeting held in January, 2015 directed the management to produce the record for verification within a week and expedite the pending actions within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

4.1.10 Loss due to non-replacement of electrical material damaged under warranty period – Rs 124.73 million

According to the standard 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 DISCOs, 2,253 distribution transformers, energy meters and other equipments of different types worth Rs 124.73 million were damaged under warranty period. The transformers and energy meters were not got replaced from the manufacturers up to the financial year 2013-14 as required under the rules. The detail was as under:-

Sr. No.	Name of Company	Draft Para No.	No. of Cases	Amount (Rs in million)
1	FESCO	64/2014-15	15	4.23
2	GEPCO	227/2014-15	152	39.57
3	HESCO	71 & 329/2014-15	15	4.91
4	IESCO	460/2014-15	42	5.17
5	LESCO	298, 307, 553, 605 & 633/2014-15	78	25.94
6	MEPCO	483 & 512/2014-15	1,912	32.02
7	PESCO	129 & 185/2014-15	19	8.75
8	SEPCO	210/2014-15	20	4.14
		TOTAL	**2,253**	**124.73**

The matter was taken up with the management from July to December, 2014 and reported to the Ministry from October to December, 2014. The management replied that in some cases, electrical material had been received back from the suppliers whereas return of balance material was under process.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record of completed actions for verification within a week and complete the pending actions within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

4.1.11 Loss due to damage of electrical equipment – Rs 23.84 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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, electrical equipment comprising of distribution & power transformers, grid station/power house installation and allied material valuing Rs 23.84 million were damaged during the financial year 2013-14 This resulted in loss of Rs 23.84 million due to damage of electrical equipment as detailed below:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs in million)
1	GEPCO	228/2014-15	0.98
2	HESCO	70/2014-15	1.24
3	PESCO	119, 130, 131 & 277/2014-15	19.58
4	LESCO	392/2014-15	2.04
		TOTAL	**23.84**

The matter was taken up with the management from July to October, 2014 and reported to the Ministry from October to December, 2014. The management replied that in some cases, inquires had been conducted whereas in remaining cases, inquiry committees would be constituted to probe into the matter and all remedial measures had been adopted in letter and spirit to minimize the rate of damaging of electrical equipment.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record of completed actions within 15 days and expedite the inquiry proceedings within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

CHAPTER-5

JAMSHORO POWER GENERATION COMPANY LIMITED
(GENCO-I)

5. JAMSHORO POWER GENERATION COMPANY LIMITED

5.1 Introduction

The Jamshoro Power Generation Company Limited, (JPGCL) is a subsidiary of WAPDA. It was incorporated in August, 1998, under Companies Ordinance 1984 and started its business from 1st March, 1999. The Company took over properties, rights, assets, obligations and liabilities of thermal power generation at JAMSHORO, LAKHRA and KOTRI, owned by WAPDA through Business Transfer Agreement. However since July, 2002 all the assets and liabilities relating to Lakhra Power Station were transferred back to WAPDA.

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

5.2 Commnets on Financial Statements

5.2.1 Financial Overview

The financial statements of the Company were approved on October 28, 2014, and issued the Annual Report.

The following comments/analysis was prepared on the financial statement. The financial results are as under:-

5.2.2 Extracts of the Financial Statements[1]

Balance Sheet as at June 30, 2014

(Rs in million)

	2013-14	%	2012-13	%	2011-12
Equity and Liabilities					
Share capital and reserves Authorized Shares	50,000.00	-	50,000.00	-	50,000.00
Issued, subscribed and paid-up capital	8,128.54	-	8,128.54	-	8,128.54
Accumulated Profit/(loss)	(10,955.12)	(189.65)	(12,219.78)	(1.32)	(12,382.79)
	(2,826.59)	**(30.91)**	**(4,091.25)**	**(3.83)**	**(4,254.25)**
LIABILITIES					
Non-current liabilities					
Deferred liability-employee benefits	5,370.31	17.13	4,584.77	28.51	3,567.66
Long term Loans	157.41	-	-	-	-
Deferred Income-Govt. Grant	1,104.59	(8.01)	1,200.77	165.56	452.17
	6,632.31	**14.64**	**5,785.54**	**43.93**	**4,019.82**
Current liabilities					
Trade and other payable	29,736.08	190.72	10,228.33	(19.70)	12,738.06
Accrued mark up and overdue installment	1.38	(99.66)	404.43	16.36	347.57
Provision for taxation	8.89	(28.13)	12.36	-	-

Current portion of long term loans	50.68	(95.61)	1,154.62	-	1,154.62
	29,797.03	**152.52**	**11,799.74**	**(17.14)**	**14,240.25**
Total Liabilities	**33,602.75**	**149.02**	**13,494.04**	**(3.65)**	**14,005.82**
ASSETS					
Non-current assets					
Tangible fixed assets	3,891.07	(14.04)	4,526.61	10.68	4,089.84
Long term loans and advances	28.83	16.57	24.73	24.01	19.94
	3,919.90	**(13.87)**	**4,551.34**	**10.74**	**4,109.78**
Current assets					
Stores and spares	585.09	(11.00)	657.37	(7.32)	709.31
Fuel stock	279.45	(13.94)	324.72	(5.85)	344.90
Trade debts	25,794.23	384.65	5,322.24	(17.78)	6,473.03
Advances, prepayments and other receivables	2,296.55	1.68	2,258.62	15.02	1,963.71
Cash and bank balances	727.54	91.58	379.75	(6.26)	405.11
	29,682.85	**231.92**	**8,942.70**	**(9.63)**	**9,896.04**
Total Assets	**33,602.75**	**149.02**	**13,494.04**	**(3.65)**	**14,005.82**

Profit and Loss Account
For the Year ended June 30, 2014

	2013-14	**%**	**2012-13**	**%**	**2011-12**
Revenue					
Sales	64,085.29	70.25	37,641.84	18.89	31,661.55
Cost of sales	62,315.34	71.18	36,403.42	4.43	34,858.70
Gross profit/(Loss)	1,769.94	42.92	1,238.43	138.7)	(3,197.17)
Administrative and general expenses	606.37	(7.45)	655.20	(7.41)	707.67
Other income	345.58	130.57	149.88	61.10	93.04
Financial and other charges	39.58	(35.86)	61.71	(27.50)	85.12
Re-imbursement of income tax	640.85	240.50	188.21	-	-
Taxation	640.85	240.50	188.21	-	-
Profit for the year	1,469.57	118.88	671.39	117.23	(3,896.92)

5.2.3 Comments on Audited Accounts

i) Profitability

The company earned net profit of Rs 1,469.57 million during the current financial year while the company still suffering accumulated losses of Rs 10,955.12 million, this indicates that the operational efficiency of the company needs to be further improved.

ii) Trade Debts and other Receivable

The trade receivables increased significantly i.e. by Rs 28,090.78 million (384.65%) over the previous year out of which Rs 25,794.23 million was receivable from NTDC on account of sale of energy. Substantial increase in account receivables reflected inefficient collection procedures and poor administration of trade debts, resulting loss of revenue to the Company and ultimately worsening liquidity position. The Company does not hold adequate liquid assets required to settle its short term liabilities which needed to be justified.

iii) Trade creditors and other Payables

Delays in collection from debtors have trickledown effect on the creditor's turnover which decreased to 174 days from 106 days .The current liabilities of the company increased significantly i.e. by Rs 29,797.03 million (152.52%) over the previous year out of which Rs 28,174.49 million was payable to Sui Southern Gas Company Limited (SSGC) and Pakistan State Oil Company Limited (PSO) on account of purchase of fuel for energy generation. Substantial increase in account payables reflected inefficient payment procedures and poor administration of trade creditors, resulting burden of huge liabilities to the Company and ultimately worsening liquidity position. The company management has not taken adequate remedial action to address the issue which needed to be justified.

iv) Less investment in improvement of Power Generation System

The Company liquidated its short term investment amounting to Rs 232.44 million during the financial year 2013-14 (Rs 1,182.37 million 2012-13), to finance its operations. Out of which capital expenditure was Rs 226.81 million (Rs 1,176.89 million 2012-13) which showed 80.73% decrease in capital expenditure for the improvement of power generation system however, the Company failed to efficiently and effectively use the assets as the losses increased significantly.

5.2.4 Recommendations

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

In view of the forgoing, it is recommended that the Company would also restructure its financial arrangements by funding its operations from cheap sources of finance, resulting in low interest cost.

5.3 AUDIT PARAS

5.3.1 Loss due to irregular repair of transformers – Rs 3.38 million

According to Section-III (1) of WAPDA Guidelines for Enforcing

Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 GENCO-I Jamshoro, thirty one distribution transformers of various capacities installed at Residential Colony TPS Jamshoro were damaged due to unknown reasons and sent to different workshops for repair. An expenditure of Rs 3.38 million was incurred on repair of these transformers from September, 2012 to October, 2013. The expenditure was irregular as repair of these transformers was responsibility of the HESCO instead of GENCO-I.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that internal maintenance of the colony was the responsibility of the JPCL. Therefore, requisite damaged transformers were got repaired from the WAPDA foundation workshop Sukkur at the cost of JPCL. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to take up the matter with HESCO for recovery of repair charges of transformers within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 524/2013-14)

5.3.2 Non-recovery of standard rent – Rs 1.16 million

According to the instructions issued by Director Finance (Regulation) WAPDA on 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 Formations concerned from the formation whose employees have been allotted accommodation.

In GENCO-I Jamshoro, standard rent of Rs 1.16 million was recoverable from eighty four officers/officials/private occupants residing in the residential colony of Thermal Power Station, Jamshoro. No effective steps were taken to recover the outstanding standard rent from the occupants. Non-adherence to Authority's instructions resulted in non-recovery of standard rent of Rs 1.16 million up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that an amount of Rs 0.58 million was recovered and efforts were being made to recover the balance amount.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification within 15 days and expedite recovery of balance amount. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC’s directives besides fixing the responsibility.

(DP No. 525/2014-15)

CHAPTER-6

CENTRAL POWER GENERATION COMPANY LIMITED (GENCO-II)

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 fourteen units having capacity of 12,264,000 MWh while actual generation was 6,367,000 MWh during 2012-13

Non-completion/finalization of Financial Statements

As per Company Ordinance-1984, the Company is required to finalize the financial statements within four months from the close of financial year. The Company could not finalize the financial statements up till December 31, 2014. The matter was taken up with the management since December 05, 2014. It was replied that the finalization of financial statement for the year ended June 30, 2014 was under process and would be submitted after completion of audit and approval of board of directors. This directorate is, therefore, unable to offer comments on the financial position of the Company.

6.2 AUDIT PARAS

6.2.1 Heavy generation loss due to non-allocation of additional gas quota to the thermal power station – Rs 49,660 million

The demand for additional gas quota was needed to be supplied for generation of Electricity at TPS Guddu vide Chief Executive Officer's letter dated May 28, 2012.

In GENCO-II Guddu, allocation for additional 262 MMCFT gas was demanded from Ministry of Petroleum and Natural Resources (GoP) for running of power house machines which was not allocated. This caused not only a heavy generation loss to the company amounting Rs 49,660 million but also free of cost electricity could not be generated from combined cycle at Steam Turbine No. 6 and 13 up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that hectic efforts for allocation and supply of additional gas had been made repeatedly to SSGC in view of future demand.

The DAC in its meeting held in January, 2015 directed the management to take up the matter with SSGC through Ministry of Water and Power and report the matter to PAC for pursual/final decision. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 422/2014-15)

6.2.2 Heavy generation loss due to diverting of 60 MMCFT gas quota to Engro Fertilizer – Rs 3,736.48 million

According to Chief Executive Officer GENCO-II office letter dated February 28, 2014, 60 MMCFT shallow on Gas from Mari Gas Company was originally allocated to Thermal Power Station, Guddu and subsequently diverted to Engro Fertilizer Company, Dahrki.

In GENCO-II Guddu, 60 MMCFT Mari Shallow Gas from Mari Gas Company was being supplied to Thermal Power Station (TPS) but due to outage of some units of power house, the gas was diverted to Engro Fertilizer Limited on temporary basis in July, 2013. The gas quota was not restored to TPS despite various written requests. Resultantly, Steam Turbine No. 5 could not operate at its full capacity and 233.53 million units valuing Rs 3,736.48 million were less generated during the financial year 2013-14

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that hectic efforts for allocation and supply of additional gas had been made repeatedly to SSGC in view of future demand.

The DAC in its meeting held in January, 2015 directed the management to take up the matter with SSGC through Ministry of Water and Power and report the matter to PAC for pursual/final decision. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 437/2014-15)

6.2.3 Loss due to abnormal delay in placement of purchase order Rs 1,700.49 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 GENCO-II Guddu, procurement of Air Inlet Filters took thirteen months w.e.f January 10, 2013 to February 24, 2014 right from the process of material demand to placement of purchase order. The stock position of air inlet filters had become 'NIL' on July 15, 2013 and nothing was available to replace the dirty air inlet filters of the Units GT - 8, 9 & 10. The gas turbine and steam turbine started to produce 25% and 15% less generation which resulted in loss of Rs 1,700.49 million which could have been averted by replacing timely dirty air inlet filters during the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the placement of purchase order was delayed due to process of seeking clarification from various stakeholders which took nearly five months. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to conduct a fact finding inquiry on technical grounds within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 458/2014-15)

6.2.4 Loss due to fictitious booking of electricity units - Rs 300.09 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 GENCO-II Guddu, 9.41 million energy units valuing Rs 115.19 million were booked under miscellaneous and line losses heads without proper billing record. Moreover, 29.80 million energy units valuing Rs 184.90 million were charged to various official premises located within the residential colony of Thermal Power Station without sanctioned load and energy meters. The matter of fictitious billing of Rs 300.09 million was required to be investigated, which was not done. Non-adherence to WAPDA guidelines resulted in loss of Rs 300.09 million due to fictitious billing during the financial year 2013-14

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that in the absence of energy meters, exact consumption of energy meters against each location was not possible. However, the matter for installation energy meters at each location was under process with SEPCO's authorities.

The DAC in its meeting held in January, 2015 directed the management to take up the matter with SEPCO for installation of energy meters at each location vigorously, recover the amount involved and conduct fact finding inquiry within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC’s directives besides fixing the responsibility.

(DP No. 435 & 436/2014-15)

6.2.5 Irregular procurement of equipment – Rs 14.34 million

The CEO GENCO-II accorded administrative approval on August 15, 2011 to purchase Russia/West Europe/USA/Japan make heating element basket of regenerative air heater (hot end). Subsequently, the same specification was also mentioned in the tender notice.

In GENCO-II Guddu, a tender for procurement of heating element basket of regenerative air heater (hot end) was opened on February 19, 2013. Three firms participated in the bidding process and M/s Shanghai Dongkaimest Co. offered equipment of China make instead of Russia/West Europe/USA/Japan. The same was accepted and purchase order was placed on the firm at cost of Rs 14.34 million. Previously, the equipment purchased from different manufactures of China did not prove beneficial for the plant as end user faced bitter experience of frequent chocking and sulpher deposition of these heating elements. Violation of administrative approval resulted in irregular procurement of equipment valuing Rs 14.34 million during the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that in tender inquiry the word "and equivalence" was also written along with specified countries and the procurement was made after observing all codal formalities. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to conduct inquiry at PEPCO level for fixing the responsibilities and obtain a certificate from end user about satisfactory performance of the parts within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 456/2014-15)

6.2.6 Loss due to damage of power transformer – Rs 12 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 GENCO-II Guddu, one auxiliary transformer and one single phase auto power transformer installed at 600 MW Combined Cycle Power Plant damaged on November 13, 2013. As per inquiry report, this damage occurred due to deterioration in the insulation level of cables and caused heavy loss of Rs 12 million to the Company during the financial year 2013-14.

The matter was taken up with the managements in October, 2014 and reported to the Ministry in December, 2014. The management replied that the damaged transformer was commissioned during 1986. The transformers had completed its useful life about twenty seven years for which insurance claims were also lodged with D.G Insurance WAPDA. The matter was inquired through inquiry committee who recommended that no any person was held responsible for this incident. The departmental reply was not considered satisfactory by Audit.

The DAC observed with great concerned in its meeting held in January, 2015 and directed the management to produce copy of inquiry committee's report along with detailed reply and fix the responsibility for keeping the transformer irrepaired since last one and a half year within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 438/2014-15)

6.2.7 Loss due to non-forfeiture of bid security- Rs 3.70 million

According to Clause-11.5 of the bidding documents, the tender security may be forfeited:

a. If a tenderer withdraws his tender during the period of tender validity;
b. In the case of a successful tenderer, if he fails to:
    i. Furnish the required performance security.
    ii. Sign the contract agreement / acknowledgment of purchase order/ service order.

In GENCO-II Guddu, a tender was opened on July 02, 2013 for procurement of material of Unit-3 of TPS Guddu. Three firms participated in the bid and out of these M/s Enervek Hellas was the lowest bidder in sixteen items valuing US$ 24,472. The firm was requested to give its consent for placement of purchase order but the firm refused to accept the purchase. The bid security of Rs 3.70 million was required to be forfeited as per contract but the same was released to the bidder. Violation of the contract resulted in loss of Rs 3.70 million during the financial year 2013-14.

The matter was taken with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that as per Clause-IT-11 of standard bidding documents, the bid securities of unsuccessful bidders would be returned upon award of contract to the concerned bidder or on the expiry of validity of bid security, whichever was earlier. Hence, there was no loss to the company due to releasing of bid security. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry and submit its reports to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 434/2014-15)

6.2.8 Loss due to award of irregular purchase order – Rs 2.61 million

According to Clause-IT-14 of tender document, tender will be evaluated for each item of the scope of work.

In GENCO-II Guddu, a tender for procurement of moving blades & discs of LP Turbine Unit No. 3 was opened on July 02, 2013. Three firms participated in the bid and out of these firms, M/s. Enervek Hellas Limited Greece was the lowest bidder in sixteen items and refused to accept the partial order of US$ 24,772. Thereafter, the purchase order was placed on M/s OJSC Russia at cost of US$ 50,600 as it was not in line with the provisions of bidding documents. Violation of tender clause resulted in loss Rs 2.61 million (US$ 26,128) due to purchase of material at higher rates during the financial year 2013-14

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the matter was also submitted to CCC for technical vetting, who also recommended to purchase all items from M/s OJSC Russia being original equipment manufacturer. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply along with approval of competent authority for verification within 15 days. DAC also directed to initiate inquiry against the responsible for loss. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 421/2014-15)

6.2.9 Heavy financial loss due to poor maintenance of thermal units

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 GENCO-II Guddu, Thermal Units No. 11, 12 and 13 remained closed due to forced outages of the operations caused by some internal faults and non-major overhauling of units. Hence, 2,181.24 million units valuing Rs 21,812.40 million could not be produced. Non-adherence to WAPDA guidelines resulted in loss of Rs 21,812.40 million due to less generation during the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that units were remained closed due to non-provision of parts from Germany. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to submit detailed reply along with justification within 15 days and ensure timely overhauling of thermal units. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 419/2014-15)

CHAPTER-7

NORTHERN POWER GENERATION COMPANY LIMITED (GENCO-III)

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 2,459 MW and **de-rated capacity of 2,071 MW. Profile of NPGCL is tabulated below for better understanding of its operations:

Non-completion/finalization of Financial Statements

As per Companies Ordinance, 1984, the Company is required to finalize the financial statements within four months from the close of financial year. The Company could not finalize the financial statements up till December 31, 2014. The matter was taken up with the management since December 05, 2014. It was replied that the finalization of financial statement for the year ended June 30, 2014 was under process and would be submitted after completion of audit and approval of board of directors. This directorate is, therefore, unable to offer comments on the financial position of the Company.

7.2 AUDIT PARAS

7.2.1 Loss due to missing/damaged parts of plant/equipment Rs 312.61 million

According to Clause-30.2 of Particular Conditions of Contract, all replacements shall be made free of cost, installed, and put into operation at the site by the contractor, and the return of defective parts to the Contractor’s factory shall be the contractor’s responsibility and shall be made at his expense.

In 425 MW Combined Cycle Power Plant (CCPP), Nandipur (GENCO-III), an EPC contract for construction of 425 MW Combined Cycle

Power Plant was signed on January 28, 2008. The project was to be started on October 16, 2008 and its completion date was June, 2011. The project equipment and material were detained at Karachi port till resumption of work by M/s Dongfang Electric Corporation China (DECL) on October 21, 2013. A number of parts of machinery and equipment valuing Rs 312.61 million were found missing and damaged during physical inspection. The missing and damaged parts of machinery and equipment were to be replaced by the contractor free of cost but the same was not done. Violation of contract resulted in loss of Rs 312.61 million up to the financial year 2013-14.

The matter was taken up with the management in July, 2014 and reported to the Ministry in September, 2014. The management replied that due to holding of legal opinion by the Ministry of Law, Justice and Parliamentary Affairs, the project equipment/material detained at Karachi Port. A number of parts of machinery and equipment were found missing / damaged during this period. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to conduct inquiry and fix responsibility in accordance with decision of Supreme Court of Pakistan. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 18/2014-15)

7.2.2 Loss due to delay in completion of projects – Rs 96,895 million

According to PC-I of Combined Cycle Power Plants at Nandipur & Chichoki Mallian, the projects were required to be completed and put into operation in October, 2009.

In GENCO-III, both the power plants could not be operational in October, 2009 due to detentation of power plants machinery at Karachi Port from June, 2009 to September, 2013. However, only one unit of Nandipur power plant started commercial operation in May, 2014. If both the power projects were completed, 975 MW (450 MW + 525 MW) electricity would have been added in the National Grid System. The judicial commission constituted by Supreme Court of Pakistan worked out total loss of Rs 96,895 million due to delay in completion of the project up to the financial year 2013-14.

The matter was taken up with the management in July, 2014 and reported to the Ministry in October, 2014. The management replied that due to holding of legal opinion by the Ministry of Law, Justice and Parliamentary Affairs, the projects equipment/material was detained at Karachi Port. A number of parts of machinery and equipment were found missing / damaged during this period.

The DAC in its meeting held in January, 2015 directed the management to conduct inquiry and fix responsibility in accordance with decision of Supreme Court of Pakistan. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 60/2014-15)

7.2.3 Non-recovery of generation cost from NTDC – Rs 1,554.23 million

Generation companies were entrusted to generate electricity and sell it to NTDC on cost basis.

In 425 MW CCPP Nandipur, 38.41 million energy units were sent out to NTDC as per secured metering system during the period May to September, 2014. The cost of Rs 1,554.23 million (38.41 million energy units @ Rs 40.46) sent out to NTDC was not recovered. Non-compliance to the sale procedure resulted in non-recovery of Rs 1,554.23 million on account of cost of electricity from NTDC up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in January, 2015. The management replied that the invoice could not be raised due to non-determination of tariff by NEPRA. However, upon determination of tariff, the invoice of recovery would be placed to CPPA.

The DAC in its meeting held in January, 2015 directed the management to pursue the matter with NEPRA vigorously and raise invoices for recovery. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 647/2014-15)

7.2.4 Loss due to irregular award of contract to 3rd lowest bidder Rs 10,819.58 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 425 MW CCPP Nandipur, the contract for operation & maintenance

(O&M) of the plant was awarded to the 3rd lowest bidder at cost Rs 18,459.34 million per annum instead of the 2nd lowest bidder having cost Rs 7,639.76 million. Violation of PPRA rules resulted in loss of Rs 10,819.58 million during the financial year 2013-14

The matter was taken up with the management in October, 2014 and reported to the Ministry in January, 2015. The management replied that 1st lowest bidder was not considered as he could not deposit bid money. The 2nd lowest bidder was also not considered as he quoted the price for one year instead of three years. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to furnish revised reply along with justification and provide a copy of technical & financial evaluation report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 645/2014-15)

7.2.5 Loss due to generation of electricity by using High Speed Diesel (HSD) instead of furnace oil – Rs 986.52 million

According to PC-I of 425 MW CCPP, Nandipur, the generation cost of electricity on the basis of furnace oil per unit is Rs14.78.

In 425 MW CCPP Nandipur, the Units-2 & 3 of power plant were commercially operated on HSD instead of furnace oil before completion of power plant and 38.41 million energy units were generated during the period from May to September, 2014. The production cost became Rs 40.46 per unit which was much higher than the per unit generation cost of Rs 14.78. Violation of the provision of PC-I resulted in loss of Rs 986.52 million to the Company up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in January, 2015. The management replied that the plant was operated on HSD due to urgency and energy crises in Pakistan. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to provide detailed justification within 15 days as to why priority was given to this project instead of IPPs who had availability of declared capacities. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 641/2014-15)

7.2.6 Irregular award of contract in violation of PPRA rules Rs 472.69 million

According to Rule-42(c) ii of PPRA Rules 2004, a procuring agency shall engage in direct contracting only if one manufacturer or supplier exist for the required procurement and are not available from the alternative sources.

In 425 MW CCPP Nandipur, *s*pare parts valuing Rs 472.69 million for GE Frame 9 E Gas Turbines were procured from M/s GE Energy Parts International, Hungry in June, 2014 by making direct contracting with the supplier. The approval of the competent authority was also not obtained for procurement of spare parts. Violation of PPRA rules resulted in irregular award of contract of Rs 472.69 million during the financial year 2013-14

The matter was taken up with the management in October, 2014 and reported to the Ministry in January, 2015. The management replied that all the spare parts were procured from the supplier directly with the approval of competent authority. The reply was not tenable as the procurement from single bidder was allowed only in the case of propriety items.

The DAC in its meeting held in January, 2015 directed the management to provide copy of approval from competent authority for direct contracting to supplier within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility for non-observance of PPRA rules.

(DP No. 644/2014-15)

7.2.7 Non-replacement of defective secured metering system Rs 65.92 million

According to Clause-4 of activity report of metering testing/sealing committee dated March 31, 2014, PD EHV-II, NTDC Multan was responsible to replace backup energy meters with compatible energy meters.

In 425 MW CCPP Nandipur, NTDC had installed secured metering system (SMS) at power house. The backup energy meters and its software were not compatible for backup system but the same were not replaced by NTDC. Non-compliance to report of testing/sealing committee resulted in non-replacement of SMS valuing Rs 65.92 million during the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in January, 2015. The management replied that the case had been referred to NTDC in December, 2014 for receipt of healthy meters. The damaged meters would be replaced on receipt of meters from NTDC.

The DAC in its meeting held in January, 2015 directed the management to expedite the replacement of damage meters with healthy meters within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 643/2014-15)

7.2.8 Loss due to non-replacement of damaged transformers Rs 4.94 million

According to contract Clause-24.4, the contractor shall not be entitled to payment for cost incurred in making good the deterioration, defect or loss caused by faulty workmanship or materials or by the contractor's failure to take the measures specified in Sub-Clause-23.1

In 425 MW CCPP Nandipur, some parts of transformers valuing Rs 4.94 million were found damaged. The supplier was bound to test and check all the items through surveyor and point out the discrepancies in the material at the port. The project management neither bother to pursue the replacement of these transformers nor adopted the punitive measures to make the loss good from the supplier. Violation of contract clause resulted in loss of Rs 4.94 million due to non-replacement of transformers from supplier up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in January, 2015. The management replied that only transformer oil was stolen during suspension period of the project and now amendment in contract was made to execute the remaining work. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to provide copy of amendment with respect to original contract and submit revised reply in the light of action taken by NAB on the direction of Supreme Court of Pakistan within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 649/2014-15)

7.2.9 Loss due to de-rated capacity of power plant – Rs 14,209.56 million

As per Form-E of the GTPS and SPS Faisalabad total installed capacity of both the power houses is 376 MW (244 MW + 132 MW).

In GENCO-III, three units of power plants were running at the total de-rated capacity of 174.24 MW instead of its total installed capacity of 376 MW. The power plants generated 1,449.40 million less energy units amounting to Rs 14,209.56 million. Poor operational management resulted in loss of Rs 14,209.56 million due to de-rated capacity of power plant during the financial year 2013-14

The matter was taken up with management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the plants remained closed due to non-availability of gas.

The DAC in its meeting held in January, 2015 directed the management to provide future plan for rehabilitation and operation of plant on LNG within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 551/2014-15)

7.2.10 Loss due to undue favour to the IPPs – Rs 7,711.50 million

According to CEO GENCO-III letter dated October 30, 2013 the gas requirement of Block-IV of Gas Turbine Power System, Faisalabad was just 32 MMCFT per day enabling it to dispatch 117 MWH to the system @ Rs 5.08 per Kwh more economically than the three IPPs i.e. (Rousch, Alterin Energy and Engro Power Generation).

In GENCO-III, GTPS Faisalabad had valid agreement with SNGPL since 1985 for providing of 26 MMCF Gas per day and falls on Sr. No. 12 in the economic merit having per unit cost of Rs 5.08 per Kwh. As per instruction of NPCC Islamabad, the Block-IV of GTPS, Faisalabad remained standby since July 26, 2012 and production of 1.05 billion units per annum could not be generated. The electricity was purchased from three (03) IPPs M/s Rousch, Engro Power Generation and Alterin Energy falling on merit No. 14, 15 & 17 having per unit cost of Rs 7.07, Rs 6.70 & Rs 7.35 per KwH respectively which caused revenue loss of Rs 7,711.50 million during the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the gas was provided to IPPs instead of WAPDA Power Plants as per decision of gas Company. However, the matter had been taken up with Ministry of Water and Power.

The DAC in its meeting held in January, 2015 directed the management to provide the documentary evidence in support of reply within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 583/2014-15)

7.2.11 Loss due to excess auxiliary consumption against NEPRA's approved standard – Rs 98.14 million

NEPRA in its decision issued on May 2, 2006 approved the auxiliary consumptions as under:

Block-4 GTPS Faisalabad Unit 5-9	2.15 % of units generated
Block-5 SPS Faisalabad Unit 1-2	8.0 % of units generated

In GENCO-III, auxiliary consumption in Gas Thermal Power Station (GTPS) and Steam Power Station (SPS), Faisalabad was in excess of the NEPRA's approved limit which entailed loss of 9.96 million energy units valuing Rs 98.14 million. Violation of NEPRA's target resulted in loss of Rs 98.14 million to the Company during the financial year 2013-14.

The matter was taken up with management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the power plants were operated on de-rated capacity which caused increase in auxiliary consumption. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to furnish revised reply along with justification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 558/2014-15)

7.2.12 Loss due to excess consumption of gas against NEPRA heat rate standard – Rs 52.12 million

NEPRA in its decision issued on May 02, 2006 determined certain technical parameters regarding heat rates, thermal efficiency and auxiliary consumption of power houses under GENCO-III.

In GENCO-III, actual heat rate for SPS, Faisalabad was 16,656.39 MMBTU against standard heat rate of 14,269 MMBTU as determined by NEPRA which resulted in excessive consumption of 106,756.90 MMBTU gas amounting to Rs 52.12 million. Non-adherence to NEPRA’s targets resulted in loss of Rs 52.12 million during the financial year 2013-14

The matter was taken up with management in October 2014 and reported to the Ministry in December, 2014. The management replied that the power plant was operated on lower de-rated capacity which caused increase in auxiliary consumption. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to furnish revised reply along with justification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC’s directives besides fixing the responsibility.

(DP No. 527/2014-15)

7.2.13 Non-recovery of standard rent from un-authorized occupants Rs 8.49 million

As per clarification issued by Director Finance (Regulation), WAPDA on 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 GENCO-III, an amount of Rs 8.49 million was recoverable from 149 officers/officials of different government formations and shops on account of standard rent of accommodations for the period 2012-13 & 2013-14. Neither the standard rent was recovered nor efforts made to vacate the said accommodations. Non-adherence to Authority’s instructions resulted in non-recovery of standard rent amounting to Rs 8.49 million up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that an amount of Rs 1.94 million was recovered and final notices for remaining amount were served to occupants for payment of standard rent.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification, expedite the recovery of remaining amount of standard rent and get vacated the WAPDA residences from the un-authorized occupants within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 493/2014-15)

7.2.14 Non-submission of GST claims to FBR for reimbursement

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 days of filing of refund claim.

In GENCO-III, general sales tax (GST) refund claims amounting to Rs 73,450.54 million were not sent to Federal Board of Revenue (FBR) for reimbursement up to October, 2014. Non-implementation of rules resulted in non-submission of GST claims amounting to Rs 73,450.54 million to FBR during the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the matter of refund has been highlighted at Ministerial level through PEPCO and the Ministry requested FBR, Islamabad to process refund claims but no action had been taken by FBR.

The DAC in its meeting held in January, 2015 directed the management to pursue the matter with FBR vigorously for refund of long outstanding claims and submit revised detailed reply within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 584/2013-14)

CHAPTER-8

LAKHRA POWER GENERATION COMPANY LIMITED (GENCO-IV)

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 net dependable capacity made available was 31.2 MW.

8.2 Comments on Financial Statement

8.2.1 Financial Overview

Financial statement of LPGCL, were on December 10, 2014. The financial results along with the financial ratios are as under;

8.2.2 Extracts of the Financial Statements

Balance Sheet as at June 30, 2014

(Rs in million)

	2013-14	%	2012-13	%	2011-12
Equity and Liabilities					
Share capital and reserves	200.00	-	200.00	-	200.00
Issued, subscribed and paid-up capital	0.50	-	0.50	-	0.50
Accumulated Loss	8,532.72	18.75	7,185.27	19.57	6,009.02
	8,532.22	18.75	**7,184.77**	19.58	**6,008.52**
Deposits for the issuance of shares	**4,033.69**	-	**4,033.69**	-	**4,033.69**
Liabilities					
Non-current liabilities					
Long term loans	17.43	(4.08)	18.17	-	18.17
Deferred Liability - Employee benefits	1,550.78	34.79	1,150.54	14.84	1,001.90
Total Non-current liabilities	**1,568.21**	34.18	**1,168.72**	14.57	**1,020.07**
Current liabilities					
Trade and other payables	6,943.83	14.95	6,040.74	22.33	4,938.23
Taxation – Net	112.22	(0.36)	112.62	(0.01)	112.63
Current portion of long term loans	6,132.68	(4.04)	6,390.63	(0.16)	6,400.63
Total Current liabilities	**13,188.73**	**5.14**	**12,544.00**	**9.54**	**11,451.49**
Total Liabilities	**10,258.41**	**(2.87)**	**10,561.64**	**0.62**	**10,496.73**
ASSETS					
Non-current assets					
Property, Plant & Equipment	1,337.23	(16.00)	1,591.99	(13.87)	1,848.32

Long Term Loans & Advances	10.31	307.31	2.53	(35.53)	3.93
Non-current assets	**1,347.54**	**(15.49)**	**1,594.52**	**(13.91)**	**1,852.25**
Current assets					
Stores and spares	244.79	(1.90)	249.52	(1.39)	253.04
Fuel Stock	15.56	160.81	5.96	7.44	5.55
Trade debts					
Advances, prepayments and other receivables	8,628.31	(0.32)	8,655.66	3.93	8,328.70
Cash and bank balances	22.23	(60.29)	55.98	(2.14)	57.20
Total Current assets	**8,910.88**	**(0.63)**	**8,967.12**	**3.73**	**8,644.49**
Total Assets	**10,258.41**	**(2.87)**	**10,561.64**	**0.62**	**10,496.73**

Profit and Loss Account
For the year ended June 30, 2014

					(Rs in million)
Revenue	**2013-14**	**%**	**2012-13**	**%**	**2011-12**
Electricity sale	1,306.30	197.65	438.88	(94.84)	8,498.39
Cost of electricity	1,398.17	47.10	950.51	(89.22)	8,814.27
Gross profit/(Loss)	91.87	(82.04)	511.64	61.98	315.87
Administrative & General Exp	212.57	19.63	177.69	(25.29)	237.84
Operating profit/(Loss)	304.44	(55.84)	689.32	24.49	553.71
Finance Cost	767.72	(2.67)	788.80	(17.06)	951.09
	1,072.16	(27.46)	1,478.13	(1.77)	1,504.80
Other Operating Income	4.13	(98.74)	328.06	(47.40)	623.67
Reimbursement of Income Tax	17.24	-	-	-	-
	21.36	(93.49)	328.06	(47.40)	623.67
Taxation	17.24	-	-	-	-
	4.13	(98.74)	328.06	(47.40)	623.67
Profit/(Loss) for the year	(1,068.03)	(7.13)	(1,150.07)	30.52	(881.14)

8.2.3 Comments on Audited Accounts

i) Sales and Cost of Sales

The sales of the company increased to Rs 1,306.30 million during the current financial year whereas the cost of sale remained Rs 1,398.17 million hence company suffered gross loss of Rs 91.87 million. Its shows that Company was unable to generate enough revenue to cover its cost of generation and administrative & general expenses. With current operational performance the company was not able to meet even its breakeven point and causing consistent increase in the accumulated losses and liabilities of the company. If these conditions will prevail, the Company would require heavy funding from Government of Pakistan to maintain going concern status.

ii) Profitability

The Company suffered a net loss of Rs 1,068.03 million during the current financial year. Total accumulated losses have reached to the tune of Rs 8,532.71 million. The Company was suffering consistent losses over the years which reflected inefficiency and mismanagement of the affairs of the Company which needed justification.

iii) Un-audited value of Property, Plant and Equipment

Property plant and equipment had been transferred by WAPDA at un-audited values and the Company did not have full itemized details of its property, plant and equipment to breakdown the cost of assets into various components having different useful lives. Accordingly, all plants and machinery items were depreciated at the same useful life. Non estimated breakdown costs in various components of these assets needed justification.

iv) Inventory shortage in stores

Under the account's head of stores, spares and loose tools, the inventory shortage was Rs 68.59 million as a result of physical count of inventories since last year, which needed justification.

v) Long term Loans & Advances

On 3rd December, 2012 as directed by the Supreme Court of Pakistan and based on the calculation of stake holders, National Accountability Bureau (NAB) sent a final notice to KARKEY for the recovery of US$ 128 million. The notice was served to KARKEY to deposit US$ 128 million within seven days or an equivalent bank guarantee from a scheduled bank of Pakistan. However, the same was not recovered till date.

vi) Non-recognition of payables to CPPA

The Company sells its electricity to its sole trade debtor i.e. Central Power Purchasing Agency (CPPA) in accordance with the power purchase agreement .However, the books of accounts of the Company are not in agreement with the record s of CPPA in respect of amount payable to CPPA. There was a net difference of Rs 1,035 million between the amount confirmed by CPPA and the amount recorded in books of the Company, which needed justification.

vii) Operational Costs & Deferred Liabilities

The Company has three units having installed capacity of 150 MW, two of the plants are out of operation and required major expenditure. The third plant was not working at its full capacity and the Company is unable to recover its operational cost. It showed that the Company was unable to pay off its cost of electricity and its deferred liabilities (Employees Benefits) Rs 1,550.78 million i.e. pension, free electricity and free medical, which needed justification.

8.2.4 Recommendations:

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

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

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

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

8.3 AUDIT PARAS

8.3.1 Loss due to de-rated capacity of power plant – Rs 528.16 million

As per Form-E of the Lakhra Power Plant, the installed capacity of one unit was 50 MW.

In GENCO-IV, only one unit of power plant was running at the de-rated capacity of 34 MW instead of its installed capacity i.e. 50 MW. Resultantly, heavy generation loss of 140.16 million energy units amounting to Rs 528.16 million was borne by the Company during the financial year 2013-14 which needed to be investigated.

The matter was taken up with management in October, 2014 and reported to the Ministry in December, 2014. The management replied that now the de-rated capacity of the plant was determined as 40 MW by NEPRA on the plea that the plant was commissioned during 1995.

The DAC in its meeting held in January, 2015 directed the management to provide documentary evidence of NEPRA determination and take efforts to achieve the 40 MW standards within a week. DAC also directed to rehabilitate the remaining units and submit revised reply within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 528/2014-15)

CHAPTER-9

NATIONAL TRANSMISSION AND DESPATCH COMPANY LIMITED (NTDC)

9. NATIONAL TRANSMISSION AND DESPATCH COMPANY LIMITED

9.1 Introduction

National Transmission and Dispatch Company Ltd. (NTDC) was incorporated as a corporate entity in 1998 under Companies 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 will be acting as an 'Agent' of Distribution Companies and Bulk Power Consumers (BPCs) for procurement power on their behalf from Generations Companies and deliver 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

Non-completion/finalization of Financial Statements

As per Company Ordinance-1984, the Company is required to finalize the financial statements within four months from the close of financial year. The Company could not finalize the financial statements up till December 31, 2014. The matter was taken up with the management since December 05, 2014. It was replied that the finalization of financial statement for the year ended June 30, 2014 was under process and would be submitted after completion of audit and approval of board of directors. This directorate is, therefore, unable to offer comments on the financial position of the Company.

9.2 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
NTDC	1998-99	2	-	8 (Para No. 17, 18, 21, 22, 23, 26, 27 & 30)	-
	2010-11	4	-	-	4 (Para No. 9.3.1.1, 9.3.2.1, 9.3.2.2 & 9.3.3.1)

	2011-12	19	-	-	19 (Para No. 8.3.1, 8.3.2, 8.3.3, 8.3.4, 8.3.5, 8.3.6, 8.3.7, 8.3.8, 8.3.9, 8.3.10, 8.3.11, 8.3.13, 8.3.14, 8.3.15, 8.3.17, 8.3.21, 8.3.22, 8.3.24 & 8.3.25)

Position of compliance with PAC directives is not satisfactory.

9.3 AUDIT PARAS

9.3.1 Non-production of record of payments – Rs 65.25 million

Public Accounts Committee issued the directives on June 30, 2004 to the department to make available all information/record to audit as and when required by them, otherwise, disciplinary action will be initiated against persons responsible for the delay under Section-14C (2&3) of the Auditor-General's Ordinance, 2001.

In EHV-I NTDC Project, Islamabad, payments Rs 65.25 million were made to contractors for execution of works. The relevant record of payments was not produced to Audit for examination. Hence, the authenticity of the said expenditure could not be ascertained. Non-observance of PAC's instructions resulted in non-production of record of payments of Rs 65.25 million during the financial year 2013-14

The matter was taken up with the management in August, 2014 and reported to the Ministry in October, 2014. The management replied that the record was ready for examination.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply for examination within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility for non-production of record.

(DP No. 44/2014-15)

9.3.2 Non-recovery of supplementary charges from DISCOs & KESC Rs 96,829 million

As per Section-9.6(d) of Power Purchase Agreement (PPA), late payments by either party of amounts due and payable under this agreement, shall bear interest rate per annum equal to the delayed payment rate.

In CPPA NTDC, an amount of Rs 96,829 million was receivable on account of supplementary charges due to short transmission of amount by DISCOs & KESC for electricity sales since 2009. The DISCOs & KESC were reluctant to reimburse the said amount to CPPA as per agreement. The short recovery of electricity sales from DISCOs & KESC resulted in shortage of funds for payment to IPPs which contributed significantly towards piling up of circular debt up to June, 2014.

The matter was taken up with the management in September & November, 2014 and reported to the Ministry in December, 2014. The management replied that the matter was under correspondence with NEPRA for charging this amount to end consumers.

The DAC in its meeting held in January, 2015 directed the management to pursue the matter with NEPRA and Ministry for early solution. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 618/2014-15)

9.3.3 Loss due to production of electricity on HSD instead of gas Rs 35,223 million

As per Section-5.14 (d), the Annual HSD Tariff Allowance shall be applied towards the three months described as the non-firm delivery months in the Gas Supply Agreement.

In CPPA NTDC, an excess amount of Rs 35,223 million was paid to IPPs due to use of HSD for energy generation during the months other than the non-firm delivery months i.e. December, January and February. Violation of the provision of PPA resulted in loss of Rs 35,223 million due to production of energy on HSD in stead of gas during the financial year 2013-14

The matter was taken up with the management in May, 2013 and reported to the Ministry in December, 2014. The management replied that the agreement between IPPs and SNGPL was expired on June 30, 2011 and now HSD was the primary fuel for these plants.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 623/2014-15)

9.3.4 Non-recovery from trade debtors

As per Article-8 of the license issued by NEPRA to CPPA, the principal activity of the CPPA is to establish the procurement of power on behalf of

Ex-WAPDA distribution companies.

In CPPA NTDC, an amount of Rs 444,423 million was outstanding against associated companies (five DISCOs). Due to non-recovery of long outstanding dues, the CPPA was facing problems in discharging its liabilities which caused major reason for accumulation of current circular debt of Rs 265 billion up to June, 2014 and non-formulation of policy for making payment to IPPs. Poor financial management resulted in non recovery of Rs 444,423 million from trade debtors up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that actual receivables were Rs 300,467 million instead of Rs 444,423 million. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to submit revised reply along with age analysis of long outstanding trade debtors within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 630/2014-15)

9.3.5 Unjustified payment to power holding company for repayments of loan under the liability of GoP – Rs 11,360 million

As per the "resolution of the issues of circular debt in the power sector" of the Finance Division dated May 21, 2009, GoP will remove the bank borrowings (along with markups) that are on the books of power companies as a consequence of GoP's unpaid subsidies from financial year 2004-05 to 2008-09. These liabilities were amounting to Rs 216 billion. MoF will place these amounts in a holding company under the Ministry of water and Power outside the power sector (wholly owned by the GoP) and the repayment of it would be managed through other means such as asset sales over the next three to five years. The servicing of these liabilities will be reflected in the budget.

In CPPA NTDC, an amount of Rs 11,360 million was paid to Power Holding Company Private Limited (PHPL) up to June, 2014 for repayments of loan under the liability of GoP. As per resolution of Finance Division, this payment was to be made by the GoP from its own sources, therefore, the payment of Rs 11,360 million made to PHPL was unjustified.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the payments were made under the instructions of MD PEPCO and with the approval of competent authority. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to obtain detailed reply from PEPCO within 15 days and matter be referred to PAC for final decision. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 631/2014-15)

9.3.6 Non-recovery of down payment from contractor – Rs 921.06 million

According to Clause-6.2.1 of the contract, 15% of the total contract price for Phase-I amounting to Euro 4.52 million will be paid to the contractor as the 1st down payment against submission of a down payment bank guarantee acceptable to the client for the same amount in the same currency. The down payment guarantee will be automatically reduced and released by the bank in proportion to the value of each shipment of equipment and progressive statements duly verified by the client.

In NTDC, a contract for designing, supplying, constructing and commissioning of 220 KV Transmission Line from Pak-Iran border line to Gawadar and one 220/132 KV Grid Station, Gawadar was signed between NTDC and M/s Iran Power & Water Equipment and Services Export Company (SUNIR) on February 04, 2009. A down payment of Rs 921.06 million was paid to M/s SUNIR against LC through KASB Bank, Lahore on March 08, 2012. The contractor could not execute the work up till June 30, 2014 and down payment was not recovered from the contractor up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that 15% advance was given as per contract agreement. Nine transformers out of thirteen were received whereas delivery of remaining four was still under process. As there was ban on Iran's trade, the matter was taken up with Ministry of Finance, Water & Power and State Bank of Pakistan.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record for verification within a week. DAC also directed to furnish detailed reply with justification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 455/2014-15)

9.3.7 Wasteful expenditure due to non-execution of work - Rs 147.13 million

According to Article-3 of Contract, the contractor shall undertake to design, supply, construct and commission the equipment of this contract within twenty two months from the commencement date. The time schedule of delivery shall be as per time schedules (Annex-3). In case of delays occurring not due to the contractor's faults, the period of contract shall be extended.

In NTDC, a contract for designing, supplying, constructing and commissioning of 220 KV transmission line from Pak-Iran border line to Gawadar and one 220/132 KV Grid Station, Gawadar was signed between NTDC and M/s SUNIR on February 04, 2009. Subsequently, an expenditure of Rs 147.13 million was incurred to open the LC on March 8, 2013 but the work was yet to be started, hence, the LC charges had gone waste.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the work could not be started due to imposition of economic sanctions on Iran.

The DAC in its meeting held in January, 2015 directed the management to submit revised reply along with justification for non-execution of work within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 457/2014-15)

9.3.8 Loss due to reduction of mark-up by the KASB bank Rs 63.76 million

The BoD of NTDC in its 52nd meeting held on March 26, 2011 unanimously approved to open the deposit works bank account with KASB Bank at the rate of 12.30% per annum.

In NTDC, a deposit work bank account was opened with KASB Bank Lahore by depositing an amount of Rs 500 million at profit rate 12.30% per annum on daily product basis. This account was opened to facilitate LC transaction of Euro 51 million for turnkey construction of transmission line from Pak-Iran border to Gawadar and 220/132 KV Grid Station, Gawadar. Subsequently, the bank reduced the rate of mark-up from 12.30% per annum to 8.40% on January 07, 2013 without BoD's approval which resulted in loss of Rs 63.76 million during the financial year 2012-13.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the account was opened for LC purpose and not to earn profit. However, the bank paid profit to NTDC on marketable rate on outstanding balances. Hence, no further approval for reduction of mark up rate was obtained from BoD. The reply was not tenable as the profit margin was decided on fixed rate instead of marketable rate.

The DAC in its meeting held in January, 2015 directed the management to provide analysis of KIBOR rates for last four years and obtain approval from BoD for reduced rates within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 445/2014-15)

9.3.9 Non-recovery of revolving fund – Rs 118.12 million

According to Clause-6.4 (a) (i) & (ii) of the CSA, not later than the 15^{th} day of each succeeding month, the amount equal to the preceding monthly estimate in accordance with Appendices-D and E shall be recouped by the Client in the revolving fund against foreign currency and local currency amounts. Any bank interest accruing in a revolving fund shall be credited by the Consultants to the Client.

In EHV-II NTDC Project Hyderabad, revolving fund of Rs 118.12 million was granted to M/s Barqaab Consulting Services and M/s Nespak from October, 2008 to December, 2013. Neither the amount of advances nor bank interest accrued thereon determined and recovered from the Consultants. Violation of contract provisions resulted in non-recovery of advance of Rs 118.12 million and interest thereon up to the financial year 2013-14.

The matter was taken up with the management during May, 2013 to June, 2014 and reported to the Ministry during July to December, 2014. The management replied that the works were in process, when completed, the adjustment would be made in revolving fund.

The DAC in its meeting held in January, 2015 directed the management to provide age analysis of advances given since 2008 to 2014 and justify as to why the fund was not recouped / adjusted on submission of invoices by the contractor. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 05, 11 & 539/2014-15)

9.3.10 Irregular purchase of electrical material from single bidder Rs 1,096.55 million

According to guidelines of PPRA Rules-2004 (under frequently asked questions) circulated on April 22, 2010, whenever a procuring agency is confronted with such a situation whereby the rate quoted by the single bidder cannot be compared so as to declare it as the lowest rate or otherwise it may make a prudent decision. While making a decision, the following factors may be kept in view as the comparison of price of the goods, works or services if procured during the current financial year.

a. Market price of the goods works and services to be procured.
b. In case abnormal increase in prices is observed, the procuring agency may like to re-advertise the procurement opportunity, if time permits.

In NTDC, four contracts for procurements of electrical material valuing Rs 4,470.89 million were awarded to the contractors on the basis of single bid. As a result of its comparison with the Engineer's estimate and other contracts, these contracts were awarded at higher rates by Rs 1,038.63 million. Moreover, a tender for procurements of aluminium conductor, copper conductor and shield wire was opened on February 12, 2014 and single bid of Rs 57.92 million was submitted by M/s Newage Cable which was accepted and contract was awarded to the firm. Violation of PPRA rules resulted in loss of Rs 1,096.55 million due to award of contracts to the single bidder during the financial year 2012-13.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that there was no bar on procurement from single bidder under PPRA rules. The reply was not tenable as reasonability of rates was not determined before award of contracts.

The DAC in its meeting held in January, 2015 directed the management to justify reasonability of rates with reference to Engineer's estimate and market rates within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 469 & 473/2014-15)

9.3.11 Unauthorized advance payment to contractors – Rs 499.80 million

According to Sub-Clause-14.1 of contract, the contractor shall bear and pay all taxes, duties, levies and charges assessed on the contractor by all municipal, state or national government authorities in connection with facilities in and outside of the country where the site is located. As per Sub-Clause 14.10, the employer will reimburse to the contractor all such sums as the employer shall certify to have been properly payable and paid by the contractor.

In EHV-II NTDC Project Hyderabad, advance payments of Rs 499.80 million was made to the contractors on account of demurrage/port charges, container rent, delivery order charges, custom, excise duties and sales tax, etc. against the provision of contracts. Violation of contracts resulted in unauthorized advance payment of Rs 499.80 million to the contractors during the financial year 2012-13.

The matter was taken up with the management in May and November, 2014 and reported to the Ministry in August and December, 2014. The management replied that in one case, due to cash flow problem, the supplier requested to NTDC for advance amount to pay the custom and excise duties which was liability of employer under the agreement. In other cases, an amount of Rs 158.24 million had been recovered and the remaining amount would be recovered from the claims/retention money of the contractor.

The DAC in its meeting held in January, 2015 directed the management to produce the recovery record for verification and expedite the recovery of remaining amount within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 12 & 540/2014-15)

9.3.12 Undue favour to contractors due to non-renewal of performance bank guarantees – Rs 174.64 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 particular conditions of contract by a reputable scheduled bank in Pakistan. The performance security shall be valid up till 12 months covering the defect liability period from the date of issue of the certificate of completion in the case of bank guarantee. The performance security amount will be 10% of the final contract amount.

In EHV-II NTDC Project Multan, the validity period of performance bank guarantees provided by the contractors in three contracts were expired on June 21, July 28, 2011 and July 29, 2012 respectively. As the contracts were not completed up till the said dates, the performance bank guarantees were required to be got renewed/extended from the concerned banks, but the same were not done up till June, 2014.

The matter was taken up with the management in September, 2014 and reported to the Ministry in October, 2014. The management replied that the performance guarantees were extended / renewed.

The DAC in its meeting held in January, 2015 directed the management to produce copies of renewed performance guarantees for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 56/2014-15)

9.3.13 Irregular procurement without engagement of consultants Rs 5,789.45 million

According to Para-7.3 (Page-6) of PC-I for interconnection of C3 & C4 Nuclear Power Plants, Chashma and transmission interconnection for dispersal of power from Uch-II Power Project, physical activities shall be carried out during the year 2013-14 with the involvement of consultant.

In NTDC, seven contracts valuing Rs 2,591.35 million were awarded for execution of Interconnection of C3 & C4 Nuclear Power Plants without appointment and involvement of Consultant in the process of award of contracts. Similarly, a contract valuing Rs 3,198.10 million was awarded for procurement of Plant, Design, supply, Installation, testing and commissioning of 220 KV Transmission Line Uch-II without appointment and involvement of Consultant in the process of award of contract. In the absence of appointment of Consultants, transparency in the process of award of contracts could not be ascertained as the contracts were awarded at higher rates on the basis of single bid and without comparison of Engineer's estimate with bid price. Violation of PC-I provision resulted in irregular procurement of Rs 5,789.45 million without hiring Consultants during the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the procurement was made out of own sources after vetting from design department of NTDC and almost 70% work had been completed. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to provide a certificate from MD NTDC for authentication of procurement with reference to cost effectiveness without consultant within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 472/2013-14)

9.3.14 Loss due to non-recovery of cost of material given to contractor on loan basis – Rs 205.45 million

According to Chief Engineer (Design) NTDC Lahore's letters dated August 19, 23, 2013, January 13, 2014, February 14, May 09, and June 25, 2014, cost of allocation of material on loan basis against Contract No. 2878 Package-I (Lot-II) and Contract No.VC-001 (Package-II) will be recovered from the invoices of the contractors.

In NTDC, material of different types valuing Rs 205.45 million was allocated to contractors on loan basis for rapid execution of different works during the financial year 2013-14. Neither the contractors returned the material to store nor its cost recovered from them up to June 30, 2014. Non-observance of instructions of the Authority resulted in loss of Rs 205.45 million.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the construction work was under progress, on completion, the amount of material given on loan basis would be adjusted.

The DAC in its meeting held in January, 2015 directed the management to reconcile and recover cost of the material from the contractor within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 550/2014-15)

9.3.15 Loss on account of commitment charges – Rs 72.43 million

The commitment charges shall not accrue on the amounts of withdrawal from the loan from time to time under terms & conditions of loan vide Ministry of Economic Affairs and Statistics' letter dated February 10, 2012.

In NTDC, Government of Pakistan entered into a loan agreement bearing No.2846-PAK for Power Transmission Enhancement Investment Project-3 with the Asian Development Bank (ADB) on January 18, 2012. Subsequently, this loan was relented to NTDC at 15% inclusive of interest rate of 8.2% +ERC fee of 6.8% which would be charged both on principal amount and interest amount separately. The loan was made effective from February 21, 2012 but no withdrawal was made from the loan up to June, 2014 due to non award of contracts to execute the project. Resultantly, commitment charges of Rs 72.43 million were applied by the ADB which was loss to the Company.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the commitment charges become effective soon after availability of loan amount which was beyond the control of the management. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to submit revised reply along with working papers showing that the tendering process was initiated well in time and efficiently. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 446/2014-15)

9.3.16 Loss due to supply of defective material – Rs 77.39 million

According to Para-8.3 (Section-III) of general conditions of contract executed with M/s Daewoo International Corporation Korea in November, 2012, if any inspected or tested goods fail to conform to the specifications, the purchaser may reject them and the supplier shall either replace the rejected goods or make alterations necessary to meet specification requirements free of cost to the purchaser.

In EHV-I NTDC Project Lahore, the material procured under the contract for 220 KV Grid Station Ghazi Road, Lahore was found defective as certain discrepancies / irregularities were pointed out by the Chief Engineer (Design) NTDC, Lahore vide letter dated August 07, 2013. The defective material was required to be replaced from the manufacturer under the provisions of contract which was not done. Non-adherence to provision of contract and poor internal controls resulted in loss of Rs 77.39 million to Company during the financial year 2013-14.

The matter was taken up with the management and reported to the Ministry in December, 2014. The management replied that actually the material was short instead of defective and balance material would be received from the supplier. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 624/2014-15)

9.3.17 Excess expenditure due to irregular procurement of vehicles Rs 46.90 million

According to PC-I of 220 KV substations and associated transmission lines in NTDC integrated projects financed by Japan Bank for International Cooperation JBIC, approved by ECNEC on October 22, 2007, 15 vehicles of specified description i.e. seven Jeeps (Potohar), five Pickups (Toyota), two Truck (Mini) and one Fork Lifter (5-ton) worth Rs 14 million were to be procured.

In EHV-I NTDC Project Lahore, twenty nine vehicles valuing Rs 60.90 million comprising of eleven Toyota Corollas 1300-CC, twelve Jimny Jeeps 4×4 1300-CC, five Double Cabin and one Toyota Hilux were procured against the PC-I provision of fifteen vehicles valuing Rs 14 million. Violation of provision of PC-I resulted in excess expenditure of Rs 46.90 million during the financial year 2013-14

The matter was taken up with the management in June, 2014 and reported to the Ministry in December, 2014. The management replied that as per PC-I, fifteen vehicles were approved but the consultant recommended twenty nine vehicles. Keeping in view the scope of work, the vehicles were purchased after observing all the codal formalities. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry and provide its report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 502/2014-15)

9.3.18 Blockage of funds due to non-indemnification of insurance claims Rs 48.02 million

According to the notification of Director General (Ins & Pen) WAPDA, the board of management of WAPDA Equipment Protection Scheme (WEPS) in its 4^{th} 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 GSO NTDC Islamabad, three insurance claims against damaged equipments amounting to Rs 48.02 million was lodged with D.G. Insurance WAPDA, Lahore from March, 2013 to January, 2014 but these were lying pending for want of indemnification/finalization. Non-adherence to WEPS Policy resulted in blockage of funds of Rs 48.02 million up to the financial year 2013-14.

The matter was taken up with management in August, 2014 and reported to the Ministry in November, 2014. The management replied that one power transformer had been got repaired so no claim was indemnified and repair of remaining two transformers were under process and insurance claims would be lodged after repair of the transformers.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 139/2014-15)

9.3.19 Non-recovery of cost of materials issued to the contractor/other projects – Rs 38.65 million

According to Para-51 (Section-III) of WAPDA Accounting Manual, issue of material and stores to other WPADA Projects will not be through book adjustment but by making payment through super-scribed cheques.

In EHV-I NTDC Project Islamabad, a huge quantity of material valuing Rs 38.65 million was issued to contractors/other projects from site stores without recovery/adjustment of its cost as required under the rules. Violation of WAPDA accounting manual resulted in non-recovery of cost of materials valuing Rs 38.65 million from contractors/other projects up to the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in October, 2014. The management stated that the revised reply would be submitted in due course of time.

The DAC in its meeting held in January, 2015 directed the management to provide revised reply along with justification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 43/2014-15)

9.3.20 Unauthorized payment of compensation for damages to crops, trees and other property – Rs 9.62 million

According to Clause-15.18 (Section-XV) of Book of Financial Powers of NTDC, compensation damages to crops, trees and other property is to be made after making assessment of cost and approval of the competent authority.

In EHV-I NTDC Project Islamabad, advances of Rs 9.62 million were granted to the officers to make payment of compensation for damages to crops, trees and other properties without proper assessment of cost and approval of the competent authority. The adjustment accounts were also not produced to Audit. Poor financial management resulted in unauthorized payment of compensation for damages to crops, trees and other property of Rs 9.62 million up to the financial year 2011-12.

The matter was taken up with the management in September, 2012 and January, 2013 and reported to the Ministry in October, 2014. The management replied that the payment was made after fulfilling all codal requirements. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record along with justification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 19/2014-15)

9.3.21 Unjustified payment to contractors on account of risk charges Rs 9.21 million

According to the FIDIC's Standard Clauses of Contract, Employer and Contractor's risks are covered under the insurance clauses of contract. The amount of insurance is stated in Appendix to Tender. The reimbursement of actual amount of premium paid by the contractor for required insurance is made on production of documents.

In EHV-I NTDC Project Islamabad, an amount of Rs 9.21 million was paid to contractors on account of risk charges at the rate 30 to 35% of the amounts of works executed at 500/200 KV Grid Station, Sheikh Mohammadi, Peshawar. The provision of said payment in the BOQs of contracts was contrary to FIDIC's standard clauses of contract as it was to be provided and paid under insurance clauses instead of risk charges. Violation of the FIDIC's standard clauses of contract resulted in unjustified payment to contractors on account of risk charges of Rs 9.21 million up to the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in October, 2014. The management replied the risk charges were paid to contractors due to emergency in KPK as all contractors refused to do the work. However, approval from competent Authority had been obtained as per additional claim 1/3 of original BOQ. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to provide documentary evidence for instances of emergency in KPK and submit comprehensive report with justification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 42/2014-15)

9.3.22 Non-forfeiture of performance security – Rs 7.05 million

According to Clause-14 (forfeiture of security) of the WAPDA Purchase Procedure, in case of default in fulfilling the contractual obligation, performance security is forfeited. As per Rule-18 of the PPRA Rules-2004, the procuring agency shall disqualify a supplier or contractor if it finds at any time that the information submitted by him concerning his qualification as supplier or contractor was false and material inaccurate or incomplete.

In NTDC, two purchase orders for procurement of electrical material were awarded in January, 2009 and August, 2013 respectively. One supplier i.e. M/s Lion Steel failed to supply the material within stipulated period and in other case, during inspection of the material, it was found that the firm i.e. M/s Zhejiang Victory Electric Power Fitting Company Limited China was not a manufacturer of Disc Insulator. The insulators were manufactured in another factory allegedly claimed to be owned by the firm. It was thus proved that bidder had procured the tender through corrupt business practice and violated the PPRA rules. The performance securities of both the firms amounting to Rs 7.05 million were required to be forfeited but the needful was not done up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the matter was subjudice.

The DAC in its meeting held in January, 2015 directed the management to pursue the court case vigorously. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 464 & 465/2014-15)

9.3.23 Loss due to defects in electrical equipment – Rs 7.50 million

According to the Chief Engineer (GSO) NTDC, Lahore letters dated September 3, 2013 and January 17, 2014, the 600 AH batteries and distance protection relay supplied by M/s Exide Pak and M/s Siemens respectively needs replacement due to malfunctioning.

In GSO NTDC Lahore, two battery banks were installed on July 02, 2011 and June 26, 2013 at 500 KV Grid Station, Sheikhupura. These battery banks being under warranty period were not performing up to the standard as intimated by Chief Engineer vide letter dated September 03, 2013. Moreover, one battery bank and a distance protection relay installed at 500 KV Grid Station, Nokhar was also not performing satisfactorily. These items were required to be got replaced from suppliers which was not done. Non-implementation of rules for safeguarding the assets of the Company resulted in loss of Rs 7.50 million due to defects in electrical equipment up to the financial year 2013-14.

The matter was taken up with the management in July, 2014 and reported to the Ministry in December, 2014. The management replied that M/s Exide and M/s Siemens were repeatedly requested to resolve the problem but they did not pay the attention. CE Design had been requested to initiate action for black listing the firms.

The DAC in its meeting held in January, 2015 directed the management to pursue the case for black listing of the Company vigorously. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 534 & 535/2014-15)

9.3.24 Non-recovery of cost of material from contractor – Rs 2.41 million

According to reconciliation statement of transmission line material issued by the Executive Engineer TLC Division, Peshawar on September 04, 2013, the cost of Rs 5.40 million is recoverable from the contractor.

In EHV-I NTDC Project, Lahore, reconciliation of transmission line material drawn and installed at site by contractor was carried out by Chief Engineer (Design) NTDC, Lahore. As a result of reconciliation, an amount of Rs 5.40 million was to be recovered from the contractor on account of cost of material excess drawn. However, an amount of Rs 2.99 million was recovered leaving a balance of Rs 2.41 million. Non-observance of reconciliation statement resulted in non-recovery of cost of material Rs 2.41 million from the contractor up to the financial year 2013-14.

The matter was taken up with the management and reported to the Ministry in December, 2014. The management replied that the same observation had already been taken in DP No.248/2013-14. The reply was not tenable as DP-248/2013-14 was regarding non-recovery of LD whereas this observation was regarding non-recovery of cost of material from contractor.

The DAC in its meeting held in January, 2015 directed the management to provide revised reply along with documentary evidence within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter for fixing responsibility besides making good the recovery of Rs 2.41 million from the contractor.

(DP No. 613/2014-15)

9.3.25 Loss due to payment of land compensation cost against a fake power of attorney – Rs 1.37 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 EHV-I NTDC Project, Islamabad, an amount of Rs 1.37 million was paid to Land Acquisition Collector (LAC), EHV, NTDC, Lahore for making payment of the cost of land acquired for 220 KV grid station, Rawat to the real land owners as per decision of the Senior Civil Judge Rawalpindi. The said payment was previously made to Mr. Muhammad Sharif Siddique on production of a fake Power of Attorney. As such, double payment was made for land compensation which caused a loss of Rs 1.37 million to NTDC up to the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in October, 2014. The management replied that the culprits deposited the amount with NAB. The matter relating to recovery from NAB had been taken up through of Ministry of Water and Power.

The DAC in its meeting held in January, 2015 directed the management to provide a copy of letter of Ministry and pursue the matter vigorously. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC’s directives besides fixing the responsibility.

(DP No .45/2014-15)

CHAPTER-10

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED (FESCO)

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 of Pakistan. The Company purchase electricity from National Transmission and Despatch Company (NTDC) and sell it to various 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 fifty nine (59) 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.

10.2.2 Extracts of the Financial Statements
Balance Sheet as at June 30, 2014

(Rs in million)

	2013-14	%	2012-13	%	2011-12
Equity and Liabilities :					
Accumulated Profit/(Loss)	20,084.00	335.04	(8,545.07)	(63)	(22,876.47)

Non-current liabilities	54,436.80	2.81	52,951.32	12	47,458.78
Trade and other Payables	7,948.00	(85.15)	53,529.96	2	52,578.92
Current portion of long term loans	382.67	47.66	259.16	81	143.11
Mark up payable	435.32	34.17	661.28	83	362.09
Current liabilities	8,765.99	(83.90)	54,450.40	3	53,084.12
	135,954.68	**3.10**	**140,309.44**	**60**	**87,515.65**
Assets					
Non-current assets	80,177.80	1.94	78,655.60	80	43,775.30
Stores and spares	1,162.57	23.96	1,528.91	31	1,163.98
Trade debts	9,509.61	26.50	7,517.63	(38)	12,116.35
Short-term advances	58.00	(72.72)	212.57	9	195.59
Balance with statutory authorities	12,188.63	22.18	9,975.59	37	7,307.26
Tariff differential subsidy	6,393.49	0	0	0	0
Other receivables	20,928.37	42.72	36,538.70	102	18,113.41
Short Term investment	3,896.49	0	0	0	0
Current portion of long-term advances	51.05	14.57	44.56	2	43.59
Interest accrued	42.99	9.23	39.35	31	29.95
Bank balances	1,545.69	(73.33)	5,796.53	22	4,770.23
Current assets	55,776.88	(9.53)	61,653.85	41	43,740.35
	135,954.68	**(3.10)**	**140,309.44**	**60**	**87,515.65**

Profit and Loss Account
For the year ended June 30, 2014

	2013-14	**%**	**2012-13**	**%**	**2011-12**
Revenue					
Sale (Billing to consumers)	105,861.29	44	73,262.35	1	72,645.11
Tariff differential subsidy from GoP	34,588.71	(27)	47,526.02	223	14,712.99
	140,450.00	16	120,788.37	38	87,358.10
Cost of electricity	117,570.56	23	95,584.21	0	95,291.61
Gross profit	**22,879.44**	(9)	**25,204.16**	(418)	**(7,933.51)**
Amortization of deferred credit	1,017.33	8	943.03	10	860.28

	23,896.77	(9)	26,147.19	(470)	(7,073.23)
Operating expenses:					
Distribution cost	9,718.02	14	8,532.60	20	7,133.00
Administrative expenses	1,652.93	8	1,527.25	(28)	2,112.05
Customer services cost	1,308.90	11	1,181.05	39	851.37
(Reversal) / Provision for doubtful debts	(1,045.48)		1,430.92		-
	11,634.36	(8)	12,671.82	26	10,096.41
Operating profit	12,262.40	(9)	13,475.36	(178)	(17,169.64)
Share of GoP subsidy of FY 2004-09	15,278.72		-		-
Other income	2,407.86	14	2,117.79	4	2,035.24
	17,686.58	735	2,117.79	4	2,035.24
	29,948.98	92	15,593.15	(203)	(15,134.41)
Finance cost	260.31	14	228.00	1,447	14.74
Profit before taxation	29,688.67	93	15,365.15	(201)	(15,149.15)
Taxation	-		8,688.49		-
Profit after taxation	**29,688.67**	23	**24,053.63**	(259)	**(15,149.15)**

10.2.3 Comments on Audited Accounts

i) Non-recognition of supplemental charges

The Company has not been able to record supplemental charges of Rs 6,185 million during the year. These are charged by Central Power Purchases Agency (CPPA). Had these supplemental charges been charged it would have enhanced the expenditures and declined the current year profit by Rs 6,185 million. Similarly, accumulated profit would have too decreased at the balance sheet date. It means that current figure of accumulated profit of Rs 20,084 million was overstated by an amount of Rs 6,185 million. Non-recognition of these charges needed justification.

ii) Non-recognition of interest on syndicated loan

During the year 2012, Government of Pakistan obtained loan to resolve circular debt issue. In this regard, Company has been allotted loan amounting to Rs 14,791 million which would be adjusted against payables to CPPA. However, Company neither recognized loan nor interest amounting to Rs 2,337.83 million charged in its books of accounts. Had this interest on syndicated loan been charged it would have enhanced the expenditure and declined the current year profit by Rs 2,337.83 million. Moreover, Company understated its liabilities by Rs 14,791 million which needed to be justified.

iii) Sales and Cost of sales

The sales of the Company increased to Rs 140,450 million (16%) including the subsidy from Government of Pakistan Rs 34,588.71 million over the previous year. Further, cost of sales of Company was Rs 117,570.56 million. It means that the Company earned a gross profit of Rs 22,879.44 million.

iv) Profitability

The Company earned a net profit of Rs 29,688.67 million during the current year. During current year, Company charged share of GoP subsidy for the financial year 2004 to 2009 Rs 15,278 million which enhanced the net profit of the Company to Rs 29,688.67 million. Total accumulated losses Rs 7,201.77 million in 2012-13 converted into accumulated profit Rs 20,083.99 million in 2013-14 due to huge net profit earned during the current year.

v) Trade Debts and other Receivable

Total receivable of the Company reached to Rs 49,020.10 million (2013: Rs 54,031.92 million). Amount of Rs 6,393.49 million was receivable from Government of Pakistan against tariff differential subsidy, Rs 12,188.63 million from other Associated Companies and Rs 20,928.37 million were other miscellaneous receivable. Huge balance of receivables depicted the poor recovery efforts of the Company which needed justification.

vi) Trade and other Payables

During the year under review payables substantially declined from Rs 53,529.96 million to Rs 7,948 million because payables to CPPA has been settled by the GoP investment/equity in distribution Companies as a result of clearance of Circular Debt and allocation of non-cash subsidy relating to unpaid subsidy of the year 2004 to 2009 as on 30 June, 2014.

Admin and Distribution Expenses

The admin and distribution expenses increased by Rs 1,311.10 million due to increase in depreciation charged by Rs 987.36 million over the previous year and advertisement cost which increased by 2275% from Rs 4.43 million to Rs 105.22 million. Huge increase in advertisement expenses needed to be justified.

vii) Long term Financing

The carrying amount of long term loans decreased to Rs 1,155.54 million with a decrease of Rs 343.33 million at the balance sheet date (23%) during the current financial year. The Company charged an amount of Rs 260.31 million as financial expenses in the profit and loss account during the current year (2013: Rs 228 million) an increase of 14% was shown in the financial expenses. The Company is relying on expensive financing to run its operations which ultimately causing burden on the resources of the Company and its liabilities.

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

10.2.4 Recommendations:

In view of the forgoing, it was recommended that Company should record supplemental charges and debit notes issued by Central Power Purchase Agency (CPPA) in the accounts of the Company. The issue of huge receivables from Government of Pakistan and private consumers also will need due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

The distribution losses, being the major cause of losses is required to be addressed at higher level. There is a dire need to develop a policy to address the heavy distribution losses and to ensure the inflow of funds in the form of revenue. Moreover, electricity rate, determined by NEPRA, should be notified well in time so as to make the Company financially independent

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	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
FESCO	1998-99	3		2 (Para No. 20 & 24)	1 (Para No. 29)

Position of compliance with PAC directives is satisfactory.

10.4 AUDIT PARA

10.4.1 Embezzlement in payment of pension – Rs 1.41 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 FESCO, an amount of Rs 1.41 million on account of pension was fraudulently transferred in the accounts of Mr. Sharif Shahid, Accounts Officer and Mr. Saleem Iqbal, Accounts Assistant during February, 2012 to October, 2013. Neither the legal action was taken against the defaulters nor the departmental action finalized. Non-adherence to the WAPDA’s guidelines resulted in embezzlement of Rs 1.41 million up to the financial year 2013-14.

The matter was taken up with management in September, 2014 and reported to the Ministry in December, 2014. The management replied that both the officials responsible for embezzlement were suspended from service and inquiry was under way.

The DAC in its meeting held in January, 2015 directed the management to remove both the official from service and conduct special audit by Internal Audit for last two year. The DAC also directed to conduct inquiry at PEPCO level and submit its report within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC’s directives besides fixing the responsibility.

(DP No. 284/2014-15)

10.4.2 Loss due to fraud in recovery of capital cost – Rs 1.39 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 Circle-I Faisalabad, FESCO, 334 domestic connections were installed without recovery of capital cost by showing bogus/fudge payments from June, 2010 to June, 2013 by Mr. Mohammad Sarwar, Sub Divisional Clerk. Hence, the company was deprived of capital cost of Rs 1.39 million. Non-adherence to the WAPDA's guidelines resulted in loss of Rs 1.39 million due to fraud of capital cost up to the financial year 2013-14.

The matter was taken up with the management in July, 2014 and reported to the Ministry in October, 2014. The management replied that an amount of Rs 0.673 million had been recovered and the recovery process for remaining amount was under way. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record in respect of completed action for verification within 15 days and finalize pending action within one month. The DAC also directed to conduct special audit of two years by the Chief Auditor PEPCO. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to initiate legal action besides disciplinary action as well as ensuring the expeditious recovery of capital cost from the delinquent.

(DP No. 73/2014-15)

10.4.3 Loss due to misappropriation of material – Rs 2.14 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 Construction Circle FESCO, 5,922 meters ACSR Dog Conductor and 7,667 meters ACSR Rabbit conductor valuing Rs 2.14 million were misappropriated by staff members due to forgery. No FIR was lodged with the respective police station for recovery of material. Neither the recovery of cost of short material was made nor the departmental action taken. Non-adherence to WAPDA's guidelines resulted in loss of Rs 2.14 due to misappropriation of material during the financial year 2013-14

The matter was taken up with the management in July, 2014 and reported to the Ministry in November, 2014. The management replied that in one case, work had been completed and handed over to operation division whereas remaining was under process. However, inquiry against the official was under process.

The DAC in its meeting held in January, 2015 directed the management to remove the official from service and recover the balance material from him within 15 days. The DAC also directed to expedite inquiry proceeding and submit its report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 75/2014-15)

10.4.4 Loss due to less claiming of tariff differential subsidy Rs 28,040.71 million

As per Standing Operation Procedure (SOP) issued by Ministry of Water and Power dated May 12, 2007, each DISCO was required to submit its claim to Engineering Advisor (Power) on 5th of every month.

In FESCO, tariff differential subsidy for the period from July, 2012 to June, 2013 was less claimed, thus the company sustained a loss of Rs 28,040.71 million due to less claiming of subsidy up to the financial year 2013-14.

The matter was taken up with the management during September, 2014 and reported to the Ministry in December, 2014. The management replied that the subsidy claims were correctly prepared and lodged with Government of Pakistan which was accepted by Ministry.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No.462/2014-15)

10.4.5 Recoverable amount of tube-well subsidy from Punjab Government Rs 1,388.90 million

According to decision taken for private agricultural tube-wells in the Punjab province by the Ministry of Water and Power letter dated October 30, 2013, GST will be paid by the Punjab Government.

In FESCO, an amount of Rs 1,388.90 million was recoverable from the Government of the Punjab on account of GST subsidy from private agricultural tube-well which was yet to be recovered. Resultantly, long outstanding dues caused financial burden on the Company to overcome its receding cash flow up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that an amount of Rs 1,078.54 million had been adjusted against ED payable to Government of Punjab.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification within 15 days and pursue the remaining recovery vigorously. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 461/2014-15)

10.4.6 Non-recognition of agriculture subsidy in the financial statements Rs 1,207.80 million

According to decision taken by the cabinet in its meeting dated June 9, 2007, 25% subsidy on electricity charges on the use of agricultural tube-wells approved to boost agricultural production. The cost will be shared equally between Federal and Provincial Governments.

In FESCO, agriculture subsidy claims worth Rs 1,207.80 million were not disclosed in the financial statements for the financial years 2007-08, 2008-09 & 2009-10. The said subsidy was to be shared by Federal and Provincial Government @ 12.5% each. Resultantly, the financial statements for the said period were not showing true and fair results due to understatements of its sales revenue.

The matter was taken up with the management in January, 2014 and reported to the Ministry in January, 2015. The management stated that the revised reply would be submitted in due course of time.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC’s directives besides fixing the responsibility.

(DP No. 660/2014-15)

10.4.7 Loss due to purchase of electricity at higher rates Rs 1,922.72 million

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

In FESCO, electricity was being procured at higher rates from M/s Sitara Textile Mills @ Rs 17.95/kwh in comparison with M/s Galaxy Textile Mills @ Rs 8.14/kwh. Non-adherence to PPRA rules resulted in loss of Rs 1,922.72 million due to purchase of electricity at higher rates during the financial year 2013-14.

The matter was taken up with the management during September, 2014 and reported to the Ministry in December, 2014. The management replied that the power purchase agreement was signed between CPPA and Sitara Energy Ltd. Actually, payments were being made to Sitara Energy Limited on behalf of CPPA and FESCO claimed this amount from CPPA. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to get the rates approved from NEPRA within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC’s directives.

(DP No. 259/2014-15)

10.4.8 Loss due to wrong charging of multiplying factor – Rs 12.43 million

According to Para-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 Manager (Technical Services) FESCO, an industrial connection was installed on June 17, 2008 with sanctioned load of 53.5 KW. Later on, extension of load from 53.5 KW to 68.4 KW was executed during November, 2009 without observing the departmental formalities i.e. changing of Amps and multiplying factor. Similarly, another defective industrial meter was replaced without changing the multiplying factor during September, 2012. Non-implementation of commercial procedure resulted in loss of Rs 12.43 million due to wrong charging of multiplying factor during the financial year 2013-14

The matter was taken up with management in October, 2014 and reported to the Ministry in November, 2014. The management replied that an amount of Rs 6.649 million had been recovered from one consumer whereas second consumer had filed a civil suit against the charged amount.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification and pursue the court case vigorously. DAC also directed to conduct inquiry at PEPCO level for fixing the responsibility. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 180/2014-15)

10.4.9 Non-recovery from consumer on account of court cases decided in favour of FESCO – Rs 9.16 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 FESCO, ninety three court cases involving an amount of Rs 9.16 million were decided in favour of the Company. The amount was required to be recovered from the consumers but no recovery was made. Non-adherence to WAPDA's guidelines resulted in non-recovery of energy charges from consumers amounting to Rs 9.16 million up to the financial year 2013-14.

The matter was taken up with the management during September, 2014 and reported to the Ministry in December, 2014. The management replied that an amount of Rs 8.22 million was recovered from consumers and recovery of remaining amount was under process.

The DAC in its meeting held in January, 2015 directed the management to produce the recovery record for verification within a week and expedite the remaining recovery. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 257/2014-15)

10.4.10 Non-recovery of mark-up from an industrial consumer Rs 7.69 million

According to Authority's instructions dated December 03, 2003, WAPDA will charge 14% markup on installments / extension of due dates of electricity bills.

In FESCO, an amount of Rs 50.04 million was recovered from an industrial consumer in six installments from during July, 2013 to December, 2013 but mark up @14% amounting to Rs 7.69 million was not recovered. Non-adherence to the Authority's instructions resulted in non-recovery of Rs 7.69 million on account of markup up to the financial year 2013-14.

The matter was taken up with management in September, 2014 and reported to the Ministry in November, 2014. The management replied that the matter was subjudice.

The DAC in its meeting held in January, 2015 directed the management to pursue the court case vigorously. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 217/2014-15)

10.4.11 Loss due to execution of substandard work by the contractor Rs 3.74 million

As per Clause-18 of general conditions of contract, the contractor will be entirely responsible for the successfully execution of the works in all respects and in accordance with terms & conditions as specified in the contract.

In Construction Circle FESCO, thirty nine works of various feeders were executed by M/s United Builders, Bahawalpur from June, 2011 to November, 2012. The contractor failed to complete the works according to the design/ specifications and did not remove the discrepancies pointed out in completed works. Neither the management recovered an amount of Rs 3.74 million nor any action was taken to blacklist the firm.

The matter was taken up with management in July, 2014 and reported to the Ministry in November, 2014. The management replied that an amount of Rs 1.95 million was recovered from the contractor and remaining amount would be recovered from pending liabilities of contractor.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification and complete the pending action within a week.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 213/2014-15)

10.4.12 Less recovery of security deposits – Rs 3.19 million

According to Government of Pakistan's SRO dated January 03, 2011, security deposits rates has been revised w.e.f. January 03, 2011.

In Operation Circle-I FESCO, security deposit amounting to Rs 3.19 million was less recovered from 225 industrial and commercial consumers due to non-application of revised rates. Non-adherence to SRO resulted in less recovery of security deposits amounting to Rs 3.19 million during the financial year 2013-14.

The matter was taken up with management in July, 2014 and reported to the Ministry in October, 2014. The management explained that amount of security pointed out in PDP was not recoverable. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 66/2014-15)

10.4.13 Loss due to non-recovery of shortages/theft of material Rs 5.52 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 Construction Circle FESCO, an amount of Rs 5.52 million was recoverable from employees/contractors on account of shortages/theft of store material. Neither the recovery of short material was made nor the departmental action taken. Non-adherence to WAPDA's guidelines resulted in loss of Rs 5.52 million due to shortage of material /theft during the financial year 2013-14.

The matter was taken up with the management in July, 2014 and reported to the Ministry in December, 2014. The management replied that the recovery process was under way and an amount of Rs 0.44 million had been recovered so far.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record in respect of completed action for verification within 15 days and pending action be finalized within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 523/2014-15)

10.4.14 Non-completion of long outstanding works – Rs 1,490.71 million

According to Paras-4.1.3 to 4.1.6 of Distribution Rehabilitation Guidelines September 2003, total time for approval of work, execution and preparation of completion report will be restricted to 130 days.

In GSC FESCO, fifty development works under 6^{th} STG were lying incomplete despite lapse of eight years. The said works were started to reduce distribution losses, improve the efficiency of operational system and to extend the electricity facility to the people of respective areas. Due to non-completion of works, desired benefits could not be achieved. Non-adherence to distribution rehabilitation guidelines resulted in non-completion of works of Rs 1,490.71 million up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in November, 2014. The management replied that thirty seven works of Rs 261.01 million were completed whereas thirteen works amounting to Rs 1,229.70 million were not completed by the contractors due to their default.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record of completed works and complete the remaining works at the risk and cost of defaulted contractors within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 181/2014-15)

10.4.15 Non-claiming of GST refund from FBR

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 days of filing of refund claim.

In FESCO, general sales tax refund claims amounting to Rs 67,703.58 million were not sent to Federal Board of Revenue (FBR) for re-imbursement up to September, 2014. Non-implementation of Sales Tax Act resulted in non-claiming of GST refund amounting to Rs 67,703.58 million from FBR up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that the claims for refund of GST were lodged with FBR but no amount had so far been refunded.

The DAC in its meeting held in January, 2015 directed the management to take up the matter with FBR through Ministry within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 262/2014-15)

CHAPTER-11

GUJRANWALA ELECTRIC POWER COMPANY LIMITED (GEPCO)

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 purchases electricity from NTDC and sells it to the consumers in Gujranwala, Gujrat, Mandi Bahaudin, Narowal, Hafizabad and Sialkot Districts.

The jurisdiction of GEPCO includes four Operation Circles, one Grid System Construction Circle, and one Project 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 are sent to Finance Director, GEPCO, where these accounts are consolidated and financial statements including Balance Sheet, Profit and Loss Account and Cash flow statements are prepared.

11.2.2 Extracts of the Financial Statements

Balance Sheet as at June 30, 2014

(Rs in million)

	2013-14	%	2012-13	%	2011-12
Equity and Liabilities					
Share capital and reserves					
Issued, subscribed and paid-up capital	.01	0.00	.01	0.00	.01
Accumulated Loss	-5,646.32	-16.91	-6,795.77	-49.13	-13,358.99
	-5,646.31		-6,795.76	-49.13	-13,358.98
Deposits for the issuance of shares	20,058.41		3,018.64	0.00	3,018.64
Non-current liabilities					
Deferred credit	13,197.1	7.71	12,252.73	13.02	10,840.74
Long Term Financing	6,231.27	38.19	4,509.22	159.54	1,737.39
Deffered Liabilities	17,849.87	117.54	8,205.41	24.15	6,609.38
Security Deposits	3,140.33	14.23	2,749.04	13.69	2,418.02
	40,418.57		27,716.39	28.28	21,605.53
Current liabilities					
Tade and other Payables	25,769.11	-31.91	37,848.37	12.02	33,785.8
Interest accrued On Long Term Financing	723.69	26.42	572.44	136.53	242.01
Current portion of long term financing	306.72	-5.16	323.39	70.85	189.29

	26,799.52	-30.83	38,744.2	13.23	34,217.1
	81,630.19	30.23	62,683.47	37.82	45,482.28
Assets					
Non-current assets					
Operating fixed assets	35,778.69	13.89	31,414.72	26.66	24,802.62
Assets subject to finance lease	324.96	81.37	179.17	40.65	127.39
	36,103.65	14.27	31,593.89	26.73	24,930.
Current assets					
Stores and spares	694.41	-4.18	724.68	-13.02	833.2
Trade debts	12,483.61	-16.59	14,967.1	9.13	13,715.52
Short-term loans and advances	.	-100.00	49.94	-0.81	50.34
Interest receivable- accured	108.95	20.57	90.36	51.93	59.48
Other receivables	28,432.69	132.63	12,222.33	310.40	2,978.17
Short-term investments	2,771.	25.95	2,200.	29.41	1,700.
Cash and bank balances	972.76	16.47	835.18	-31.29	1,215.57
	45,463.42	46.23	31,089.58	51.27	20,552.28
	81,567.07	30.13	62,683.47	37.82	45,482.28

Profit and Loss Account
For the year ended June 30, 2014

	2013-14	%	2012-13	%	2011-12
Revenue					
Electricity sale	66,850.77	29.04	51,806.64	-2.95	53,378.66
Rental and service income	23,978.5	-23.75	31,447.17	107.61	15,147.35
	90,829.28	9.10	83,253.8	21.49	68,526.01
Cost of electricity	84,146.48	20.69	69,722.92	0.28	69,526.79
Gross profit/(Loss)	6,682.8	-50.61	13,530.88	-1452.04	-1,000.78
Amortization of deferred credit	599.83	10.90	540.88	6.78	506.54
	7,282.62		14,071.77	-2947.18	-494.23
Distribution cost	7,988.19	16.45	6,859.7	23.25	5,565.63
Administrative expenses	2,291.35	18.57	1,932.49	19.97	1,610.83
	10,279.53	16.92	8,792.19	22.51	7,176.45
	-2,996.91	-156.76	5,279.58	-168.83	-7,670.69
Other income	1,664.11	15.12	1,445.6	-0.52	1,453.15
	-1,332.8	-119.82	6,725.18	-208.16	-6,217.53
Financial and other charges	229.44	50.83	152.12	-22.74	196.9
	-1,562.24	-123.77	6,573.06	-202.47	-6,414.43
Taxation	10.22	-203.82	-9.84	-60.18	-24.72
Profit for the year	-1,572.46	-123.96	6,563.22	-201.93	-6,439.15

11.2.3 Comments on Audited Accounts

i) Non recognition of supplemental charges

The Company has not been able to record supplemental charges of Rs 1,176 million for the year 2013-14. Had these supplemental charges been charged it would have enhanced the expenditures and current year loss by Rs 1,176 million. Similarly accumulated loss would have too increased by a substantial figure of Rs 1,176 million at the balance sheet date. It means that current figure of accumulated loss of Rs 5,646.31 million was understated by an amount of Rs 1,176 million. Non-recognition of these charges needed justification.

ii) Sales and Cost of sales

The sales of the Company increased to Rs 90,829 million including the subsidy from Government of Pakistan whereas cost of sales of Company was Rs 84,146 million. Company earned a gross profit of Rs 6,682.80 million.

iii) Profitability

The Company suffered a net loss of Rs 1,572.46 million during the current year. Total accumulated losses have reached to the tune of Rs 5,646.32 million. The Company was suffering consistent losses over the years, which reflected inefficiency and mismanagement of the affairs of the Company, which needed justification.

iv) Trade Debts and other Receivable

Total receivable of the Company increased to Rs 41,025 million (2013: Rs 27,329 million) with an increase of Rs 13,745 million during the current year, including Rs 16,881.16 million receivable from Government of Pakistan and Rs 196.65 million were due from WAPDA & other Associated Companies. Substantial increase in the amount of receivables depicts the poor recovery efforts of the Company which needs justification.

v) Trade and other Payables

Delays in collection from debtors have trickle down effect on the creditors which resulted into the piling up of payables and reached to the tune of Rs 25,769 million during the current year. Out of which Rs 12,773.04 million was payable to the Government of Pakistan of Pakistan on account of non-cash adjustment of 13,815 million as Federal Government of Pakistan equity/investment in distribution companies to settle the issue of Circular Debt. Huge balance of accounts payable indicated continuing cash flow shortage resulted in persistent working capital financing problems for the Company. It showed that the Company was unable to pay off its cost of electricity purchased. Poor management payables needed justification from management.

vi) Admin and Distribution Expenses

The admin and distribution expenses increased by Rs 1,487 million which mainly attributed to significantly increase in salaries, wages and other benefits which was increased to 5,120.32 million during the year (Rs 4,436.50 million : 2012-13)

vii) Long term Financing

The carrying amount of long term loans increased to Rs 6,231.27 million with an increase of Rs 1,722.05 million at the balance sheet date (7.71%) during the current financial year. The Company charged an amount of Rs 229.44 million as financial expenses in the profit and loss account during the current year (2013: Rs 152.12 million) an increase of 77.32% was shown in the financial expenses. The Company is relying on expensive financing to run its operations which ultimately accumulating the losses of the Company and its liabilities.

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

11.2.4 Recommendations:

In view of the forgoing, it was recommended that Company needs to record supplemental charges and debit notes issued by Central Power Purchase Agency (CPPA) in the accounts of the Company. The Company need strict control over administrative and distribution expenses and may revamp its organizational structure and address operational issues to maintain and increase profitability.

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

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

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 AUDIT PARAS

11.3.1 Recoverable amount of tube-well subsidy from Punjab Government & Federal Government – Rs 514.44 million

According to decision taken by the Cabinet in its meeting dated June 9, 2007, 25% subsidy on electricity charges on the use of agricultural tube-wells approved to boost agricultural production. The cost will be shared equally between Federal and Provincial Governments.

In GEPCO an amount of Rs 514.44 million was recoverable from the Government of Punjab and Federal Government on account of 25% subsidy of tube-well subsidy. Non-recovery of long outstanding dues was a recurring loss to the Company which was required to be recovered to enable the Company to overcome its financial crises. Non-adherence to Government decision resulted in non-recovery of tube-well subsidy amounting to Rs 514.44 million up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the agricultural subsidy claims were submitted to Finance Division, Government of Punjab but the Provincial Government refused to pay the amount of subsidy of GST. The matter had also been brought to the knowledge of PEPCO and Ministry of Water and Power.

DAC directed to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 547/2014-15)

11.3.2 Recoverable amount of tariff subsidy from federal government Rs 9.33 million

As per Ministry of Water & Power's letter dated October 30, 2013, FPA on use of electricity for agriculture tube-wells will be paid by the Government of Pakistan.

In GEPCO, an amount of Rs 9.33 million was recoverable from the Government of Pakistan on account of subsidy for tariff differential, monthly fuel price adjustments on agriculture tube-well. Non-recovery of long outstanding dues was a recurring loss to the company which was required to be recovered to enable the company to overcome its financial crises. Non-adherence to Government instructions resulted in non-recovery of subsidy amounting to Rs 9.33 million up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the subsidy claims were being submitted to the Ministry of Water and Power each month. The Finance Division (GoP) released the funds against subsidy claims from time to time on availability of funds.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 545/2014-15)

11.3.3 Blockage of funds due to purchase of unnecessary material Rs 43.80 million

According to Para-5 of Memorandum dated January 17, 1978 on irregularities of purchase 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, 3,000 PCC spun poles valuing Rs 43.80 million were lying un-lifted in PC Pole Plant, Chichoki Malian and were deteriorated due to mishandling. The poles were purchased without necessity/demand and were losing its value. Poor inventory management resulted in blockage of Authority's funds of Rs 43.80 million up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that only 203 LT PCC poles were in balance as on June 30, 2014 and remaining HT/LT PCC poles were issued to field formations.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 238/2014-15)

11.3.4 Loss due to non-charging of detection bills to consumers Rs 18.27 million

According to Para-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 City GEPCO, surveillance teams had checked meters of 104 consumers and detected discrepancies due to hole in body, meter slow, display off, direct supply, seal missing, etc. As a result, 1.22 million energy units were required to be charged against the consumers which were not done. Non-adherence to commercial procedures resulted in non-charging of detection bills amounting to Rs 18.27 million to the consumers during the financial year 2013-14

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that 0.19 million units had been charged to 104 consumers.

The DAC in its meeting held in January, 2015 directed the management to produce the relevant record for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 293/2014-15)

11.3.5 Loss due to non-recovery of supply charges against temporary connections – Rs 4.36 million

According to 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 GEPCO, an amount of Rs 4.36 million was outstanding against the temporary connections as forthcoming form CP-120A of June, 2014. 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 a loss of Rs 4.36 million due to non-recovery of supply charges against temporary connections.

The matter was taken up with the management from July to September, 2014 and reported to the Ministry from November to December, 2014. The management replied that an amount of Rs 2.94 million had been recovered leaving the balance of Rs 1.42 million which was under process.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification within 15 days and pursue the balance recovery. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 188 & 194/2014-15)

11.3.6 Non-recovery for penalty against missing material – Rs 4.29 million

As per Para-23(2) Section-I of Book of Financial Powers, any sum due to the Authority shall be recoverable as arrears of land revenue.

In Operation Circle Sialkot GEPCO, an amount of Rs 4.29 million was recoverable from employees on account of missing material as forthcoming from financial statements for the month of May, 2014. Non-adherence to the prescribed rules resulted in non-recovery of Rs 4.29 million from the employees up to the financial year 2013-14.

The matter was taken up with management in July, 2014 and reported to the Ministry in November, 2014. The management replied that an amount of Rs 0.62 million had been recovered and efforts were being made to recover the remaining amount.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification and expedite the recovery of the remaining amount within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 187/2014-15)

11.3.7 Inadmissible generation of revenue through over billing Rs 157.73 million

According to Para-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 GEPCO, the percentage of energy losses on seven feeders was in negative during the financial year 2013-14. The negative losses revealed that the units billed were in excess of those received which was an indication of over billing of 10.52 million units. Non-adherence to commercial procedure resulted in over billing of Rs 157.73 million.

The matter was taken up with the management in October, 2014 and reported to the Ministry in November, 2014. The management replied that negative losses on feeders were due to (i) difference in date of reading cycle, (ii) non-allotment of coding to the feeders, (iii) shifting of units on self generation, (iv) dual source of supply and (v) disconnection and re-connection.

The DAC in its meeting held in January, 2015 directed the management to carry out analysis of ten feeders of high negative losses (as pointed out by Audit in PDP) in order to determine the percentage of actual energy losses and submit report within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 234/2014-15)

11.3.8 Unjustified payment on account of out of pocket expenses to consultant – Rs 54.25 million

Clause-3.8(ii) of CSA states that the consultant shall periodically permit the employer or its designated representatives to inspect the accounting record and make copies thereof as well as to have then audited by auditors appointed by the employer or bank, if so required by the employer or the bank as the case may be.

In PMU GEPCO, an amount of Rs 54.25 million (US$ 542,520) was paid to the consultants on account of out of pocket expenses without obtaining supporting documents as required under the above agreement clause. Non-adherence to contract resulted in unjustified expenses amounting to Rs 54.25 million during the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that an amount of US$ 291,200 was paid against the head (per Diem) which required no documentation. The supporting documents of US$ 155,800 provided by one consultant were destroyed during the mob attack against load shedding whereas supporting documents of US$ 91,000 out of US$ 155,800 had been provided by the 2nd consultant. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to obtain relevant record from consultants and produce to Audit for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 328/2014-15)

11.3.9 Unjustified refund to consumers on account of over billing Rs 19.42 million

According to Para-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 City GEPCO, an amount of Rs 19.42 million was refunded to 144 consumers on account of wrong readings through adjustment notes. This scenario indicated that over billing was made to consumers in the one month and same was refunded in the next month on account of wrong reading. This was done just to conceal the line losses and theft of energy. Non-adherence to commercial procedure resulted in unjustified refund of Rs 19.42 million to consumers on account of wrong readings during the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in December, 2014. The management replied that there was no over-billing and only wrong readings were corrected which occurred due to pen mistake. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to produce the relevant record for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 327/2014-15)

11.3.10 Loss due to non-recovery of cost of material from contractors Rs 8.01 million

According to Section-III (1) of WAPDA Guidelines for Enforcing

Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 Construction Circle GEPCO, 511 HT/LT PC poles valuing Rs 8.01 million were issued to two contractors against different works from September, 2013 to July, 2014. Neither these poles were erected nor its cost recovered from the contractors. Non-adherence to WAPDA's guidelines resulted in loss of Rs 8.01 million due to misappropriation of electrical material during the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that 424 HT/LT poles were erected whereas erection work of remaining poles was under process.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply for verification within a week and expedite the action of remaining 121 HT/LT proposals. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 270/2014-15)

11.3.11 Loss due to irregular payment on account of salary beyond contract period - Rs 7.60 million

As per G.M (HR) PEPCO office order dated November 11, 2009, the appointment of Finance Director GEPCO would be for a period of two years.

In GEPCO, a payment of Rs 7.60 million was made to Muhammad Asad, Finance Director on account of salaries for the period of two years after the expiry of service contract on November 11, 2011. Thus, the payment of pay and allowances after the expiry of contract was quite irregular. Non-adherence to WAPDA's guidelines resulted in loss of Rs 7.60 million up to the financial year 2013-14.

The matter was taken up with management in August, 2014 and reported to the Ministry in December, 2014. The management replied that the pay & allowances had been paid to Finance Director after the approval of BoD, being competent authority. Audit did not consider the departmental reply satisfactory.

The DAC in its meeting held in January, 2015 directed the management to produce the relevant record for verification within one week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 285/2014-15)

11.3.12 Non-claiming of GST from FBR – Rs 7.07 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 days of filing of refund claim.

In GEPCO, general sales tax refund claims amounting to Rs 7.07 million were not sent to FBR for re-imbursement up to June, 2014. Non-observance of Sales Tax Act resulted in non-recovery of GST claims amounting to Rs 7.07 million from FBR up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that refund of Rs 4.75 million was received from FBR and adjusted in final accounts in June, 2014 while the remaining amount would be adjusted after its receipt from FBR.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification and expedite the recovery of remaining claims within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 268/2014-15)

11.3.13 Irregular award of works in violation of PPRA rules Rs 4.68 million

According to Rule-42b (i) of PPRA Rules-2004, a procuring agency shall engage in the quotation method of procurement only, if the cost of the object of procurement is below the prescribed limit of one hundred thousand rupees.

In GEPCO, eleven work orders for different works valuing Rs 4.68 million were awarded to contractors on quotations instead of open tenders as required under the rules. Non-observance of PPRA rules resulted in irregular award of works amounting to Rs 4.68 million up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that as per book of financial power for DISCOs, the limit for AM&R of civil works was Rs 2 million and the approval was got under this clause. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to move condonation of PPRA rules to the competent authority and revision of financial rules be made in line with PPRA rules within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 266/2014-15)

CHAPTER-12

HYDERABAD ELECTRIC SUPPLY COMPANY LIMITED (HESCO)

12. HYDERABAD ELECTRIC SUPPLY COMPANY LIMITED

12.1 Introduction

Hyderabad Electric Supply Company Limited (The Company) is a public limited company incorporated in Pakistan on 23rd April, 1998 and commenced commercial operation on 1st July, 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 NTDC and sells it to the consumers of Sindh except Karachi.

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. NTDC provide energy to HESCO from its two 500 KV Grid Stations Dadu and Jamshoro and three 220 KV Grid Stations situated at Lodra (Shikarpur), Hala Road Hyderabad and T.M. Khan Road Hyderabad. HESCO also received electricity directly from GENCOs viz. GTPS Kotri which has installed capacity of 174 MW, 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 include six operations, one grid system construction and two grid system operations circles. Profile of HESCO is tabulated below for better understanding of its system and strength.

12.2 Comments on Financial Statements

12.2.1 Financial Overview

Monthly accounts (Trial balance and other management information schedules) from sixty eight(68) accounting units are sent to Finance Director HESCO where these accounts are consolidated and financial statements including Balance Sheet, Profit & Loss Account and Cash flow statement were prepared.

12.2.2 Extracts of the Financial Statements

Balance Sheet as at June 30, 2014

(Rs in million)

	2013-14	%	2012-13	%	2011-12
Equity and Liabilities					
Share capital and reserves					
Issued, subscribed and paid-up capital	0.01	0.00	0.01	0.00	0.01
Accumulated profit (loss)	(83,102.93)	21.71	(68,278.67)	34.56	(50,741.06)
	(83,102.92)		(68,278.66)	34.56	(50,741.05)
Deposits for the issuance of shares	71,521.16		25,049.89		25,049.89
Non-current liabilities					
Long term loans	3,568.84	7.64	3,315.62	17.57	2,820.22
Consumer security deposits	1,173.04	17.88	995.14	13.60	876.02
Employee retirement benefits	16,878.28	26.99	13,290.83	25.60	10,582.17
Liabilities against assets subject to finance lease	-		-		-
Deferred credit	10,327.02	13.30	9,114.51	27.88	7,127.64
	37,342.02	15.53	32,322.84	19.26	27,101.96
Current liabilities					
Creditors, accrued and other liabilities	2,769.28	15.22	2,403.55	25.87	1,909.51
Due to associated undertakings	70,260.64	-29.09	99,079.75	13.43	87,351.44
Current portion of long term loans	1,135.29	43.02	793.78	365.41	170.56
Accrued mark-up	2,046.62	59.94	1,279.61	95.98	652.93
	101,972.08	10.06	92,650.76	1.26	91,495.25
Assets					
Non-current assets					
Operating fixed assets	18,691.56	7.56	17,377.50	14.20	15,216.52
Capital work in process	11,250.87	21.24	9,279.98	18.25	7,847.49
	29,942.43	12.32	26,657.48	15.58	23,064.02
Long term advances	29.64	-1.14	29.98	5595.47	0.53
Current assets					
Stores and spares	975.09	-18.82	1,201.17	4.19	1,152.86
Trade debts	26,724.57	18.69	22,515.94	-27.21	30,931.54
Taxation net	500.68	4.81	477.71	11.00	430.38
Due from associated undertakings	22,192.41	-7.56	24,006.07	14.86	20,899.99
Others receivables	19,037.86	21.08	15,723.48	23.36	12,745.92
Cash and bank balances	2,569.40	26.02	2,038.92	-10.18	2,270.02
	72,000.00	9.15	65,963.29	-3.61	68,430.70
	101,972.08	10.06	92,650.76	1.26	91,495.25

Profit and Loss Account
For the year ended June 30, 2014

	2013-14	%	2012-13	%	2011-12
Revenue					
Electricity sale	50,838.83	4.87	48,476.24	-16.26	57,887.00
Rental income	0.00		0.00		0.00
	50,838.83	4.87	48,476.24	-16.26	57,887.00
Cost of electricity	54,970.97	11.45	49,323.08	-27.60	68,124.16
Gross profit/(Loss)	(4,132.14)	387.95	(846.84)	-91.73	(10,237.16)
Amortization of deferred credit	449.44	35.96	330.58	-8.87	362.74

	(3,682.70)	613.33	(516.26)	-94.77	(9,874.42)
Operating expenses	7,348.64	-0.07	7,353.87	-60.05	18,409.00
Depreciation	1,088.64	5.67	1,030.24		0.00
Provision for doubtful debts	2,153.99	-75.85	8,919.76		0.00
Provision for slow-moving items	0.00	-100.00	61.47		0.00
	10,591.27	-39.01	17,365.34	-5.67	18,409.00
	(14,273.97)	-20.18	(17,881.61)	-36.78	(28,283.42)
Other income	1,551.02	9.72	1,413.60	71.97	822.00
	(12,722.94)	-22.74	(16,468.01)	-40.03	(27,461.42)
Financial and other charges	6.84	11.30	6.14	-98.34	371
Loss for the year	(12,729.78)	-22.73	(16,474.15)	-40.81	(27,832)

12.2.3 Comments on Audited Accounts

i) Profitability

The company suffered a net loss of Rs 12,729.78 million during the current year. Total accumulated losses have reached to the tune of Rs 83,102.93 million resulting in net capital deficiency. As of that date, the company's current liabilities exceed current assets by Rs 4,212 million. These conditions indicated existence of material uncertainties as to Company's ability to continue as a going concern. The Company was suffering consistent losses over the years which reflect inefficiency and mismanagement of the affairs of the company which needed justification.

ii) Non-recognition of supplemental charges

The Company has not been able to record supplemental charges of Rs 3,383.40 million during the year. These are charged by Central Power Purchases Agency (CPPA). Had these supplemental charges been charged it would have enhanced the expenditures and declined the current year profit by Rs 3,383.40 million. Similarly, accumulated loss would have too increased at the balance sheet date. It means that current figure of accumulated loss of Rs 83,102.93 million was understated by an amount of Rs 3,383.40 million. Non-recognition of these charges needed justification.

iii) Non-recognition of interest on syndicated loan

During the year 2012, Government of Pakistan obtained loan to resolve circular debt issue. In this regard, Company has been allotted loan amounting to Rs 25,704 million which would be adjusted against payables to CPPA. However, Company neither recognized loan nor interest amounting to Rs 14,845 million charged in its books of accounts. Had this interest on syndicated loan been charged it would have enhanced the expenditure and increased the current year loss by Rs 14,845 million. Moreover, Company understated its liabilities by Rs 25,704 million which needed to be justified.

iv) Sales and Cost of sales

The sales of the company increased to Rs 50,838.83 million including the subsidy from government whereas cost of sales of company was Rs 54,970.97 million. It means the Company was unable to even bill the electricity it purchased from CPPA due to high percentage of line losses of during the year. The Company was unable to recover even its cost of electricity purchased from CPPA which needed justification.

v) Trade Debts and other Receivable

Total receivable of the Company reached to Rs 68,455 million (2013: Rs 62,723 million). Amount of Rs 15,103 million was receivable from Government of Pakistan against tariff differential subsidy, Rs 7,089 million from other Associated Companies but the ultimate of the matter with regard to timing of recovery of these debts cannot be presently determined. Further, Rs 19,037 million were other miscellaneous receivable. Huge balance of receivables depicted the poor recovery efforts of the Company which needed justification.

vi) Trade and other Payables

During the year under review payables declined from Rs 103,556 million to Rs 76,211 million because payables to CPPA has been settled by the GoP investment/equity in distribution Companies as a result of clearance of Circular Debt and allocation of non-cash subsidy.

vii) Non-verification of fixed assets

Company has not conducted physical verification of Fixed Assets amounting to Rs 17,540 million since the formation in 1998. Comprehensive physical verification is required in order to agree and reconcile the items and their cost with the records of the Company which needed justification.

viii) Non-acknowledgment of Capital Work in Progress by SEPCO

Capital work in progress amounting to Rs 1,367 million was transferred to Sukkur Electric Power Company Limited (SEPCO) in December, 2012 in compliance with the Business Transfer Agreement between the

Company and SEPCO. Out of the total amount, projects valuing Rs 1,220 million have not yet been acknowledged by the SEPCO which needed justification.

ix) Admin and Distribution Expenses

The admin and distribution expenses remained Rs 7,348.64 million due to increase in salaries, wages and other benefits which increased to Rs 5,620.38 million during the year.

x) Long term Financing

The carrying amount of long term loans increased to Rs 3,568 million with a increase of Rs 253.22 million at the balance sheet date (7.64%) during the current financial year. The Company charged an amount of Rs 6.84 million as financial expenses in the profit and loss account during the current year (2013: Rs 6.14 million) an increase of 11% was shown in the financial expenses.

12.2.4 Recommendations:

In view of the forgoing, it was recommended that Company should record supplemental charges and debit notes issued by Central Power Purchase Agency (CPPA) in the accounts of the Company. The issue of huge receivables from Government of Pakistan and private consumers also will need due consideration by making concrete arrangements to recover funds from long outstanding defaulters.

The distribution losses, being the major cause of losses is required to be addressed at higher level. There is a dire need to develop a policy to address the heavy distribution losses 26.51% sustained during the year and to ensure the inflow of funds in the form of revenue. Moreover, electricity rate, determined by NEPRA, should be notified well in time so as to make the Company financially independent.

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.

12.3 AUDIT PARAS

12.3.1 Recoverable amount of tariff subsidy from federal government Rs 18,853.52 million

According to Para-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 HESCO, an amount of Rs 18,853.52 million was recoverable from the Government of Pakistan on account of subsidy for tariff differential, monthly fuel price adjustments and tube-wells subsidy. Non-recovery of long outstanding dues from 2009-10 to 2011-12 was a recurring loss to the company which was required to be recovered to enable the Company to overcome its financial crisis. Non-adherence to commercial procedure resulted in non-recovery of subsidy amounting to Rs 18,853.52 million up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the efforts were being made to recover outstanding amount from Government of Pakistan. After necessary verification from Engineering Advisor of Ministry of Water & Power, actual outstanding amount was come to Rs 22,104.01 million up to November, 2014.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 536/2014-15)

12.3.2 Loss due to unsettled/deferred amount of subsidy - Rs 6,845.28 million

According to Para-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 HESCO, an amount of Rs 6,845.28 million was unsettled/deferred by the Ministry of Water & Power on account of higher adjustment subsidy of tariff differential. Non-adherence to commercial procedure resulted in non-recovery of unsettled/deferred amount of subsidy amounting to Rs 6,845.28 million up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that the matter was being pursued with Ministry for verification of subsidy claims against debit units which were charged as per procedure.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 385/2014-15)

12.3.3 Recoverable amount of tariff subsidy from Federal & Provincial Government – Rs 3,694.4 million

According to Para-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 HESCO, an amount of Rs 3,694.4 million was recoverable from the Government of Pakistan and Government of Sindh on account of subsidy for tariff differential, GST subsidy, Prime Minister's relief share and agricultural tube-wells subsidy. Non-recovery of long outstanding dues was a recurring loss to the company which was required to be recovered to enable the company to overcome its financial crises. Non-adherence to commercial procedure resulted in non-recovery of subsidy amounting to Rs 3,694.4 million up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that the efforts were being made to recover outstanding amount from Government of Pakistan and Government of Sindh.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 386/2014-15)

12.3.4 Non-recovery of agriculture subsidy from Provincial Government Rs 2,022.19 million

According to Finance Division letter dated June 28, 2007, 25% subsidy on electricity charges on the use of Agriculture tube-wells will be shared equally between Federal and Provincial Governments.

In HESCO, an amount of Rs 2,022.19 million was recoverable from Government of the Sindh on account of subsidy on electricity charges for the use of agriculture tube-wells. Non-adherence to direction of Finance Division resulted in non-recovery of subsidy amounting to Rs 2,022.19 million up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the actual amount of outstanding subsidy was Rs 33.38 million instead of Rs 2,022.19 million for which efforts were being made to recover outstanding amount from Government of the Sindh.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. The DAC also directed to adjust this amount against payable amount of ED of Provincial Government. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 537/2014-15)

12.3.5 Loss due to non-claiming of tariff differential subsidy Rs 840.53 million

According to letter dated September 22, 2011 of Engineering Advisor (Power), 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 HESCO, 529.35 million units (411.40 million units 2009-10 to 2012-13 + 117.95 million units 2013-14) were debited to various consumers on account of electricity theft. However, tariff differential subsidy was not calculated which resulted in loss due to non-claiming of subsidy amounting to Rs 840.53 million from Government of Pakistan up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the claims for subsidy were submitted to Ministry for total units billed including adjustments. However, efforts were being made to recover outstanding amount from Government of Pakistan. An inquiry was also constituted on December 10, 2014 regarding debit/credit of units.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. DAC also directed the management to complete the inquiry proceedings and submit its report to DAC within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 616/2014-15)

12.3.6 Non-deduction of income tax from small power producers Rs 353.20 million

According to Sub Section-4 of SRO dated June 30, 1991, the FBR is pleased to specify the recipients, or the classes of recipients, to whom the said Sub Section shall not, namely: vi) companies receiving payments for the supply of electricity and gas.

In HESCO, an amount of Rs 5,886.73 million was paid to various small power producers (SPPs) on account of electricity purchased by the company without deducting income tax @ 6% amounting to Rs 353.20 million. Non-adherence to above SRO resulted in non-deduction of income tax of Rs 353.20 million during the financial year 2013-14

The matter was taken up with management in September, 2014 and reported to the Ministry in December, 2014. The management replied that no income tax was deductible as per Income Tax Ordnance/Clause-15 of contract. However, the matter was taken up with FBR for clarification.

The DAC in its meeting held in January, 2015 directed the management to deduct the income tax from SPPs and produce recovery record to Audit for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 415/2014-15)

12.3.7 Loss due to un-debited agreed amount – Rs 81.08 million

According to Para-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-II HESCO, the Revenue Officer Thatha did not debit the amount of Rs 81.08 million as agreed in debit notes raised by Internal Audit since July, 2010 which needed to be investigated at higher level. Non-adherence to commercial procedure resulted in loss of Rs 81.08 due to non-debiting of revenue up to the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in November, 2014. The management replied that an amount of Rs 4.57 million was recovered and efforts were being made to recover the remaining amount.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification, efforts be geared up for clearance of remaining amount and also conduct inquiry for not debiting the whole amount. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 170/2014-15)

12.3.8 Recoverable amount of foreign loans along with interest Rs 715.67 million

As per CEO HESCO, Hyderabad office letter dated January 21, 2014 addressed to Managing Director PEPCO Lahore, the amount of SEPCO share of ADB & World Bank Loans needs to be recovered from SEPCO.

In PMU HESCO, an amount of Rs 715.67 million relating to ADB and World Bank loans was recoverable from SEPCO as the works were carried out in the jurisdiction of SEPCO instead of HESCO. In spite of repeated requests, SEPCO refused to make the payment of amount of said loans. Non-reconciliation of the loan amount between HESCO & SEPCO resulted in non-recovery of amount of loans with interest Rs 715.67 during the financial year 2013-14

The matter was taken up with the management in July, 2014 and reported to the Ministry in December, 2014. The management replied that the matter had been taken up with SEPCO for payment of their share of principal amount along with interest. Further progress would be intimated to Audit.

The DAC in its meeting held in January, 2015 directed the management to resolve the matter at CEO level within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 538/2014-15)

12.3.9 Loss due to theft of electricity by kunda connections Rs 7.72 million

As per guidelines for policy and procedure on detection bills circulated vide letter dated October 26, 1999, whoever found to have connected his installations, appliances and apparatus with the works of license for the purpose of supply of energy without its written consent commits an offence to be prosecuted under Section 39 & 39A of Electricity Act, 1910 which requires an FIR to be lodged with police. Further to compensate the loss sustained on account of theft, assessment bill to be served as per laid down procedures to such illegal and unregistered consumers.

In Operation Circle–II HESCO, an amount of Rs 7.72 million was recoverable on account of detection charges from sixty consumers involved in theft of electricity through direct hook (kunda connections). No departmental and legal action was taken to recover the detection charges and fix the responsibility. Non-implementation of detection policy resulted in loss of Rs 7.72 million due to theft of electricity through kunda connections during the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in December, 2014. The management replied that concerned Revenue Officer was advised to debit the amount to the concerned consumers.

The DAC in its meeting held in January, 2015 directed the management to expedite the recovery process. Further progress was not reported till finalization of the report.

Audit emphasizes expeditious recovery of detection charges besides fixing the responsibility.

(DP No. 477/2014-15)

12.3.10 Loss due to non-recovery of energy charges against temporary connections – Rs 2.99 million

According to 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 Operation Circle-II HESCO, an amount of Rs 2.99 million was outstanding against the temporary connections ranging period from one month to over five years. In contravention to special conditions, the Company did not obtain security equal to the anticipated supply charges. Resultantly, nothing had to adjust against the outstanding dues. The recovery of dues was impossible as the consumers had left the sites without paying energy cost. This resulted in loss of Rs 2.99 million due to non-recovery of supply charges against temporary connections during the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in December, 2014. The management stated that the revised reply would be given in due course of time. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to furnish revised reply along with justification within 15 days. Further progress was not reported till finalization of the report.

Audit emphasizes expeditious recovery besides fixing responsibility.

(DP No. 478/2014-15)

CHAPTER-13

ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED (IESCO)

13. ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED

13.1 Introduction

Islamabad Electric Supply Company Limited (IESCO) started its operations as a Public Limited Company in May, 1998 and registered under Companies Ordinance, 1984 as a public limited company.

The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The mission of IESCO is to bring the assurance of energy to its customers, with world class quality and commitment for satisfaction of consumers. The Company purchases electricity from NTDC on 220 KV Grid Station Burhan, Sangjani, University and 500 KV Grid Station Rawat. Additionally, IESCO received electricity from Altern Energy Power House Fateh Jang and sells it to the consumers in Islamabad, Rawalpindi, Attock, Jehlum and Chakwal Districts**.** The Company distributes electricity to consumers at the tariff notified by NEPRA.

The jurisdiction of IESCO includes five Operation Circles, one Grid System Construction Circle, and one Project Construction Circle and one Grid System Operation Circle.

13.2 Comments on Financial Statements

13.2.1 Extracts of the Financial Statements

Balance Sheet as at June 30, 2014

(Rs in million)

	2013-14	%	2012-13	%	2011-12
Equity and Liabilities					
Share capital and reserves					
Issued, subscribed and paid-up capital	5,798.25	0.00	5,798.25	0.00	5,798.25
Accumulated profit (loss)	22,734.40	974.11	2,116.58	-125.45	(8,317.41)
	28,532.65		7,914.83	-414.19	(2,519.15)
Deposits for the issuance of shares	20,112.51		-		-
Non-current liabilities					
Long term loans	5,525.66	7.94	5,119.21	14.42	4,473.91
Consumer security deposits	3,814.86	11.84	3,410.92	15.95	2,941.78
Employee retirement benefits	13,907.35	28.22	10,846.65	9.24	9,929.19
Liabilities against assets subject to finance lease	19,678.71	36.17	14,452.04	-1.66	14,696.56
Deferred credit	20,141.05	8.13	18,626.47	7.53	17,322.51
	63,067.63	20.23	52,455.30	6.26	49,363.94
Current liabilities					

Creditors, accrued and other liabilities	17,010.65	-65.82	49,766.94	14.16	43,592.86
Current portion of long term loans	1,719.01	22.43	1,404.13	32.72	1,057.93
	22,313.88	-58.39	53,627.88	16.12	46,181.54
	134,026.68	17.57	113,998.01	22.54	93,026.33
Assets					
Non-current assets					
Operating fixed assets	70,844.06	12.88	62,762.98	5.74	59,357.88
Non-Current assets held for sale	106.98		-		-
	70,951.04	13.05	62,762.98	5.74	59,357.88
Long term advances	47.61	16.71	40.79	22.75	33.23
Current assets					
Stores and spares	423.78	-34.38	645.86	-22.65	834.96
Trade debts	39,599.73	50.13	26,377.53	14.63	23,011.15
Short term advances	148.09	-37.81	238.12	-52.75	504.00
Interest accrued	1.09	-68.17	3.43	-93.47	52.60
Recoverable from tax authorities	11,465.09	88.81	6,072.22	30.93	4,637.73
Receivable from GoP	5,654.75	-51.97	11,773.92		-
Oteher receivables	3,751.84	91.91	1,954.98	7.76	1,814.27
current portion of long-term loans	17.81	10.91	16.06	43.16	11.22
Short-term investment	-	-100.00	98.83	-93.41	1,500.54
Cash and bank balances	1,965.75	-51.02	4,013.14	216.34	1,268.62
	63,027.94	23.12	51,194.10	52.20	33,635.08
	134,026.68	17.57	113,998.01	22.54	93,026.33

Profit and Loss Account
For the year ended June 30, 2014

	2013-14	**%**	**2012-13**	**%**	**2011-12**
Revenue					
Electricity sale	93,920.43	42.18	66,056.71	5.27	62,748.41
Subsidy from GoP	29,698.47	-13.18	34,207.27	236.68	10,160.29
	123,618.90	23.29	100,263.99	37.52	72,908.70
Cost of electricity	93,038.22	13.51	81,966.03	2.06	80,312.85
Gross profit/(Loss)	30,580.68	67.13	18,297.96	-347.13	(7,404.15)
Amortisation of deferred credit	1,097.67	23.25	890.63	21.02	735.96
	31,678.34	65.09	19,188.59	-387.76	(6,668.19)
Administrative expenses	1,276.98	-19.24	1,581.21	-74.20	6,129.81
Distribution costs	7,777.12	10.23	7,055.47	361.66	1,528.29
Customer services costs	534.68	10.61	483.38		0.00
	9,588.78	5.14	9,120.06	19.09	7,658.09
	22,089.57	119.39	10,068.54	-170.28	(14,326.29)
Other income	1,462.83	1.63	1,439.30	14.22	1,260.06
	23,552.39	104.66	11,507.84	-188.07	(13,066.22)
Financial and other charges	894.57	11.79	800.24	39.33	574.36
	22,657.82	111.60	10,707.60	-178.50	(13,640.59)
Provision for WPPF		-100.00	517.38		
Taxation deferred				-100.00	137.59
Profit(loss) for the year	22,657.82	122.35	10,190.23	-175.47	(13,503.00)

13.2.3 Comments on Audited Accounts

i) Non-recognition of supplemental charges

The Company has not been able to record supplemental charges of Rs 5,787.53 million during the year. Central Power Purchase Agency (CPPA) charged these on account of late payment charges. Had these supplemental charges been charged it would have enhanced the expenditures and declined the current year profit by Rs 5,787.53 million. Similarly, accumulated profit would have too decreased at the balance sheet date. It means current figure of accumulated profit of Rs 22,734.40 million was overstated by an amount of Rs 5,787.53 million. Non-recognition of these charges needed justification

ii) Non-recognition of interest on syndicated loan

During the year 2012, Government of Pakistan obtained loan to resolve circular debt issue. In this regard, Company has been allotted loan amounting to Rs 4,695 million during the current year (Rs 1.071 million: 2013) which would be adjusted against payables to CPPA. However, Company neither recognized loan nor interest amounting to Rs 1,552.80 million charged in its books of accounts. Had this interest on syndicated loan been charged it would have enhanced the expenditure and declined the current year profit by Rs 1,552.80 million. Moreover, Company understated its liabilities by Rs 4,695 million during the year which needed to be justified.

iii) Sales and Cost of sales

The sales of the Company increased to Rs 123,618.90 million (23.29%) including the subsidy from Government of Pakistan Rs 29,698.47 million over the previous year. Further, cost of sales of Company was Rs 93,038.22 million. It showed the Company earned a gross profit of Rs 30,580.68 million.

iv) Profitability

The Company earned a net profit of Rs 22,657.82 million during the current year. Total accumulated profit increased to the tune of Rs 22,734.40 million (Rs 2,116.58 million).

v) Trade Debts and other Receivable

Total receivable of the Company reached to Rs 63,027.94 million (2013:

Rs 51,194.10 million) with a increase of Rs 11,833.84 million. Company was in receivable of Rs 5,654.75 million from Government of Pakistan and Rs 39,599.73 million from various consumers on account of electricity sold. Huge balance of receivables depicts the poor recovery efforts of the Company, which needed justification.

vi) Trade and other Payables

Payables substantially declined from Rs 49,766.94 million to Rs 17,010.65 million because payables to CPPA Rs 33,831.50 million has been settled mainly due to the GoP investment/equity in distribution Companies as a result of clearance of Circular Debt and allocation of non-cash subsidy relating to unpaid subsidy of the year 2004 to 2009 as on 30 June, 2014. However, the Company has not accounted for this amount as equity, which may be justified.

vii) Admin and Distribution Expenses

The admin and distribution expenses increased by Rs 468.72 million which mainly attributed to provision for slow moving stores, spares and loose tools which increased by Rs 83.91million (2013: Rs NIL) and write off of stores and spares by Rs 24.50 million which needed to be justified.

viii) Long term Financing

The carrying amount of long term loans increased to Rs 5,525.66 million with a increase of Rs 406.45 million at the balance sheet date (7.94%) during the current financial year. The Company charged an amount of Rs 894.57 million as financial expenses in the profit and loss account during the current year (2013: Rs 800.24 million) an increase of 12% was shown in the financial expenses. The Company was still relying on expensive financing to run its operations which ultimately causing burden on the resources of the Company and its liabilities.

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

13.2.4 Recommendations:

In view of the forgoing, it was recommended that Company should record supplemental charges and debit notes issued by Central Power Purchase Agency (CPPA) in the accounts of the Company. The Company should have strict control over administrative and distribution expenses and may revamp its organizational structure and address operational issues to maintain and increase profitability.

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

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

Moreover, electricity rate, determined by NEPRA, should be notified well in time so as to make the Company financially independent

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 AUDIT PARAS

13.3.1 Loss due to embezzlement of cash - Rs 1.55 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 Circle Rawalpindi IESCO, an amount of Rs 1.55 million was misappropriated by Mr. Shamsher Haider (UDC) and Agha Murtaza Hussain Shah (LM-II) through bogus drawl of pay & allowances of other employees by tampering the pay bills/ double drawl of salaries, etc. The departmental proceedings were initiated against the responsible in June, 2014 with the direction to complete inquiry proceedings within 15 days but the same had not been finalized. Non-adherence to WAPDA's guidelines resulted in loss of Rs 1.55 million due to embezzlement of cash up to the financial year 2013-14.

The matter was taken up with the management in July, 2014 and reported to the Ministry in September, 2014. The management replied that on recommendation of inquiry committee, disciplinary action was initiated against the persons held responsible.

The DAC in its meeting held in January, 2015 directed the management to provide copy of inquiry report, remove the delinquents from service immediately and effect recovery of amount involved. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 31/2014-15)

13.3.2 Recoverable amount of tariff subsidy from Federal Government Rs 5,665 million

According to Para-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 IESCO, an amount of Rs 5,665 million was recoverable from the Government of Pakistan on account of subsidy of tariff differential, monthly fuel price adjustments and tube-well subsidy. Non-recovery of long outstanding dues was a recurring loss to the company which was required to be recovered to enable the company to overcome its financial crises. Non-adherence to commercial procedure resulted in non-recovery of subsidy amounting to Rs 5,665 million up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that an amount of Rs 4,598.79 million had been allocated by PEPCO on January 5, 2015 and clearance of receivable from GoP against TDS claim was a routine matter.

The DAC in its meeting held in January, 2015 directed the management to produce relevant recovery record in support of reply for verification within 15 days. The DAC also directed to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 615/2014-15)

13.3.3 Loss due to less claiming of subsidy from Federal Government Rs 113.55 million

According to Para-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 IESCO, an amount of Rs 113.55 million was less claimed from the Government of Pakistan during September, 2009 and May, 2011 on account of subsidy for tariff differential, monthly fuel price adjustments and tube-wells subsidy. The same was required to be recovered from Government of Pakistan to enable the Company to overcome its financial crises. Non-adherence to commercial procedure resulted in less claiming of subsidy amounting to Rs 113.55 million up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that an amount of Rs 33.31 million relating to claim of May, 2011 had been re-lodged and remaining amount of Rs 80.24 million was a calculation mistake in the invoice of September, 2009 which did not effect the total amount. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply for verification within 15 days. The DAC also directed to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 614/2014-15)

13.3.4 Recoverable amount of subsidy from Provincial Government Rs 10.64 million

According to decision taken by the cabinet in its meeting dated June 9, 2007, 25% subsidy on electricity charges on the use of agricultural tube-wells approved to boost agricultural production. The cost will be shared equally between Federal and provincial Governments.

In IESCO, an amount of Rs 10.64 million was recoverable from the Provincial Government on account of 12.5% subsidy. Non-recovery of long outstanding dues was a recurring loss to the Company which was required to be recovered to enable the Company to overcome its financial crises. Non-adherence to decision of GoP resulted in recoverable subsidy of Rs 10.64 million from Provincial Government up to the financial 2013-14.

The matter was taken up with the management in September, 2013 and reported to the Ministry in January, 2015. The management replied that the claims of 12.5% of tube-well subsidy were submitted to Finance Division, Govt. of Punjab but the Provincial Govt. refused to pay the amount of subsidy. The matter had also been brought to the knowledge of PEPCO and Ministry of Water and Power.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. The DAC also directed to adjust this amount against ED payable to Provincial Government. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 657/2014-15)

13.3.5 Loss due to installation of illegal connections – Rs 23.80 million

According to the Clause-1 of the Distribution Stores Manual, the line superintendents decide what materials they will need to collect from stores, and the requisition is prepared by the line superintendents and checked by their SDOs and XENs.

In Operation Circle Rawalpindi IESCO, 351 energy meters valuing Rs 23.80 million were drawn by various line staff against cancelled applications, double drawl of material against new connections and CP-90/MCO meters. The departmental committee was constituted on June 24, 2014 with the direction to complete the inquiry proceedings within 10 days but the same had not been finalized as yet. Non-adherence to stores manual resulted in loss of Rs 23.80 million due to illegal installation of connections up to the financial year 2013-14.

The matter was taken up with the management in July, 2014 and reported to the Ministry in November, 2014. The management replied that the matter was inquired through an inquiry committee and findings of the committee were awaited.

The DAC in its meeting held in January, 2015 directed the management to expedite the inquiry proceedings and take action against person responsible for double drawl of material within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 163/2014-15)

13.3.6 Non-recovery of detection charges from consumers – Rs 17.01 million

According to Para-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 IESCO, detection bills amounting to Rs 124.82 million were charged to 4,829 consumers during July, 2013 to June, 2014. An amount of Rs 107.81 million was recovered from the consumers leaving a balance amount of Rs 17.01 million. Non-adherence to commercial procedure resulted in non-recovery of detection charges amounting to Rs 17.01 million during the financial year 2013-14

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the total amount charged to consumer during 2013-14 was Rs 124.82 million, out of which an amount of Rs 121.08 million was recovered. However, efforts were being made to recover the balance amount.

The DAC in its meeting held in January, 2015 directed the management to provide recovery record for verification within 15 days and expedite the recovery of balance amount. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 444/2014-15)

13.3.7 Loss due to non-regularization of temporary connections Rs 6 million

Para-3.3 of Consumer Service Manual states that temporary connection shall be provided for a period not exceeding three months which may be further extended on three month basic up to 12 months by the load sanctioning authority. In case the connection is to be continued more than 12 months then it would be allowed under regular tariff upon fulfillment of requisite information as explained for new connection.

In Operation Circle Rawalpindi IESCO, twenty four temporary connections were running under tariff E-1(ii) from the period July, 2008 to June, 2014. These connections were required to be regularized after the period of one year as per rules. Non-implementation of rules resulted in loss of Rs 6 million due to non-regularization of temporary connections up to the financial year 2013-14.

The matter was taken up with the management in July, 2014 and reported to the Ministry in November, 2014. The management replied that the actual amount of the para was Rs 3.54 million instead of Rs 6 million. However, whole the amount was recovered / adjusted and record was ready for verification.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 229/2014-15)

13.3.8 Loss due to non-charging of fixed charges – Rs 4.83 million

As per Schedule of Electricity Tariff, fixed charges @ Rs 380/KW is to be charged under Tariff C-2(b).

In Operation Circle Rawalpindi IESCO, an amount of Rs 4.83 million on account of fixed charges were not recovered from a consumer as required under the rules. Non-adherence to Schedule of Electricity Tariff resulted in loss of revenue of Rs 4.83 million during the financial year 2013-14.

The matter was taken up with the management in July, 2014 and reported to the Ministry in October, 2014. The management replied that fixed charges were not being charged in January, 2013 an excessive MDI was charged to consumer wrongly. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to conduct inquiry for fixing the responsibility and submit its report to Audit within 15 days. The DAC also directed to effect recovery by devising action plan for recovery. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 35/2014-15)

13.3.9 Loss due to application of wrong tariff – Rs 3.21 million

According to Para-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 Attock IESCO, three connections were wrongly sanctioned and running under tariff A-I (b) instead of appropriate tariff A-II & D-I (b). Due to application of wrong tariff, the Company was deprived of revenue of Rs 3.21 million on account of fixed charges. Non-adherence to commercial procedure resulted in loss of Rs 3.21 million during the financial year 2013-14

The matter was taken up with the management in August, 2014 and reported to the Ministry in November, 2014. The management replied that in two cases, the tariff applied was correct and in remaining one case, the tariff had been changed but no recovery of difference in tariff was involved. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record with justification for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 137/2014-15)

13.3.10 Loss due to non-finalization of insurance claims – Rs 17.08 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 GSO IESCO, four insurance claims amounting to Rs 17.08 million regarding damage of electrical equipment from July 2003 to June, 2013 were lodged with Director Insurance WAPDA. These claims were still lying pending for want of indemnification. Non-adherence to WEPS policy resulted in loss of Rs 17.08 million due to non-finalization of insurance claims up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in November, 2014. The management replied that indemnification of insurance claims relating to all the transformers had been decided.

The DAC in its meeting held in January, 2015 directed the management to produce the relevant record in support for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 124/2014-15)

13.3.11 Unjustified/irregular hiring of company secretary and supporting staff – Rs 12.74 million

According to SRO No.180(1)/1013 dated March 08, 2013 issued by the Government of Pakistan regarding public sector companies (Corporate Governance) rules, 2013, the role of company secretary can be assigned to the Chief Financial Officer or any other member of senior management. Moreover, according to Clause-204A of Companies Ordinance, 1984, a listed company shall have a whole time secretary.

In IESCO, a company secretary was appointed on October 31, 2011 on contract basis initially for a period of two years at gross salary package of Rs 0.23 million per month along with facilities equivalent to a BPS-20 officer. The role of company secretary could have been assigned to Chief Financial Officer as per SRO and the practice in vogue. Since the IESCO was not a listed company and in the presence of two declared qualified candidates by BoD for the said post, whole time company secretary was not required. This resulted in unjustified/irregular expenditure of Rs 12.74 million incurred on account of salary, allowances & facilities of company secretary and his staff up to the financial year 2013-14.

The matter was taken up with management in August, 2013 and reported to the Ministry in December, 2014. The management replied that the company secretary was appointed without open competitive bidding and he was removed from service on September 17, 2014. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to conduct inquiry and fix responsibility for non-observance of PPRA Rules. The DAC also directed to forward the case for condonation to BOD within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 620/2014-15)

13.3.12 Financing of Circular Debt by PEPCO due to unauthorized borrowing

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 IESCO, a debit advice dated July 03, 2012 for Rs 146.20 million was received from CPPA on account of 1^{st} mark up payment proportionately against the loan of Rs 136,540 million. The advice was issued by CPPA on account of share of loan arranged by PEPCO at its own. The arrangement of borrowing of Rs 136,540 million by PEPCO in the books of Power Holding Company (Pvt.) Limited and further to be transferred to IESCO without considering the fact whether it related to IESCO or not, was unauthorized.

The matter was taken up with the management in September, 2013 and reported to the Ministry in January, 2015. The management replied that the debit advice was refused under the orders of NEPRA. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to submit revised reply along with documentary evidence within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 663/2014-15)

CHAPTER-14

LAHORE ELECTRIC SUPPLY COMPANY LIMITED (LESCO)

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 11 Nos. 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 seventy eight (78) accounting units are sent to Finance Director LESCO where these accounts are consolidated and financial statements including Balance Sheet, Profit & Loss Account and Cash flow statement were prepared.

14.2.2 Extracts of the Financial Statements

Balance Sheet as at June 30, 2014

(Rs in million)

	2013-14	%	2012-13	%	2011-12
Equity and Liabilities					
Share capital and reserves					
Issued, subscribed and paid-up capital	0.010	0.000	0.010	0.00	0.010
Accumulated Loss	-10176.450	-33.335	-15265.090	(35.04)	-23500.589
	-10176.440		-15265.080	(35.04)	-23500.579
Deposits for the issuance of shares	44,707.407		6,737.999	0.00	6737.999

Non-current liabilities					
Long term loans	3,243.933	-8.507	3,545.559	(0.20)	3,552.509
Consumer security deposits	8,026.564	12.724	7,120.559	13.56	6,270.070
Employee retirement benefits	49,062.671	25.535	39,083.005	31.24	29,780.486
Deferred credit	20,237.806	7.865	18,762.234	7.66	17,426.666
	80,570.974	17.602	68,511.357	20.13	57,029.731
Current liabilities					
Trade and other payables	51,104.697	-36.326	80,259.881	10.08	72,913.218
Receipt against deposit work	11,631.139	15.141	10,101.685	15.02	8,782.924
Accured markup	1,164.565	-8.600	1,274.141	85.21	687.942
Provision for taxation	102.350	0.000	102.350	0.00	102.350
Current portion of long term loans	995.872	-10.767	1,116.033	129.29	486.725
	64,998.623	-29.999	92,854.091	11.91	82,973.159
	180,100.565	17.837	152,838.366	24.02	123,240.310
Assets					
Non-current assets					
Operating fixed assets	44,402.879	5.712	42,003.553	8.30	38,783.403
Capital work in progress	3,620.592	6.457	3,401.002	(3.92)	3,539.910
	48,023.471	5.768	45,404.555	7.28	42,323.313
Long term advances	150.726	104.368	73.752	(15.65)	87.436
Long term deposits	0.820	-4.930	0.862	126.61	0.380
Current assets					
Stores and spares	4,071.190	3.766	3,923.420	(4.43)	4,105.116
Trade debts	29,452.445	18.928	24,764.849	(24.75)	32,912.105
Advances, prepayments and other receivables	79,873.939	21.372	65,809.332	91.71	34,328.409
Cash and bank balances	18,527.973	44.057	12,861.596	35.62	9,483.550
	131,925.547	22.882	107,359.196	32.82	80,829.180
	180,100.565	17.837	152,838.366	24.02	123,240.310

Profit and Loss Account
For the year ended June 30, 2014

	2013-14	%	2012-13	%	2011-12
Revenue					
Electricity sale	189,034.705	49.820	126,174.894	(5.01)	132,830.382
Subsidy from GoP	35,209.398	-47.309	66,822.052	239.78	19,666.011
	224,244.104	16.190	192,996.945	26.56	152,494.393
Cost of electricity	195,902.922	20.147	163,053.122	(2.89)	167,897.203
Gross profit/(Loss)	28,341.181	-5.352	29,943.824	(294.43)	(15,400.810)
Amortisation of deferred credit	930.950	8.706	856.393	13.94	751.597
	29,272.131	-4.961	30,800.217	(310.25)	(14,649.213)
Other operating cost (excluding depreciation)	19,565.126	17.940	16,589.080	17.63	14,102.265
Depreciation on operating fixed assets	2,200.776	10.774	1,986.720	12.37	1,768.000
	21,765.902	17.173	18,575.800	17.05	15,870.265
	7,506.229	-38.596	12,224.417	(140.05)	(30,519.213)
Other income	4,611.671	61.039	2,863.695	(17.14)	3,456.020
	12,117.900	-19.686	15,088.112	(44.25)	27,063.458
Financial and other charges	517.547	-12.665	592.600	435.27	110.710

	11,600.354	-19.973	14,495.512	(46.65)	27,172.168
Worker participation fund/taxation	580.018	-19.973	724.776	#DIV/0!	0.000
Profit for the year	11,020.336	-19.973	13,770.737	(49.32)	27,174.168

14.2.3 Comments on Audited Accounts

i) Non recognition of supplemental charges

The company has not been able to record supplemental charges of Rs 11,385 million during the year. These are charged by Central Power Purchases Agency (CPPA). Had these supplemental charges been charged it would have enhanced the expenditures and declined the current year profit by Rs 11,385 million. Similarly, accumulated profit would have too decreased at the balance sheet date. It means current figure of accumulated profit of Rs 11,020.335 million is overstated by an amount of Rs 11,385 million. Non-recognition of these charges needed justification.

ii) Non-recognition of interest on syndicated loan

During the year 2012, Government of Pakistan obtained loan to resolve circular debt issue. In this regard, Company has been allotted loan amounting to Rs 9.3 billion. However, Company neither recognized loan nor interest amounting to Rs 2,337.83 million charged in its books of accounts. Had this interest on syndicated loan been charged it would have enhanced the expenditures and declined the current year profit by Rs 3,433 million. Moreover, Company understated its liabilities by Rs 9.3 billion which needs to be justified.

iii) Sales and Cost of sales

The sales of the Company increased to Rs 189,034.70 million (16.19%) including the subsidy from Government of Pakistan Rs 35,209.40 million over the previous year. Further, cost of sales of Company was Rs 195,902.92 million. It means that the Company earned a gross profit of Rs 28,341.18 million.

iv) Profitability

The company earned a net profit of Rs 11,020 million during the current year. Total accumulated loss declined to the tune of Rs 10,176 million. Further, analysis showed that net profit of current year highly depended upon recognition of Tariff Differential Subsidy amounting to

Rs 35,209 million by the Government of Pakistan.

v) Trade Debts and other Receivable

Total receivable of the Company reached to Rs 109,326 million (2013: Rs 90,574 million). Amount of Rs 55,798 million was receivable from Government of Pakistan against tariff differential subsidy and Rs 29,452 million from various consumers on account of electricity sold. Huge balance of receivables depicted the poor recovery efforts of the company which needed justification.

vi) Trade and other Payables

During the year under review payables substantially declined from Rs 80,260 million to Rs 51,105 million because payables to CPPA Rs 71,186 million has been settled by the GoP investment/equity in distribution Companies as a result of clearance of Circular Debt and allocation of non-cash subsidy relating to unpaid subsidy of the year 2004 to 2009 as on 30 June, 2014. However, the Company has not accounted for this amount as equity which may be justified.

vii) Admin and Distribution Expenses

The admin and distribution expenses increased by Rs 2,976 million which mainly attributed to provision for doubtful debt which increased to Rs 2,207 million (2013: Rs 1,392 million) which showed that Company was facing difficulties in realization from energy defaulters which needed to be justified.

viii) Long term Financing

The carrying amount of Long term loans decreased to Rs 3,244 million with a decrease of Rs 302 million at the balance sheet date (8%) during the current financial year. The company charged an amount of Rs 517 million as financial expenses in the profit and loss account during the current year (2013: Rs 592 million) a decrease of 12% was shown in the financial expenses. The Company is still relying on expensive financing to run its operations which ultimately causing burden on the resources of the Company and its liabilities.

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

14.2.4 Recommandations:

In view of the forgoing, it was recommended that Company should record supplemental charges and debit notes issued by Central Power Purchase Agency (CPPA) in the accounts of the Company. The Company should have strict control over administrative and distribution expenses and may revamp its organisational structure and address operational issues to maintain and increase profitability.

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

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

Moreover, electricity rate, determined by NEPRA, should be notified well in time so as to make the Company financially independent.

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 AUDIT PARAS

14.3.1 Non-reconciliation of subsidy claims – Rs 96,593.92 million

According to IAS-1.15, the financial statements must “present fairly” the financial position, financial performance and cash flows of an entity.

In LESCO, major difference of Rs 96,593.92 million was found between the claims of subsidy receivable, lodged with the Government of Pakistan and amount appearing in basic data i.e. CP-41 and MIS Reports. Reconciliation of amounts appearing in the CP-41 and MIS Reports had never been carried out by the Finance Directorate, LESCO. Due to this difference, the financial statements of the Company were not presenting the true and fair picture. Non-adherence to IAS resulted in non-reconciliation of subsidy claims of Rs 96,593.92 million up to the financial year 2013-14.

The matter was taken up with the management on January, 2015 and reported to the Ministry in January, 2015. The management replied that LESCO had incorporated TDS claims of Rs 74,027 million for the financial year 2009-10 to 2011-12 but Audit had checked only GST subsidy claims of Rs 2,422 million. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends that the matter needs to be looked into for elucidation/ justification of wide variation.

(DP No. 652/2014-15)

14.3.2 Non-recovery of agriculture subsidy from Provincial Government Rs 1,469.94 million

According to Finance Division letter dated June 28, 2007, 25% subsidy on electricity charges on the use of Agriculture tube-wells will be shared equally between Federal and Provincial Governments.

In LESCO, an amount of Rs 1,469.94 million was recoverable from Government of Pakistan and Government of the Punjab on account of subsidy on electricity charges for the use of agriculture tube-wells. Recovery of subsidy was required to be made to enable the Company to overcome its financial crises. Non-adherence to direction of Finance Division resulted in non-recovery of subsidy amounting to Rs 1,469.94 million up to the financial year 2013-14.

The matter was taken up with the management in April, 2014 and reported to the Ministry in January, 2015. The management stated that detailed reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. The DAC also directed to adjust this amount against ED payable to provincial government within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 653/2014-15)

14.3.3 Over-claim of subsidy – Rs 66,131.49 million

According to IAS-1.15, the financial statements must present fairly the financial position, financial performance and cash flows of an entity.

In LESCO, a comparative study of CP-41 and MIS reports revealed that a sum of Rs 66,131.49 million were over claimed than the actual amount of subsidy appearing in the CP-41. This sanerio indicated that no definite procedure relating to preparation of subsidy claims and lodging thereof with the Government of Pakistan were adopted by the management of the Company. As such the accounts of the Company did not present the true picture of the financial affairs. Non-observance of IAS resulted in over claim of subsidy amounting to Rs 66,131.49 million up to the financial year 2013-14.

The matter was taken up with the management in April, 2014 and reported to the Ministry in January, 2015. The management replied that LESCO had incorporated TDS claims of Rs 74,027 million for the financial year 2009-10 to 2011-12 but Audit had checked only GST subsidy claims of Rs 2,422 million. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level.

Audit recommends that the matter needs to be looked into for elucidation/justification of wide variation.

(DP No. 662/2014-15)

14.3.4 Undue burden on Company's funds – Rs 1,762.80 million

According to Clause-2 of service agreement, the validity period of agreement was one year commencing from the 10th day of February, 2009 until 9th day of February, 2010. The agreement was further extended up to December 31, 2014.

In LESCO, an agreement was signed with M/s Sidat Haider Morshid for providing consultants from February 10, 2009 to February 09, 2010 (further extended for three year from 2011-2014) by direct contracting despite the fact that nature and scope of the work fall within the ambit of services of PITC, WAPDA, MIS department of the company, besides such services were available from alternative sources. The Consultants were hired for transformation from COBOL based legacy system to Oracle based ERP system but the consultants were not delivering the services envisaged in their scope of work and deviating from their core functions as they could not deliver the bug free system within the stipulated timeframe. Despite spending of Rs 1,762.80 million, the Company was still using legacy system. As such the expenditure to the tune of Rs 1,762.80 million on engagement of consultants for providing services was not only undue burden on the Company's fund but was also quite unjustified. Poor financial and human resource management resulted in undue burden on the company's funds worth Rs 1,762.80 million up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the consultant were hired for ERP system after approval of BoD and due to shortage of staff, some routine works were also performed by the staff hired through consultant. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to provide breakup of expenditure and conduct an inquiry at PEPCO level to ascertain the scope of work & benefits/deliverables by the consultants within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 600/2014-15)

14.3.5 Non-execution of work by contractor despite lapse of three years Rs 29.63 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 Construction Circle LESCO, poles were issued to M/s JCP International for bifurcation of two feeders but despite of lapse of three years no work was started. Chances of mis-appropriation of poles and other material cannot be ruled out in this situation. Non-adherence to WAPDA's guidelines resulted in loss of Rs 29.63 million due to non-execution of work up to the financial year 2013-14.

The matter was taken up with the management and reported to the Ministry in December, 2014. The management replied that an Inquiry Committee had been constituted on January 16, 2015 to fix the responsibility and the findings of the committee were awaited.

The DAC in its meeting held in January, 2015 directed the management to complete the inquiry and furnish its report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 570/2014-15)

14.3.6 Less recovery of LD due to inclusion of defective clause in the contract – Rs 26 million

As per Clause-27.1 of general condition of contract, the liquidated damages shall be 0.50% of total Contract Price per week or part thereof and the maximum amount of liquidated damages shall be 10% of the Contract Price.

In PMU LESCO, an amount of Rs 26 million was less deducted from supplier on account of LD. The LD was deducted @ 3 % instead of @10% of contract price due to incorporating a defective clause in the contract for procurement of 20/26 MVA power transformers with M/s TBEA China. Non-adherence to standard clause of contract resulted in less recovery of Rs 26 million from contractor during the financial year 2013-14

The matter was taken up with the management in September, 2014 and reported to the Ministry in January, 2015. The management replied that the LD clause was enumerated in contract documents based on Section-2.41 of ADB's procurement guidelines.

The DAC in its meeting held in January, 2015 directed the management to conduct inquiry for fixing responsibility for inclusion of defective clause of LD at PEPCO level within one month.

Audit recommends implementation of the DAC's directives.

(DP No. 661/2014-15)

14.3.7 Blockage of funds due to purchase of unnecessary material Rs 20 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 LESCO, material worth Rs 20 million was lying in the store since November 2008. This indicated that the store was procured without assessing the actual need of field formations. Poor inventory management resulted in un-necessary procurement of material of Rs 20 million up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that material valuing Rs 10.65 million had been issued and remaining would be issued in due course of time.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record for verification within a week and complete pending action within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 602/2014-15)

14.3.8 Non-recovery of detection charges from consumers - Rs 432.71 million

According to Para-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 LESCO, 32,194 consumers were charged detection bills for 45.01 million energy units amounting to Rs 432.71 million on account of theft of electricity / slowness of meters, display washed, etc which was not recovered. Non-adherence to commercial operating procedures resulted in non-recovery of detection charges amounting to Rs 432.71 million during the financial year 2013-14

The matter was taken up with the management from August to December, 2014 and reported to the Ministry in December, 2014. The management replied that an amount of Rs 97.31 million was recovered up to December, 2014 whereas an amount of Rs 4.1 million was not recoverable due to decision of review committee. Efforts were being made to recover the remaining amount.

The DAC in its meeting held in January, 2015 directed the management to produce the recovery record for verification within a week and expedite the recovery of remaining amount within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 299, 308, 552, 574 & 629/2014-15)

14.3.9 Non-recovery due to non-implementation of Electricity Act, 1910 Rs 313.79 million

According to Section-54C of Electricity Act, 1910; i) at the time of filing the suit, application or appeal, as the case may be, deposits with the court the amount assessed against him by the licensee and all further charges of the license (Sub-Section-1), ii) where an amount has been deposited under sub-section (1), the court shall direct it to be deposited in a scheduled bank in the name of the licensee (Sub-Section-2).

In LESCO, an amount of Rs 313.79 million against 2,456 cases was pending / deferred due to litigation cases. The stay orders were granted by the courts without condition of payment of disputed amount under Section 54-C of the Electricity Act, 1910. Non-implementation of Electricity Act, 1910 resulted in non-recovery of disputed amount of Rs 313.79 million during the financial year 2013-14

The matter was taken up with the management from August to December, 2014 and reported to the Ministry in December, 2014. The management replied that in 58 cases, the Section-54C was not applicable, being recovery not related to billing of consumer. In 162 cases, the amount was deposited by the consumers, in 279 cases, an amount of Rs 92.96 million was not deposited, whereas remaining cases had been decided by the courts in favour of LESCO.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification and refer the case to legal department of Ministry of Water and Power for opinion within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 295 & 578/2014-15)

14.3.10 Un-due generation of revenue through over billing – Rs 299.53 million

According to Para-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 LESCO, the percentage of energy losses of twenty nine feeders was in negative during the financial year 2013-14. The negative losses revealed that the units billed were in excess of units received which was an indication of over billing of 27.39 million units to various consumers. Non-adherence to commercial procedure resulted in over billing of Rs 299.53 million to the consumers during the financial year 2013-14

The matter was taken up with the management from August to December, 2014 and reported to the Ministry in December, 2014. The management replied that negative losses on feeders were due to (i) difference in date of reading cycle, (ii) non-allotment of coding to the feeders, (iii) shifting of units on self generation, (iv) dual source of supply. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to carry out analysis of ten feeders of high negative losses in order to determine the percentage of actual energy losses and submit report within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 313, 554 & 572/2014-15)

14.3.11 Loss due to non-recovery of grid station cost from consumers Rs 203.95 million

According to Abridged Condition-6 of supply in case of non-removal/non-regularization of un-authorized extended load, the supply to the consumer shall be disconnected. As per Schedule of Tariffs, B-4 and C-3 tariff is applicable for supply to industries for all loads of more than 5,000 kW supply at 66 kV and 132 kV.

In LESCO, three industrial and bulk supply consumers had extended the load of the energy connections without depositing the grid station cost of Rs 203.95 million. The field formations neither disconnected the energy connections nor regularized the un-authorized extended load. Non-adherence to Schedule of Tariff resulted in loss of Rs 203.95 million due to non-recovery of grid station cost from consumers during the financial year 2013-14.

The matter was taken up with the management in August & December, 2014 and reported to the Ministry in December, 2014. The management replied that one consumer had reduced his illegal extended load, whereas another consumer had applied for extension of load on September 25, 2014 and a notice was served to bulk supply consumer as per policy in vogue.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply along with test report for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 312& 579/2014-15)

14.3.12 Loss due to non-recovery of supply charges against temporary connections - Rs 8.75 million

According to 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 LESCO, an amount of Rs 8.75 million was outstanding against the temporary connections as forthcoming form CP-120A. In contravention of special condition, the company did not obtain security equal to the anticipated supply charges and resultantly had nothing to adjust against the outstanding dues. The recovery of dues was impossible as the consumers had left the sites without paying energy cost. Non-observance of tariff conditions resulted in a loss of Rs 8.75 million up to the financial year 2013-14.

The matter was taken up with the management from August to December, 2014 and reported to the Ministry in December, 2014. The management replied that an amount of Rs 1.33 million had been recovered whereas efforts were being made to recover the remaining outstanding amount.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification within a week and expedite the recovery of balance amount. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 306, 399 & 575/2014-15)

14.3.13 Recurring annual loss due to delay in completion of HT/LT proposals Rs 805.91 million

As per Para 4.1.6 of Distribution Rehabilitation Guidelines, total time for completion of HT/LT proposals is 130 days.

In LESCO, 2,106 HT/LT proposals under head ELR/DOP duly approved from 2002 to 2014 by the Chief Executive Officer, LESCO were pending for execution. As per financial viability of these proposals, the cost benefit ratio was worked out as mentioned against each and the Company was deprived of annual envisaged benefits of Rs 805.91 million. Non-adherence to the standard operating procedures resulted in annual loss of Rs 805.91 million during the financial year 2013-14.

The matter was taken up with the management from August to December, 2014 and reported to the Ministry in December, 2014. The management replied that either proposal had been completed or partially completed or pending due to shortage of material & right of way problem, etc. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record for verification in respect of completed action within 15 days and finalize the pending actions within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 311, 568 & 581/2014-15)

14.3.14 Unauthorized exercise of financial powers – Rs 474.09 million

Ministry of Water & Power vide Notification dated July 12, 2013 posted Mr. Arshad Rafiq, Chief Engineer as acting Chief Executive Officer to look after the affairs of LESCO for their smooth, efficient and timely disposal with immediate effect and until further orders. The acting Chief Executive Officer shall seek advice/approval of the Ministry of Water & Power, in all major finance and policy-related matters before disposal.

In LESCO, Ex-Chief Executive Officer had accorded approvals for procurement of store material worth Rs 474.09 million without seeking mandatory advice/approval from the Ministry of Water & Power. Non-adherence to instruction of Ministry put into Company serious financial indiscipline valuing Rs 474.09 million during the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that all the procurements were carried out in accordance with PPRA Rules and the matter would be referred to competent authority for ex-post facto approval. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to submit condonation case to Ministry of Water & Power for ex-post facto approval within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 621/2014-15)

14.3.15 Unjustified expenditure due to pre-audit of payments conducted by the unauthorized persons – Rs 298.88 million

As per Para-49 of WAPDA Accounting Manual, the responsibility of pre-audit rests upon with B&AO/Senior B&AO. As per contents of the contract agreement between LESCO and M/s Sidat Hyder Morshad & Associates (SHMA), the hired personnel would perform duties in ERP support groups (IT programmers only).

In PMU LESCO, the payment of Rs 298.88 million was pre-audited by the un-authorized/private persons hired by the Company. These person(s) were unaware of the rules and regulations of the Company. Non-adherence to WAPDA Accounting Manual and agreement with M/s SHMA resulted in unjustified expenditure of Rs 298.88 million during the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that the pre-audit was performed by Assistant Manager (Finance) hired by LESCO during suspension period of Deputy Manager (Finance). After reinstatement of Deputy Manager (Finance), he was entrusted with other assignments and pre-audit was performed by Additional D.G. (Finance) which was absolutely in order. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to verify authenticity of payments by Internal Audit LESCO within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 619/2014-15)

14.3.16 Loss due to non-installation of capacitor at the 11 KV feeders Rs 176.83 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 loss in a distribution system can be reduced by installation of capacitors.

In LESCO, on forty six feeders, either capacitors were not installed or were out of order, which resulted in low power factor and indicated the wastage of power. During the year 2013-14, the power worth Rs 176.83 million was wasted due to non-installation and operation of capacitors. Non-adherence to distribution rehabilitation guidelines resulted in loss of Rs 176.83 million due to non-installation of operation of capacitors.

The matter was taken up with the management in August & December, 2014 and reported to the Ministry in December, 2014. The management replied that in thirty seven cases, capacitor had been installed, whereas in remaining nine cases, the installation was under process.

The DAC in its meeting held in January, 2015 directed the management to provide relevant record in support of installed capacitors for verification within a week and install the remaining capacitors within 15 days. Further progress was not reported till finalization of the report.

Audit emphasizes expeditious installation of healthy capacitors besides fixing responsibility for the loss.

(DP No. 303 & 573/2014-15)

14.3.17 Irregular approval of LT proposals under system augmentation program – Rs 158.43 million

As per Distribution Rehabilitation Guidelines, such LT proposals should be executed, which give maximum technical as well as financial benefits. The required cost/benefit ratio for LT proposals is equal or more than one.

In Construction Circle LESCO, 118 LT proposals under System Augmentation Program (SAP) valuing Rs 158.43 million were approved by CEO which was carrying ≤ 1 cost benefit ratio. These proposals were not financially viable i.e. with less envisaged benefits than the expenditure. Non-adherence to planning procedures resulted in irregular expenditure of Rs 158.43 million during the financial year 2013-14.

The matter was taken up with the management and reported to the Ministry in December, 2014. The management stated that detailed reply would be submitted in due course of time.

The DAC in its meeting held in January, 2015 directed the management to provide revised reply along with justification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 634/2014-15)

14.3.18 Unjustified credit adjustment of wrong billing – Rs 50.40 million

According to Para-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 Northern LESCO, 2.92 million electricity units amounting to Rs 50.40 million were credited to 291 consumers as a result of redressing the consumer complaints regarding excess / wrong billing. Poor financial management resulted unjustified credit adjustment of wrong billing amounting to Rs 50.40 million during the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management stated that detailed reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to furnish detailed reply along with justification within one week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 475/2014-15)

14.3.19 Loss due to non-finalization of insurance claims – Rs 39.30 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 GSO Circle LESCO, 207 electrical equipment valuing Rs 39.30 million were damaged from April, 2010 to June, 2014. Insurance claims of damaged material were registered with Director General Insurance but were not finalized and kept pending since long. Non-adherence to WEPS Policy resulted in loss of Rs 39.30 million due to non-finalization of insurance claims during the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in December, 2014. The management replied that 80 insurance claims had been finalized and balance 127 was under process with D.G. Insurance WAPDA.

The DAC in its meeting held in January, 2015 directed the management to provide relevant record of finalized claims for verification within 15 days and pursue the remaining insurance claims vigorously. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 394/2014-15)

14.3.20 Incomplete works due to misappropriation/non-installation of poles by contractors – Rs 29.88 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 Construction Circle LESCO, five works amounting to Rs 29.88 million were pending for completion due to misappropriation and non-installation of poles by the contractors. No appropriate actions were taken to make good the loss. Non-adherence to WAPDA's guidelines resulted in loss of Rs 29.88 million due to misappropriation/non-installation of poles during the financial year 2013-14.

The matter was taken up with the management and reported to the Ministry in December, 2014. The management replied that out of five works, the contractor had completed one work whereas remaining works were under process due to right of way problem. The departmental reply was not acceptable because the management failed to foresee the right of way problem at the planning stage.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record for verification in respect of completed work and pursue the completion of remaining works. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 609/2014-15)

14.3.21 Loss due to unjustified refund of liquidated damages - Rs 21.45 million

As per Clause-12 (i to viii) of the purchase order, the penalty/liquidated damages can only be waived off if the event occurs due to act of God, act of state, war, strikes, injunctions granted by the court and port delays and the supplier must give the notice of 14 days happening the such event.

In PMU LESCO, an amount of Rs 21.45 million was deducted from the claims of three suppliers on account of LD due to late delivery of material. Subsequently, this amount was released to the firms during September, December 2013, and April, 2014 without proper justification. Non-adherence to purchase order clauses resulted in loss of Rs 21.45 million due to unjustified refund of liquidated damages during the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that extension of time was granted to the suppliers after approval from the competent authority as the delay was not on the part of suppliers. Moreover, the refund was made out of own sources as the ADB loan was expired. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to conduct a fact finding inquiry and furnish its report to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 498/2014-15)

14.3.22 Loss of revenue due to transmission losses beyond NEPRA target Rs 16.18 million

NEPRA determined maximum permissible limit for transmission losses of LESCO as 3% for the year 2013-14.

In GSO Circle LESCO, transmission losses of nine power transformers were ranged from 3.51% to 9.72% in excess of the permissible limit of 3% which entailed a loss of 1.35 million units costing Rs 16.18 million due to excessive line losses. Non-adherence to NEPRA target resulted in transmission losses of Rs 16.18 million beyond permissible limit during the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in December, 2014. The management replied that a metering committee had been constituted to probe into the charging of energy units beyond permissible limit and energy units would be charged after receipt of its recommendation.

The DAC in its meeting held in January, 2015 directed the management to expedite the inquiry proceedings and submit its report to Audit within one month. Further progress was not reported till finalization of the report.

Audit recommends that management needs to reduce the losses and take appropriate action against the persons at fault.

(DP No. 497/2014-15)

14.3.23 Loss due to dishonor of cheque – Rs 12.63 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 Circle Kasur LESCO, M/s Lahore Spinning Mills Limited provided a cheque amounting to Rs 12.63 million against payment of electricity bill but the same was dishonored by bank. No any action was taken to recover the amount i.e. disconnection of connection and legal proceedings against the consumer. Non-adherence to WAPDA's guidelines resulted in loss of Rs 12.63 million due to dishonor of cheque during the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in December, 2014. The management replied that FIR had been lodged against the owner of the factory.

The DAC in its meeting held in January, 2015 directed the management to conduct inquiry for fixing responsibility within 15 days and initiate legal action against the consumer. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 304/2014-15)

14.3.24 Unjustified expenditure on engagement of legal consultant Rs 7.09 million

According to Rule-21 of PPRA Rules, 2004, the procuring agencies shall engage in open competitive bidding.

In LESCO, an amount of Rs 7.09 million was paid to M/s Cornelius Lane & Legal Advisors hired without open competition for defending the legal cases lodged in courts of law by different consumers against the Company. In the presence of a legal fleet of lawyers and legal director hired from market, the expenditure of Rs 7.09 million incurred during the financial year 2013-14 on hiring of another consultant was un-justified.

The matter was taken up with management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the legal consultant was hired to file writ petitions against recovery of FPA. The consultant was hired by adopting quotation method of procurement in emergency with the approval of BoD. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to provide revised reply along with reasons of hiring of legal consultant in the presence of LESCO Legal Directorate within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 603/2014-15)

CHAPTER-15

MULTAN ELECTRIC POWER COMPANY LIMITED (MEPCO)

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 Financial Overview

Monthly accounts (Trial Balance and other management information schedules) from eighty seven (87) accounting units were sent to Finance Director MEPCO where these accounts were consolidated and financial statements including Balance Sheet, Profit & Loss Account and Cash flow statements were prepared.

The financial results along with the financial ratios are as under:

15.2.1 Extracts of the Financial Statements[1]

Balance Sheet as at June 30, 2014

(Rs in million)

	2013-14	%	2012-13	%	2011-12
Equity and Liabilities					
Issued, subscribed and paid up share capital	10,823.64	-	10,823.64	-	10,823.64
Share deposit money	32,508.45		-		-
Accumulated loss	(22,379.07)	(26.82)	(30,581.45)	(22.35)	(39,381.65)
	20,953.02	(206.05)	(19,757.81)	(30.82)	(28,558.02)
Deferred credit	38,396.21	6.49	36,057.37	10.49	32,634.14
Non-current liabilities					

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

Long term loans	6,240.38	7.07	5,828.49	44.48	4,034.06
Employees' retirement benefits	24,100.44	18.24	20,382.24	31.16	15,540.07
Consumers' security deposits	5,262.15	14.95	4,577.69	14.57	3,995.37
Receipt against Deposit works/Connections	13,255.78	(2.49)	13,593.63	2.27	13,292.33
	48,858.75	10.09	44,382.04	20.40	36,861.82
Current liabilities					
Creditors, accrued and other liabilities	53,182.69	(37.19)	84,674.03	13.18	74,811.76
Accrued Markup	2,704.13	35.05	2,002.31	91.10	1,047.79
Current Portion of Long-term liabilities	1,329.32	44.74	918.39	88.38	487.53
	57,216.14	(34.68)	87,594.73	14.73	76,347.09
Total Equity and Liabilities	**165,424.13**	**11.56**	**148,276.33**	**26.42**	**117,285.03**
ASSETS					
Non-current assets					
Operating fixed assets	60,389.57	9.87	54,966.15	14.82	47,873.28
Capital work-in-progress	8,404.31	(8.20)	9,155.02	8.02	8,475.66
	68,793.88	7.29	64,121.18	13.79	56,348.93
Long term advances	50.89	43.36	35.50	(1.81)	36.15
Long term deposits	0.05	-	0.05	-	0.05
	68,844.82	7.31	64,156.72	13.78	56,385.13
Current assets					
Stores and spares	4,229.38	(3.28)	4,372.74	23.67	3,535.69
Trade debts	20,232.40	25.74	16,091.27	(11.06)	18,091.58
Loans, advances, deposits, prepayments and other receivables	65,590.68	10.91	59,136.07	72.08	34,365.25
Cash and bank balances	6,526.85	44.41	4,519.52	(7.90)	4,907.37
	96,579.30	14.81	84,119.60	38.13	60,899.89
Total Assets	**165,424.13**	**11.56**	**148,276.33**	**26.42**	**117,285.03**

Profit and Loss Account
For the Period ended June 30, 2014

	2013-14	%	2012-13
Electricity Sales-net	169,133.70	20.60	140,240.10
Cost of Electricity	146,298.37	23.69	118,276.57
Gross Profit / (Loss)	22,835.33	3.97	21,963.53
Amortization of deferred credit	1,735.34	10.03	1,577.15
Operating expenses excluding depreciation	14,228.45	26.44	11,253.49
Depreciation on operating fixed Assets	2,834.57	13.20	2,504.01
Other Income	3,072.80	23.33	2,491.57
Financial Charges	643.34	64.86	390.23
Profit / Loss for the Year	9,937.12	(16.39)	11,884.52

15.2.2 Comments on Audited Accounts

i) Non-Recognition of supplemental charges of Rs 9,600 million

The Company has not been able to record supplemental charges of Rs 9,600 million from the year 2009. These are charged by Central Power Purchase Agency (CPPA). Had these supplemental charges been charged, it would have enhanced the expenditures and decrease current year profit by Rs 9,600 million. Similarly, accumulated loss would have also increased by a substantial figure of Rs 9,600 million at the balance sheet date. It means that current figure of accumulated loss of Rs 22,379.06 million was understated by an amount of Rs 9,600 million. Non recognition of these supplemental charges needed justification.

ii) Non-Recognition of Debit note of Rs 6,095 million of mark up paid by CPPA

The Company received Debit notes aggregating of Rs 6,095 million (2013: Rs 2,335 million) issued by Central Power Purchasing Agency (CPPA) against syndicated mark up payments for financing agreements executed between Power Holding (Pvt) Limited "PHPL" and Government of Pakistan for the purposes of repayment of liabilities of DISCOs against cost of electricity purchased. Company has not yet recognized the impact of said Debit notes/arrangements in its books of accounts. Had these supplemental charges been recognized, it would have increase the expenditure and decrease profit by Rs 6095 million. Non-recognition of these charges ultimately overstated the profit and understated the accumulated losses by an amount of Rs 6,095 million which needed justification.

iii) High increase in the Administrative and Distribution Expenses during the year

There was an increase of 26.44% in administrative and distribution expenses which increased from Rs 11,253.49 million to Rs 14,228.45 million over the previous year which was mainly attributed to a high increase in the advertisement and publicity, provision against doubtful debts and other charges. Expenditure against advertising & publicity increased by 83.11% i.e. from Rs 6.88 million to Rs 12.61million during the year. Other charges were also increased by 243.44% during the year i.e. from Rs 70.73 million to Rs 242.95 million.

Substantial increase in the above expenses needs to be justified along with details by the management.

iv) Receivable

The total receivables increased to Rs 85,823.08 million (2013 : Rs 75,227.34 million) which included trade debts of Rs 20,232.40 million, Rs 37,249.25 million from Government of Pakistan against subsidy and

Rs 16,563.46 million of general sales tax from Federal Board of Revenue (FBR). Resultantly, the debtors' turnover period also increased to 44 days (2012-13: 42 days). Trade debts included Rs 2,380.55 million that were due from more than three years. Non-recovery of amounts due since long needs to be justified.

v) Increase in Provision for doubtful debts

There was an increase of 501% in provision against debts considered doubtful as compared to last year i.e. from Rs 294.71 million to Rs 1,773.28 million which needed justification.

15.2.3 Profitability

i) Gross profit

During the financial year 2013-14, electricity sales of the Company increased to Rs 169,133.70 million with an increase of Rs 28,8936.60 million i.e. 20.60% over the previous year (2012-13 : Rs 140,240.10 million). On the other hand cost of electricity increased by 23.69% i.e. Rs 146,298.37 million during the year (2012-13: Rs 118, 276.57 million).

Gross Profit ratio slightly decreased over the previous year i.e. from 15.66% to 13.50% for the financial year 2013-14.

ii) Net Profit Ratio

The Net Profit ratio of the Company decreased from 8.47% in 2012-13 to 5.88% in 2013-14.The Company earned net profit of Rs 9,937.12 million during the year which reduced accumulated losses of the Company from Rs 30,581.45 million to Rs 22,379.07 million during the current year.

iii) Return on total assets

The return on total assets decreased to 9.78% from 20.23% during the financial year 2013-14.

The Company invested Rs 7,507.27 million on the fixed assets mainly on distribution equipment 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 6,5126.84 million.

15.2.4 Recommendations:

In view of the forgoing, it was recommended that the Company needs to record supplemental charges and debit notes issued by Central Power Purchase

Agency (CPPA) in the accounts of the Company. The Company needs have strict control over administrative and distribution expenses and may revamp its organizational structure and address operational issues to maintain and increase profitability.

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

The distribution losses, being the major cause of losses is required to be addressed at higher level to remain within the target notified by National Electric Power Regulatory Authority (NEPRA).

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.

15.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
MEPCO	1998-99	1	-	-	1 (Para No. 28)

Position of compliance with PAC directives is not satisfactory.

15.4 AUDIT PARAS

15.4.1 Loss due to missing of costly parts of power transformers Rs 7.60 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 GSO Sahiwal MEPCO, two power transformers of 5 MVA and 10/13 MVA were dismantled since long and were lying at grid stations. As a result of detail checking/surveying of these transformers in August, 2014, S.E. GSO Circle Sahiwal pointed out that costly parts of these transformers were missing / stolen. Non-adherence to WAPDA's guidelines resulted in loss of Rs 7.60 million due to missing of costly parts of power transformers up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that the parts were not missing as the same were erected on other sites. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to constitute the inquiry committee to probe into the matter for abnormal delay in non-disposal of power transformers within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 515/2014-15)

15.4.2 Recoverable amount of tariff subsidy from federal government Rs 37,718.91 million

According to Para-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 MEPCO, an amount of Rs 37,718.91 million was recoverable from the Government of Pakistan on account of subsidy for tariff differential, monthly fuel price adjustments and tube-wells subsidy. Non-recovery of long outstanding dues was a recurring loss to the company which was required to be recovered to enable the company to overcome its financial crises. Non-adherence to commercial procedure resulted in non-recovery of subsidy amounting to Rs 37,718.91 million up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the subsidy claims were being submitted to the Ministry of Water and Power each month. The Finance Division (GoP) released the funds against subsidy claims from time to time on availability of funds.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 323/2014-15)

15.4.3 Recoverable amount of GST subsidy of agricultural consumers from Punjab Government – Rs 3,488.24 million

According to Para-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 MEPCO, an amount of Rs 3,488.24 million was recoverable from the Government of Punjab on account of GST subsidy of agricultural consumers since July, 2013. Non-recovery of outstanding dues was a recurring loss to the company which was required to be recovered to enable the company to overcome its financial crises. Non-adherence to commercial procedure resulted in non-recovery of GST subsidy of agricultural consumers amounting to Rs 3,488.24 million up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the subsidy claims of GST were submitted to Finance Division, Govt. of Punjab but the Provincial Govt. refused to pay the amount of subsidy of GST. The matter had also been brought to the knowledge of PEPCO and Ministry of Water and Power.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 324/2014-15)

15.4.4 Recoverable amount of tube-well subsidy from Punjab Government Rs 2,831.32 million

According to decision taken by the cabinet in its meeting dated June 9, 2007, 25% subsidy on electricity charges on the use of agricultural tube-wells approved to boost agricultural production. The cost will be shared equally between Federal and provincial Governments.

In MEPCO an amount of Rs 2,831.32 million was recoverable from the Government of Punjab on account of 12.5% share of tube-wells subsidy as on June, 2014. Non-recovery of long outstanding dues was a recurring loss to the company which was required to be recovered to enable the company to overcome its financial crises. Non-adherence to Authority's instructions resulted in non-recovery of tube-well subsidy amounting to Rs 2,831.32 million up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the claims of 12.5% of tube-well subsidy were submitted to Finance Division, Govt. of Punjab but the Provincial Govt. refused to pay the amount of subsidy. The matter had also been brought to the knowledge of PEPCO and Ministry of Water and Power.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. The DAC also directed to adjust this amount against ED payable to provincial government within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 352/2014-15)

15.4.5 Non-adjustment of subsidy claims against bad debts – Rs 9.34 million

International Accounting Standard (IAS-1.15) requires that the financial statements should present fairly the financial position, financial performance and cash flows of an entity. Fair presentation required the faithful representation of effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in framework.

In MEPCO, an amount of Rs 25.95 million was written-off against bad debts during July, 2009 to June, 2012. An amount of Rs 9.34 million was required to be adjusted in claims for tariff differential subsidy but the same was not done. Non-adherence to IAS resulted in non-adjustment of subsidy claims against bad debts amounting to Rs 9.34 million up to the financial year 2013-14.

The matter was taken up with the management in January, 2014 and reported to the Ministry in January, 2015. The management replied that the TDS claims were based on units sold in the month of claims and written off balances pertain to receivables of prior periods of dead defaulters and have no relevance with TDS claim units. However, the matter would be referred to Ministry for seeking clarification.

The DAC up held the Audit point of view regarding adjustment of amount under observation in its meeting held in January, 2015 and directed to take up the matter with Ministry of Water and Power for further clarification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 654/2014-15)

15.4.6 Blockage of funds due to un-necessary purchase of electrical material Rs 197.57 million

According to Para-5 of memorandum dated January 17, 1978, relating to irregularities in purchases of stores equipments, the material is required to be purchased keeping in view its maximum utilization in near future.

In MEPCO, electrical material worth Rs 197.57 million was classified as slow-moving / in-active and was lying in the stores since 1991 un-issued. This scenario indicated that the material in question was procured without forecasting/assessing the actual demand. Non-adherence to Authority's instructions resulted in blockage of funds amounting to Rs 197.57 million due to un-necessary purchase of electrical material up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that disposal process of Rs 112.40 million had been completed whereas disposal process of remaining material was under process.

The DAC in its meeting held in January, 2015 directed the management to produce the record in respect of completed action and finalized the pending action within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 556/2014-15)

15.4.7 Irregular purchases through repeat orders – Rs 98.48 million

According to Rule-42 (C) (iv) of the PPRA Rules - 2004, repeat order should be given up to 15% of the original procurement.

In MEPCO, electrical material worth Rs 98.48 million was purchased through 25% repeat orders during January 2014. These variation / repeat orders were issued by enhancing the quantities by 25% of the original purchase orders. The quantities of the variation / repeat orders exceeded the limit of 15%. Violation of provisions of PPRA rules resulted in irregular procurement of electrical material through repeat orders of Rs 98.48 million during the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that the repeat orders were placed to expeditious replacement of sluggish meters with the approval of competent authority. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to investigate the matter through inquiry committee for fixing responsibilities within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 486/2014-15)

15.4.8 Loss due to supply of substandard material – Rs 3.57 million

According to Clause-11(iii) (Inspection & Rejection) of the purchase orders, if the stores are rejected as aforesaid, then without prejudice to the right of the purchaser you may submit stores in replacement of those rejected. By re-submission will not mean extension of delivery period.

In MEPCO, a purchase order for supply of 5,000 steel cross arms with braces was placed upon M/s Sherwani Engineering on April 01, 2008. The firm supplied 3,000 cross arms with braces on July 28, 2009 and remaining 2,000 on November 05, 2009. Out of supply of 2,000 steel cross arms, 1,418 steel cross arms valuing Rs 3.57 million were found defective and the same had not been replaced by the firm. Non-adherence to the purchase order clause resulted in loss of Rs 3.57 million due to non-replacement of rejected material up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that final notice for replacement of material was served to supplier.

The DAC in its meeting held in January, 2015 directed the management to conduct inquiry and fix responsibility within 15 days. DAC also directed to initiate case for black-listing the supplier. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 485/2014-15)

15.4.9 Non-recovery of fixed charges and equalization charges from consumers – Rs 28.32 million

According to Para-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 Muzaffargarh MEPCO, an amount of Rs 28.32 million was not recovered from six industrial consumers under tariff B-3 and B-4 on account of fixed charges and equalization surcharge. Non-adherence to commercial procedure resulted in undue favour to the consumers of Rs 28.32 million due to non-recovery of fixed charges and equalization surcharge during the financial year 2013-14.

The matter was taken up with management in September, 2014 and reported to the Ministry in December, 2014. The management replied that all the cases were subjudice.

The DAC in its meeting held in January, 2015 directed the management to pursue the cases vigorously. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 417/2014-15)

15.4.10 Loss due to non-recovery of pay & allowances and cost of free electricity from MEP – Rs 19.50 million

According to Clause-1 of the contract agreement signed between MEPCO and the Mineral Exploration Project (MEP) for maintenance of grid station, the MEP will pay the pay & allowances, TA/DA and off day wages of grid station/line staff according to the MEPCO rules except bonuses announced by WAPDA and Federal government. As per Clause-2 of the contract agreement, the MEP is liable to pay and will provide rent free accommodation, free water supply and authorized electricity to the extent permissible as per MEPCO/WAPDA rules & policy.

In GSO Circle MEPCO Multan, free electricity charges of Rs 13.82 million and pay & allowances of Rs 5.68 million were not recovered from MEP as required under the contract. Non-implementation of contract provisions resulted in loss of Rs 19.50 million due to non-recovery of pay & allowances and cost of free electricity from MEP up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that the Audit has taken the amount on average basis whereas actual amount came to Rs 2.23 million. Out of which an amount of Rs 1.93 million had been recovered. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to reconcile the amount of para and produce recovery record within 15 days and conduct fact finding inquiry within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 516/2014-15)

15.4.11 Non-recovery of detection charges from consumer – Rs 3.72 million

According to Para-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 Vehari MEPCO, 0.21 million units amounting to Rs 6.24 million were detected due to discrepancies i.e. slowness of meters, running direct, meter stop as pointed out by the formations concerned. FIRs were lodged in various police stations by the concerned SDO. Out of total amount Rs 6.24 million, only Rs 2.52 million was recovered from the consumers leaving a balance of Rs 3.72 million. Non-adherence to commercial operating procedures resulted in non-recovery of detection charges amounting to Rs 3.72 million during the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that an amount of Rs 2.43 million had been recovered and efforts were being made to recover the balance amount.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification within a week and expedite the balance recovery. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 506/2014-15)

15.4.12 Loss due to bogus adjustment notes – Rs 2.28 million

According to Clause-1.7 of the WAPDA Commercial Procedure, all adjustments to bills and corrections of ledger postings are scrutinized by the Commercial Superintendent. As per note to (Clause-1.10) of the WAPDA commercial procedure, by exercising vigilance, Revenue Officer will ensure that (CP-Form-75) are invariably kept up to date and complete in all respects.

In Operation Circle Bahawalnagar MEPCO, bogus adjustment notes (CP-52) valuing Rs 2.28 million were entered in the Revenue Office but no adjustment were made in CP-75. A formal inquiry against the Revenue Officer for feeding bogus adjustment notes was initiated on April 03, 2014 but the report of the inquiry committee was awaited. Non-adherence to commercial procedure resulted in loss of Rs 2.28 million due to bogus adjustment notes during the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in November, 2014. The management replied that the amount had been recovered and disciplinary action finalized against 13 officers/officials involved in bogus adjustment.

The DAC in its meeting held in January, 2015 directed the management to impose major penalties on culprits and provide recovery record for verification within 15 days. The DAC also directed to conduct 100% special audit of adjustment notes through Internal Audit. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 162/2014-15)

15.4.13 Undue generation of revenue through over billing – Rs 106.37 million

According to Para-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 MEPCO, percentage of energy losses of thirty feeders was in negative during the financial year 2013-14. The negative losses revealed that the units billed were in excess of those received which was an indication of over billing of 9.11 million units to various consumers. This generated undue revenue of Rs 106.37 million. Non-adherence to commercial procedure resulted in over billing of Rs 106.37 million to the consumers during the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that negative line losses on feeders were due to (i) difference in date of reading cycle, (ii) non-allotment of coding to the feeders, (iii) shifting of units on self generation, (iv) dual source of supply, (v) disconnection and re-connection. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to carry out analysis of ten feeders of high losses in order to determine the percentage actual energy losses and submit report within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 518/2014-15)

15.4.14 Loss due to consumption of auxiliary units in defunct power house Rs 18.27 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 GSO Circle MEPCO, 1.83 million units valuing Rs 18.27 million were shown consumed at 132 KV Grid Station MESCO Multan on auxiliary feeder of MESCO Power House which was declared as defunct vide decision of the

Authority dated December 20, 2012. The consumption of 1.83 million units on defunct power house was loss to the Company. Non-adherence to WAPDA's guidelines resulted in loss of Rs 18.27 million due to consumption of auxiliary units in defunct power house up to the financial year 2013-14.

The matter was taken up with management in September, 2014 and reported to the Ministry in December, 2014. The management replied that the matter was inquired through inquiry committee who decided to raise a debit of total units consumed to TPS Authority. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to recover the amount from TPS Authority after raising debit advice within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 480/2014-15)

15.4.15 Non-recovery of house rent deductions from M.S WAPDA Hospital Rs 10.78 million

As per clarification issued by Director Finance (Regulation), WAPDA on 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 MEPCO, thirteen officers/officials working under M.S WAPDA Hospital Multan were residing in MEPCO Colony, Multan since November, 1986 to April, 2013. Neither the house rent amounting to Rs 10.78 million was recovered from the concerned formation nor standard rent recovered as required under the rules. Non-adherence to rules resulted in non-recovery of house rent of Rs 10.78 million up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that amount of house rent deduction would be calculated on actual basis and be recovered from concerned quarter.

The DAC in its meeting held in January, 2015 directed the management to reconcile the amount and effect recovery within a month and devise recovery plan from the concerned quarter. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 482/2014-15)

15.4.16 Unauthentic payment of crops compensation claims – Rs 7.79 million

As per Clause-213 (5) of GFR, advances made for public expenditure will be held under objection until a detailed account duly supported by vouchers is furnished in adjustment of them.

In GSC Circle MEPCO, an amount of Rs 7.79 was paid to the Divisions for making payment of crop compensation from January to June, 2014. In the absence of following documents, the authenticity of payment of crops compensation amounting to Rs 7.79 million could not be verified.

i) Proof of ownership of land
ii) Copy of CNIC of landowners
iii) Rates of crops determined by market committee/revenue department
iv) Acknowledgement of payment of crop compensation made to the farmers

Non-adherence to rules resulted in unauthentic payment of crops compensation claims of Rs 7.79 million during the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that as per practice, the payments were made in the presence of cheque disbursing committee and it was not possible to collect and maintain all the record as pointed out by Audit. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry to authenticate the payments within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 355/2014-15)

15.4.17 Loss due to missing of HT/LT windings & oil of damaged transformers – Rs 4.65 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 Circle Bahawalpur, MEPCO, the HT/LT windings and oil of damaged transformers valuing Rs 4.65 million was found missing during inspection. Neither any departmental inquiry was conducted nor action taken against responsible. Non-adherence to WAPDA’s guidelines resulted in loss of Rs 4.65 million due to missing of HT/LT windings and oil of damaged transformers up to the financial year 2013-14.

The matter was taken up with the management in July, 2014 and reported to the Ministry in September, 2014. The management replied that actual amount of para was Rs 1.78 million instead of Rs 4.65 million. However, an inquiry committee had been constituted on November 27, 2014 whose proceedings were under way.

The DAC in its meeting held in January, 2015 directed the management to produce the record for verification/reconciliation and finalize the inquiry within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC’s directives besides fixing the responsibility.

(DP No. 28/2014-15)

15.4.18 Non-encashment of performance bonds – Rs 4.24 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/transformer oil from December 2013 to March 2014. The suppliers could not supply the material within the stipulated period. Neither the purchase orders were cancelled at the risk and cost of the suppliers nor surety/performance bonds worth Rs 4.24 million encashed. Non-adherence to contract clause resulted in non-forfeiture of performance bonds of Rs 4.24 million up to the financial year 2013-14.

The matter was taken up with the management in November, 2014 and reported to the Ministry in December, 2014. The management replied that in one case, supply had been completed by the firm whereas encashment of performance bonds of remaining five firms were under process.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record for completed action and complete pending actions i.e. encashment of performance bonds within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 484/2014-15)

CHAPTER-16

PESHAWAR ELECTRIC SUPPLY COMPANY LIMITED (PESCO)

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 Comments on Financial Statements

16.2.1 Financial Overview

Monthly accounts (Trial Balance and other management information schedules) from 70 accounting units are sent to Finance Director, PESCO, where these accounts are consolidated and financial statements including Balance Sheet, Profit and Loss Account and Cash flow statements are prepared. 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 within the time frame stipulated in the Companies Ordinance, 1984. Non compliance with the relevant provisions of Companies Ordinance, 1984 reflect the inefficiency on part of management and needed justification. The following comments analysis was prepared on the approved financial statement of 2012-13.

16.2.2 Extracts of the Financial Statements[2]
Balance Sheet as at June 30, 2014

(Rs in million)

Equity and Liabilities					
Share capital and reserves	**2013-14**	**%**	**2012-13**	**%**	**2011-12**
Deposits for issue of share capital	18,082.03	-	18,082.03	-	18,082.03
Grant in Aid(Subsidy)	43,221.66		-		-
Accumulated losses	(208,340.60)	26.14	(165,172.42)	25.10	(132,036.52)
	(147,036.90)	(0.04)	(147,090.38)	29.08	(113,954.49)
Non-current liabilities					
Liabilities against Govt investment	82,145.41	-	-	-	-
Long term loan secured	57,008.77	35.42	42,096.25	1,614.67	2,455.07
staff retirement benefits	28,098.01	46.04	19,240.60	16.46	16,521.19
Deferred credit	18,640.13	20.54	15,463.89	4.64	14,777.89
	185,892.32	142.04	76,800.74	127.53	33,754.16
Current liabilities					
Trade and other payables	110,689.32	(48.13)	213,402.97	(0.20)	213,824.78
Accrued Markup	4,212.94	95.48	2,155.23	371.39	457.21
Current portion of long term loans	14,530.74	1,463.56	929.34	178.98	333.12
	129,433.00	(40.21)	216,487.53	0.87	214,615.10
Total Equity and Liabilities	168,288.42	15.11	146,197.89	8.77	134,414.77
Assets					
Non-current assets					
Property, Plant and Equipment	44,201.49	10.78	39,901.82	13.58	35,131.61
Long term loans	77.65	(38.50)	126.26	(21.74)	161.33
	44,279.14	10.62	40,028.08	13.42	35,292.94
Current assets					
Stores and spares	3,704.63	12.51	3,292.83	8.42	3,036.98
Trade debts	37,316.02	26.10	29,592.52	19.49	24,766.06
Loans and Advances	286.04	(32.11)	421.36	16.58	361.44
Interest accrued	-	(100.00)	5.68	(83.97)	35.42
Other receivables	65,597.60	16.87	56,128.28	22.85	45,689.00
Receivables from Government	14,801.41	(8.06)	16,099.72	(31.10)	23,367.37
Cash and bank balances	2,303.57	265.98	629.42	(66.26)	1,865.57
	124,009.28	16.80	106,169.81	7.11	99,121.84
Total Assets	168,288.42	15.11	146,197.89	8.77	134,414.77

Profit and Loss Account
For the Period ended 30, June 2014

	2013-14	**% Inc/ (Dec)**	**2012-13**
Revenue			
Electricity sale	69,628.47	15.76	60,151.51
Subsidy from Government	37,636.40	2.20	36,825.69
	107,264.88	10.61	**96,977.20**
Cost of electricity	118,565.46	9.85	107,936.47

[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/(Loss)	(11,300.59)	3.11	(10,959.27)
Amortization of deferred credit	879.20	19.25	737.26
Other operating cost (excluding depreciation)	16,767.32	(4.90)	17,630.96
Depreciation on operating fixed assets	1,773.26	13.99	1,555.57
	18,540.57	(3.37)	19,186.53
Operating loss	(28,961.96)	(1.52)	(29,408.54)
Other income	3,385.62	4.98	3,225.15
	(25,576.33)	(2.32)	(26,183.39)
Financial and other charges	8,869.43	38.98	6,381.90
Profit/(Loss) for the year after tax	**(34,445.76)**	5.77	**(32,565.28)**

16.2.3 Comments on Audited Accounts

i) Non-recognition of supplemental charges

The Company has not been able to record supplemental charges of Rs 25,630.00 Million from the year 2010. These were charged by Central Power Purchases Agency (CPPA) and this included Rs 9,640 million for year under review. Had these supplemental charges been charged it would have enhanced the expenditure and current year loss by Rs 9,640 million. Similarly accumulated loss would have too increased by a substantial figure of Rs 25,630 million at the balance sheet date. It means that current figure of accumulated loss of Rs 208, 340.60 million is understated by an amount of Rs 25,630 million Non-recognition of these charges needed justification.

ii) Sales and Cost of sales

The sales of the Company increased to Rs 107,264.87 million including the subsidy of Rs 37,636.40 million from government whereas cost of sales of Company was Rs 118,565.46 million. It means that the Company is unable to even bill the electricity it purchased from CPPA due to high percentage of line losses of 33.5% during the year (2013: 34.2%). Ultimately the Company remained unable to collect enough revenue to recover its cost of electricity purchased from CPPA which needed justification.

iii) Profitability

The Company suffered a net loss of Rs 34,403.60 million during the current year. Total accumulated losses have reached to the tune of Rs 208,340.60 million. The Company was suffering consistent losses over the years which reflected inefficiency and mismanagement of the affairs of the Company and needed justification.

iv) Trade Debts and other Receivable

Total receivable of the Company increased to Rs 117,715.04 million (2013 : Rs 101,820.52 million) with an increase of Rs 15, 894.52 million during the current year, including Rs 14,801.41 million receivable from Government of Pakistan, Rs 28,144.12 million from Tribal Electric Supply Company (TESCO) and Rs 74,769.50 million were other miscellaneous receivable. Substantial increase in the amount of receivables depicts the poor recovery efforts of the Company which needed justification.

v) Payables

Delays in collection from debtors have trickledown effects on the creditors which resulted into the piling up of payables to the tune of Rs 129,433 million during the current year, out of Rs 93,293.03 million was payable to the Central Power Purchase Agency (CPPA) as cost of electricity purchased. The increase in accounts payable indicated continuing cash flow shortage resulted in persistent working capital financing problems for the Company. It showed that the Company was unable to pay off its cost of electricity purchased. Poor management of payables needed justification.

vi) Receivable of Rs 8,604 million from Government of Azad Jammu & Kashmir

The Company remained unable to recover receivable from Government of Azad Jammu & Kashmir amounting to Rs 8,604 million for the current year and previous years in spite of efforts. As per opinion of the Commercial Auditors, the Company should have recorded impairment against receivable balance. If the above mentioned impairment had been recorded, accumulated loss would have increased to Rs 8,604 million. Non-recovery of this amount needed justification.

vii) Long term Financing

The carrying amount of Long term loans increased to Rs 57,008.77 million with an increase of Rs 14,912.52 million at the balance sheet date (35.42%) during the current financial year. The company charged an amount of Rs 8,869.43 million as financial charges in the profit and loss account during the current year (2013: Rs 6,381.90 million) an increase of

38.98% was shown in the financial expenses. It was worth mentioning that during the year under review, the Company received Rs 28,521 million as proceeds from long term loan, Rs 43,221 million Grant in Aid and Rs 82,145 million as GoP Investment against circular debt. The Company is relying on expensive financing to run its operations which ultimately accumulating the losses of the Company and its liabilities.

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

16.2.4 Recommendations

In view of the forgoing, it was recommended that Company needed to record supplemental charges and debit notes issued by Central Power Purchase Agency (CPPA) in the accounts of the Company. The line losses and poor recovery being the major cause of losses is required to be addressed at higher level. There is a dire need to develop a policy to address the gap between sales revenue and cost of sales.

The issue of huge receivables from Government of Pakistan, Tribal Area Electric Supply Company (TESCO) and Government of Azad Jammu & Kashmir and private consumers should be recovered by making concrete arrangements to recover receivables from long outstanding defaulters. Efforts needs to be made in order to payoff heavy payables of the Company to ease liabilities of the Company.

Reliance on funding from Government of Pakistan needs be decreased by improving operational efficiency. 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.

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.

16.3 AUDIT PARAS

16.3.1 Blockage of revenue due to non-recovery of tariff difference from AJ&K Government – Rs 8,604 million

According to Clause-5.2(a & b) of the agreement between GoP, AJ&K and WAPDA, the future tariff beyond 2003 for AJ&K shall be fixed by GoP on the recommendation of Standing Sub Committee notified by Ministry of Kashmir

Affairs. Accordingly this sub committee recommended Rs 2.59 per unit with effect from December, 2003 but the same was not implemented. This issue of power supply tariff again arose in February 2007 due to issuance of NEPRA tariff notification. Successive meeting of Standing Sub Committee were held to resolve the issue. Finally AJ&K cleared all the WAPDA claims at the prevailing rate of Rs 2.59 per unit but denied the application of NEPRA tariff on the context that NEPRA has no legal jurisdiction over AJ&K and cannot fix the tariff for AJ&K.

In PESCO, subsidy claims regarding AJ&K tariff were being calculated/received on the basis of tariff issue by NEPRA and GoP i.e. Schedule-I & II. On the other hand AJ&K was being billed on basis of rate as per agreement narrated above i.e. @ Rs 2.59 per unit instead of Schedule-II, which resulted in accumulation of arrears to the tune of Rs 8,604 million. Poor commercial management resulted in blockage of revenue amounting to Rs 8,604 million due to non-recovery of tariff difference from AJ&K Government up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in January, 2015. The management stated that the detailed reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 651/2014-15)

16.3.2 Recoverable amount of tariff subsidy from AJ&K Government Rs 4,108 million

According to Para-1.3 of Commercial Procedure 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 4,108 million was recoverable from the Government of AJ&K on account of subsidy for tariff differential. Non-recovery of long outstanding dues was a recurring loss to the Company which was required to be recovered to enable the Company to overcome its financial crises. Non-adherence to commercial procedure resulted in non-recovery of subsidy amounting to Rs 4,108 million up to the financial year 2013-14.

The matter was taken up with the management in April, 2014 and reported to the Ministry in January, 2015. The management stated that the detailed reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to work out the latest amount of tariff difference relating to 3 DISCOs and take up the matter with Government of AJK at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 659/2014-15)

16.3.3 Illegitimate subsidy claims on energy units 1,560.39 million billed/ charged to culprits of steeling electricity

Generally subsidy is meant for redressal of the grievances of a legitimate consumer, financially not able enough to pay the cost of electricity he consumed. As such the said facility should not be given to the culprits in steeling of energy.

In PESCO, billing through adjustment for 1,560.39 million units on account of theft was made by the Company. These units were also included in the subsidy claims as adjustment made during the month under each consumer category. The rate applied for the assessment of these units was the subsidized rate as per Schedule-II meant for legitimate consumers. Application of subsidized rate was unjustified and such consumers should be charged as per NEPRA rate, so that the culprits could not avail the benefit of subsidy. Poor financial management resulted in illegitimate subsidy claims on 1,560.39 million energy units up to the financial year 2013-14.

The matter was taken up with the management in April, 2014 and reported to the Ministry in January, 2015. The management stated that the detailed reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 658/2014-15)

16.3.4 Loss due to release of unsettled/deferred amount of subsidy Rs 899.71 million

According to minutes of meeting held on September 9, 2013 in PESCO Headquarter wherein it was advised to reduce heavy adjustment of theft of electricity for claim of subsidy.

In PESCO, an amount of Rs 899.71 million as subsidy claim was withheld/returned unverified by Ministry of Water and Power out of total claim of Rs 10,270.87 million. The said abnormal adjustment was due to massive theft of electricity in KPK. Subsequently, the said withheld amount was verified by the Ministry of Water and Power and forwarded the same to Ministry of Finance for the period from July to December, 2011 with the commitment of PESCO Authority that the theft of electricity would be controlled and billing through adjustment would be decreased from 1 to 2 percent only. Audit was of the view that claim of subsidy on theft of electricity was an extra burden on the tax payers as such claims of subsidy on theft of electricity was not justified. Non-adherence to the withholding of subsidy theft of electricity resulted in undue burden on the public exchequer for Rs 899.71 million.

The matter was taken up with the management in April, 2014 and reported to the Ministry in January, 2015. The management stated that the detailed reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to submit detail of outstanding amount of subsidy after reconciliation between Finance Department and CPPA and to resolve the issue at Ministerial level. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 650/2014-15)

16.3.5 Non-recovery of detection charges – Rs 2,660.86 million

According to Para-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 PESCO, detection bills amounting to Rs 3,723.26 million were charged to the consumers on account of stealing of energy by illegal means. However, only Rs 1,062.40 million was recovered leaving a balance of Rs 2,660.86 million. Non-adherence of commercial procedure resulted in non-recovery of detection charges amounting to Rs 2,660.86 million during the financial year 2013-14.

The matter was taken up with management in July, 2014 and reported to the Ministry in December, 2014. The management replied that 3,752 FIRs had been lodged with police stations against defaulters and an amount of Rs 322.867 million had been recovered from consumers.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification within a week and expedite the recovery of remaining. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 253/2014-15)

16.3.6 Loss of revenue due to theft of energy and non-confiscation of illegally installed material – Rs 83.42 million

As per guidelines for Policy and Procedure on Detection Bills circulated vide letter dated October 26, 1999, whoever found to have connected his installations, appliances and apparatus with the work of license for the purpose of supply of energy without its written consent commits an offence to be prosecuted under section 39 & 39A of Electricity Act 1910 which require an FIR to be lodged with police. Further to compensate the loss sustained on account of theft, assessment bill to be served as per laid down procedures to such illegal and unregistered consumers.

In Operation Circle Bannu, PESCO, 4,787 domestic, tube-well and industrial connections were found using electricity through illegal means (kunda/direct connections) in various villages. Due to these illegal connections energy valuing Rs 79.60 million per month was stolen. Moreover, eleven persons were stealing electricity through direct connections by installing illegal transformers and HT/LT structure valuing Rs 3.82 million. No efforts were made to stop the illegal usage of energy as illegal connections were neither disconnected nor material confiscated and returned to store. Non-adherence to the Detection Procedures resulted in loss of revenue of Rs 83.42 million due to theft of energy and non-confiscation of illegally installed material during the financial year 2013-14.

The matter was taken up with management in July, 2014 and reported to the Ministry in November, 2014. The management stated that the detailed reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to furnish detailed reply after conducting inquiry within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 117/2014-15)

16.3.7 Loss of revenue due to theft of energy through direct hooks Rs 38.86 million

As per guidelines for Policy and Procedure on Detection Bills circulated vide letter dated October 26, 1999, whoever found to connected his installation appliances and apparatus with the work of license for the purpose of supply of energy without its written consent commits an offence to be prosecuted under Sections-39 & 39A of Electricity Act, 1910 which require an FIR to be lodged with police. Further to compensate the loss sustained on account of theft, assessment bill to be served as per laid down procedures to such illegal and unregistered consumers.

In Operation Circles PESCO, various culprits were found using electricity through illegal direct connections and energy valuing Rs 38.86 million was stolen. Neither the FIRs were registered nor recovery made from the persons involved in theft of energy. Non-adherence to the detection procedure resulted in loss of revenue of Rs 38.86 million due to theft of energy through direct hooks during the financial year 2013-14.

The matter was taken up with management from July to August, 2014 and reported to the Ministry in November, 2014. The management replied that all the hooks had been removed and request for lodging of FIRs were made to concerned police authorities which were pursued vigorously.

The DAC in its meeting held in January, 2015 directed the management to conduct inquiry for fixing responsibility and submit its report to Audit within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 113 & 145/2014-15)

16.3.8 Non-recovery from defaulting consumers – Rs 32.31 million

According to Para-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 City PESCO, an amount of Rs 32.31 million was recoverable from thirty four defaulting consumers under different categories for the period ranging from 5 to 50 months. No efforts seemed to have been made for recovery of long outstanding dues. Non-adherence to commercial procedure resulted in non-recovery of Rs 32.31 million from defaulting consumers up to the financial year 2013-14.

The matter was taken up with the management in July, 2014 and reported to the Ministry in November, 2014. The management replied that an amount of Rs 1.60 million had been recovered and hectic efforts were being made to recover the balance amount.

The DAC in its meeting held in January, 2015 directed the management to provide age analysis of outstanding amount and take action against defaulters more than one year within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 109/2014-15)

16.3.9 Loss due to theft of energy by industrial consumers – Rs 25.52 million

As per distribution rehabilitation guidelines issued by the General Manager (Operation) WAPDA, Lahore dated September 24, 2003, the maximum voltage drop and A.E.L (Annual Energy Losses) for H.T circuit (HT feeders) is 3% for rural/urban areas.

In Operation Circle Mardan PESCO, three feeders were exclusively dedicated to industrial units in Gadoon Amazae Industrial Estate (GAIE). The energy losses on these feeders had increased from 4.1 % in 2011-12, 6.0 % in 2012-13 to 7.2% in 2013-14 against the permissible limit of 3%. The increasing trend of energy loss indicated the connivance of field staff in facilitating the theft of energy to industrial consumers. Non-adherence to distribution rehabilitation guidelines resulted in loss of energy valuing Rs 25.52 million due to theft of energy by industrial consumers up to the financial year 2013-14.

The matter was reported to management in September, 2014 and reported to the Ministry in November, 2014. The management replied that three feeders mentioned in the para were not dedicated/independent feeders but these were mixed industrial feeders feeding electric supply to various industries. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 173/2014-15)

16.3.10 Loss of revenue due to non-billing to the consumers Rs 23.18 million

According to Para-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 Bannu, PESCO, eleven connections were installed and energized without preparing Service Connection Orders (SCO) and submitting the same with case files to the concerned Revenue Offices for billing purpose. Hence, company sustained loss of revenue of Rs 23.18 million due to non-billing to the said connections. Non-adherence to commercial procedure resulted in loss of revenue of Rs 23.18 million due to non-billing to the consumers during the financial year 2013-14.

The matter was taken up with the management in July, 2014 and reported to the Ministry in November, 2014. The management stated that the detailed reply was given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry as to why the SCO was not issued well in time and fix the responsibility within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 120/2014-15)

16.3.11 Loss due to non-recovery of cost of independent feeder from consumers – Rs 8.87 million

Tariff B-3 is applicable for supply to industries having sanctioned load of more than 500-KW up to and including 5,000-KW for supply at 11-KV and 33-KV.

In Operation Circle Mardan PESCO, two consumers having sanctioned load under tariff B-2 had illegally extended their load beyond 500 KW. The running load of consumers fell under tariff B-3 which required supply of energy through independent 11 KV feeders to be constructed at the cost of consumer, which was not done. Non-adherence to tariff condition resulted in loss of Rs 8.87 million due to non- recovery of cost of 11 KV feeders during the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in November, 2014. The management replied that an amount of Rs 1.64 million had been recovered from the consumer on account of feeder cost while regularization of the case related to other consumer was under process.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification and complete the pending action within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 144/2014-15)

16.3.12 Loss of revenue due to theft of energy through direct hooks Rs 6.86 million

As per guidelines for Policy and Procedure on Detection Bills circulated vide letter dated October 26, 1999, whoever found to have connected his installations, appliances and apparatus with the work of license for the purpose of supply of energy without its written consent commits an offence to be prosecuted under Sections 39 & 39A of Electricity Act, 1910 which require an FIR to be lodged with police. Further to compensate the loss sustained on account of theft, assessment bill to be served as per laid down procedures to such illegal and unregistered consumers.

In Operation Circle Swat PESCO, forty four culprits were found using electricity through illegal direct connections and energy valuing Rs 6.86 million was stolen. Though the police authorities were approached for lodging FIRs but neither the FIRs were registered nor recovery made from the persons involved in theft of energy. Non-adherence to detection procedure resulted in loss of revenue of Rs 6.86 million due to theft of energy through direct hooks during the financial year 2013-14.

The matter was taken up with management in October, 2014 and reported to the Ministry in November, 2014. The management stated that the detailed reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to furnish detailed reply after conducting inquiry within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expedite administrative as well as legal action against the illegal connections and ensure the recovery of Rs 6.86 million.

(DP No. 202/2014-15)

16.3.13 Non-recovery of outstanding energy dues from the consumers of Afghan refugee camp – Rs 6.74 million

According to Para-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 Khyber Circle PESCO, energy dues amounting to Rs 6.74 million were outstanding against the consumers of Afghan Refugees Camp, Jalozai since long. Resultantly, the Company was deprived of its legitimate revenue of Rs 6.74 million. Non-adherence to the commercial procedure resulted in non-recovery of outstanding energy dues of Rs 6.74 million from the consumers of Afghan refugee camp up to the financial year 2013-14.

The matter was taken up with the management in July, 2014 and reported to the Ministry in November, 2014. The management replied that all the connections were removed and matter for recovery of amount was taken up with Commissioner Afghan Refugees.

The DAC in its meeting held in January, 2015 directed the management to pursue the matter with Commissioner Afghan Refugees and ensure the recovery within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 146/2014-15)

16.3.14 Loss due to non-charging of units detected by surveillance teams Rs 6.15 million

According to Para-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 Swat PESCO, 0.60 million energy units valuing Rs 6.15 million were detected by surveillance teams against 401 consumers in December, 2013 and June, 2014 which was not recovered. Non-adherence to the commercial procedure resulted in non-recovery of energy charges dues of Rs 6.15 million from the consumers up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in November, 2014. The management stated that the detailed reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry for non-charging of detections units to consumer and submit its report to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit emphasizes expeditious recovery of outstanding energy dues besides fixing the responsibility.

(DP No. 203/2014-15)

16.3.15 Non-recovery of arrear due to payment on fake bills – Rs 5.76 million

According to Para-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 PESCO, various consumers of afghan camps had made payment of current electricity charges by excluding total arrears of Rs 5.76 million on fake bills. The fake bills was printed with so consummate skills that their stubs had proper bar codes, bill serial no. actual printer strikes of those printed by WAPDA Computer Center (WCC). An inquiry committee was also constituted to probe into the matter but it did not finalize its report. The frequent making of fake bills on such large scale is a matter of high concern but no efforts were forthcoming to stem this malpractice. Non-adherence to commercial procedure resulted in non-recovery of arrears of Rs 5.76 million due to payment on fake bills during the financial year 2013-14.

The matter was taken up with management in July, 2014 and reported to the Ministry in November, 2014. The management replied that the inquiry committee was constituted in August, 2014 but its findings were awaited.

The DAC in its meeting held in January, 2015 directed the management to expedite the inquiry proceedings and submit its report to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 230/2014-15)

16.3.16 Loss due to damage / shortages of material – Rs 17.69 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 GSO PESCO, an amount of Rs 17.69 million was recoverable from employees/ contractors on account of damage/shortages during shifting of electrical equipments from temporary shed to newly constructed building. Neither the recovery of short/damaged material was made nor the departmental action was taken. Non-adherence to WAPDA's guidelines resulted in loss of Rs 17.69 million due to shortage/damage of material during the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in November, 2014. The management replied that an inquiry committee had already been constituted on May 26, 2014 and findings of the committee were awaited.

The DAC in its meeting held in January, 2015 directed the management to expedite the inquiry proceeding and take action against person responsible for delay in finalization of inquiry proceedings within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 101/2014-15)

16.3.17 Wasteful expenditure under CFL distribution plan - Rs 542.10 million

According to Energy Efficiency Investment Program Tranch-I-ADB/AFD Loan Rs.10 million CFLs was procured by PEPCO/MOW&P for distribution to consumers of various DISCOs. As per policy, two CFLs per domestic consumer free of cost were to be made in lieu of two healthy Incandescent bulbs (ICL). These ICLs along with printed receipt voucher of domestic consumer was to be returned to store from where the CFLs were collected.

In PESCO, 3.55 million CFLs were distributed among the consumers however, not a single ICL / voucher received in any field store leading to the apprehension that the same were not distributed among consumers. Therefore, the expenditure Rs 542.10 million incurred on CFLs seemed merely wastage of funds/loan. Non-adherence to Authority's instructions resulted in wasteful expenditure of Rs 542.10 million up to the financial year 2013-14.

The matter was taken up with the management during October, 2014 and reported to the Ministry in November, 2014. The management stated that the efforts were being made for early return of IBs.

The DAC in its meeting held in January, 2015 directed the management to expedite the return of IBs and intimate the final progress of the matter to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 197/2014-15)

16.3.18 Undue benefit to the industrial consumer by not providing independent grid station – Rs 81.83 million

According to NEPRA's instructions, every consumer having load 5,000 kW is required to provide independent grid station of his own including land, building, transformers, circuit barkers and other necessary equipment and apparatus.

In PESCO, an industrial consumer M/s Mustehkam Steel Industries having load of 4,990 kW under tariff B-3 was sanctioned but the consumer had extended his load up to 5,280 kW without the approval of competent authority at the cost of Company's distribution system. Had the connection been sanctioned up to 5,000 kW instead of 4,990 kW, merely a fraction of 10kW, the consumer would have to pay capital cost of Rs 81.83 million for independent grid station.

Non-adherence to the NEPRA's instructions resulted in undue benefit of Rs 81.83 million to the industrial consumer up to the financial year 2013-14.

The matter was taken up with the management during October, 2014 and reported to the Ministry in November, 2014. The management stated that the detailed reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to furnish detailed reply along with documentary evidence and conduct fact finding inquiry within one month. Further progress was not reported till finalization of the report. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to inquire the mater for fixing the responsibility besides ensuring recovery of capital cost of Rs 81.83 million by providing independent grid station to the industrial consumer.

(DP No. 184/2014-15)

16.3.19 Non-revalidation of bank guarantee – Rs 62.61 million

According to the Para-9 of the Procedure for Electrification of Housing Schemes by Sponsors through their own Contractors / Consultants, in case sponsor desire to carryout work through WAPDA approved contractor they will submit a bank guarantee equivalent to 25% of total electrification cost valid for the entire period up to the completion of full electrification work.

In PESCO, a bank guarantee for external electrification in Regi Lalma Model Town for Rs 62.61 million was obtained on June 30, 2009 and was expired on June 29, 2011. The same was required to be revalidated to cover the probable risk / loss. Non-adherence to the procedure resulted in non-revalidation of bank guarantee valuing Rs 62.61 million from the contractor during the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the concerned bank was requested on August 18, 2014 to revalidate the bank guarantee till the completion of the project.

The DAC in its meeting held in January, 2015 directed the management to intimate the latest position of revalidation of bank guarantee within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 279/2014-15)

16.3.20 Blockage of funds due to unnecessary purchase of material under ADB Loan – Rs 56.29 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 PMU PESCO, electrical material worth Rs 56.29 million purchased under ADB Loan-2438 during 2010-2012 was lying unutilized in the stores. The material was purchased without necessity / demand in violation to the instructions, which lost its value and warranty. Non-observance to rules regarding procurement of material and poor inventory management resulted in blockage of Authority's funds of Rs 56.29 million up to the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in November, 2014. The management replied that the un-utilized material was about 3% of the total purchased material which was under permissible limit i.e. 10%. However, the concerned formation was directed to utilize the material at the earliest.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 155/2014-15)

16.3.21 Irregular issuance of electrical material – Rs 54.60 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 PESCO, electrical material worth Rs 54.60 million was issued against thirty four works under village electrification during 2012-13. Neither the material was installed at the sites nor returned to store. Non-adherence to distribution rehabilitation guidelines resulted in irregular issuance of material amounting to Rs 54.60 million during the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in December, 2014. The management stated that the detailed reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to furnish detailed reply along with justification within 15 days. Further progress was not reported till finalization of the report. Further progress was not reported till finalization of the report.

Audit recommends that the matter needs investigation for fixing responsibility besides execution/completion of works.

(DP No. 280/2014-15)

16.3.22 Transformers lying idle at transformer reclamation workshop Rs 53.71 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 PESCO, 180 transformers valuing Rs 53.71 million received from field formation for repair were lying idle at transformer reclamation workshop. The whereabouts of these transformers were not available on record. Non-adherence to WAPDA's guidelines resulted in non-utilization of valuable assets amounting to Rs 53.71 million up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management stated that the detailed reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to furnish detailed reply along with justification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the matter needs investigate the matter for fixing responsibility beside utilization of valuable assets.

(DP No. 289/2014-15)

16.3.23 Irregular issuance of electrical material – Rs 39.71 million

According to Para-4.5 (Section-8) of the Distribution Stores Manual, the store keeper will issue the materials listed on the requisition and will make entries on the relevant bin cards as they are taken from each part of the store. He will obtain the signature of the LS on the requisition as his acknowledgement that he has received all the materials and will then countersign it.

In PESCO, electrical material valuing Rs 39.71 million was drawn against unapproved village electrification schemes of PF-69 D.I Khan without having release of funds. The said material was shifted to the site on the verbal direction of the then CEO PESCO in emergency in February, 2011. Non-adherence to the Distribution Stores Manual resulted in irregular issuance of material valuing Rs 39.71 million up to the financial year 2013-14.

The matter was taken up with management in July, 2014 and reported to the Ministry in December, 2014. The management replied that the para was duplicate of DP-557/2013-14. The reply was not tenable as the work observed in this para was related to PF-69 whereas the work pointed out in DP-557/2013-14 was pertain to PF-65.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry and submit its report to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 249/2014-15)

16.3.24 Blockage of funds due to purchase of unnecessary material Rs 26.72 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 PESCO, 221 transformers of various capacities valuing Rs 26.72 million were purchased in November, 2011 without immediate requirement. These transformers were lying in open yard of store and the supplier warranty was also expired in June 2013. Poor inventory management resulted in unnecessary procurement of material valuing Rs 26.72 million up to the financial year 2013-14.

The matter was taken up with the management during October, 2014 and reported to the Ministry in November, 2014. The management replied that the 10 KVA and 15 KVA transformers were strictly purchased as per demand of field formation and they were requested to utilize the transformers at the earliest. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply for verification within 15 days. Further progress was not reported till finalization of the report. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 198/2014-15)

16.3.25 Non-removal of illegally installed transformers- Rs 7.19 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 PESCO, twenty seven transformers of various capacities valuing Rs 7.19 million were illegally installed by culprits to steal the electricity. These transformers were neither removed nor detection charged on account of illegal consumption of electricity through these transformers. Non-adherence to WAPDA's guidelines resulted in non-removal of transformers valuing Rs 7.19 million during the financial year 2013-14.

The matter was taken up with management in October, 2014 and reported to the Ministry in December, 2014. The management stated that the detailed reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry and submit its report to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 250/2014-15)

16.3.26 Non-disposal of 66 KV redundant transmission line – Rs 7.17 million

Clause-1.4 Chapter-XI (Section-1) of the WAPDA Disposal Procedure provides that unserviceable vehicles and material/equipments are to be disposed off timely.

In GSO PESCO, two 66 KV transmission lines Nowshera City Pabbi and Mardan- Jabban section were declared redundant due to up gradation of lines worth Rs 7.17 million. The survey reports of redundant lines were prepared in September, 2013 but neither the electrical material was removed nor the same was disposed off. Non-adherence to Disposal Procedure resulted in non-disposal of redundant transmission lines amounting to Rs 7.17 million during the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in November, 2014. The management replied that the survey reports were in process.

The DAC in its meeting held in January, 2015 directed the management to expedite the survey process and dispose of the material within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 103/2014-15)

16.3.27 Non-completion of rehabilitation work – Rs 7.17 million

As per Paras-4.1.3 to 4.1.6 of Distribution Rehabilitation Guidelines September, 2003, total time for approval of work, execution and preparation of completion report will be restricted to 130 days.

In PESCO, rehabilitation work of damaged Dobair Feeder was taken in hand in August, 2010, material worth Rs 7.17 million was issued to the construction division. The work could not be completed despite lapse of four years. Neither the material was shifted/ installed at the sites nor returned to store. Non-adherence to distribution rehabilitation guidelines resulted in non-completion of rehabilitation work amounting to Rs 7.17 million up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management stated that the detailed reply would be given in due course of time.

The DAC in its meeting held in January, 2015 directed the management to furnish detailed reply along with documentary evidence within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the matter needs investigate the matter for fixing responsibility.

(DP No. 425/2014-15)

16.3.28 Loss due to un-authorized / illegal utilization of energy as auxiliary consumption – Rs 6.04 million

According to Standard Operating Procedures (SOP), auxiliary transformer is meant for protection system of the grid system only.

In GSO, PESCO, five residential colonies and all offices of Executive Engineers, Sub-Divisional Officers and Revenue offices at Peshawar Cantt. were unauthorizedly using energy from the auxiliary transformer installed at 132 KV Grid station Peshawar Cantt. and Shahibagh since March, 2011. Non-adherence to Standard Operating Procedures resulted in loss of Rs 6.04 million during the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in November, 2014. The management replied that residents of colonies were being used electricity directly from auxiliary feeders. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry for not installing meters at consumer's premises and regularize the connections. DAC also directed to recover the cost of electricity within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 132/2014-15)

16.3.29 Misuse of public funds due to illegal electrification of housing scheme Rs 4.05 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 PESCO, an amount of Rs 4.05 million was spent on electrification of a private housing scheme namely Baboo Colony Dalazak Road during February, 2008 out of the funds meant for village electrification under Public Works Program (PWP). Non-adherence to the Government instructions resulted in misuse of public funds amounting to Rs 4.05 million due to illegal electrification of housing scheme up to the financial year 2013-14.

The matter was taken up with the management during October, 2014 and reported to the Ministry in November, 2014. The management replied that the works were not yet started and on completion of the same, the material would be returned to store.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry and submit its report to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to inquire the mater for fixing responsibility for misuse of public funds.

(DP No. 232/2014-15)

CHAPTER-17

QUETTA ELECTRIC SUPPLY COMPANY LIMITED (QESCO)

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.

Non-completion/finalization of Financial Statements

As per Company Ordinance-1984, the Company is required to finalize the financial statements within four months from the close of financial year. The Company could not finalize the financial statements up till December 31, 2014. The matter was taken up with the management since December 05, 2014. It was replied that the finalization of financial statement for the year ended June 30, 2014 was under process and would be submitted after completion of audit and approval of board of directors. This directorate is, therefore, unable to offer comments on the financial position of the Company.

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	1998-99	1	-	-	1 (Para No. 19)

Position of compliance with PAC directives is not satisfactory.

17.3 AUDIT PARAS

17.3.1 Loss due to misappropriation of material – Rs 103.51 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of

Individuals, 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 QESCO, electrical material worth Rs 103.51 million was misappropriated from Sibbi Construction Store from July, 2006 to June, 2008. The official was dismissed from service, but cost of material i.e. Rs 103.51 million was still outstanding against the official. Non-adherence WAPDA's guidelines resulted in misappropriation of electrical material Rs 103.51 million during the financial year 2012-13.

The matter was taken up with the management in September, 2013 & reported to the Ministry in November, 2013 and discussed in DAC meeting held in December, 2013. The management replied that matter was under trial of National Accountability Bureau (NAB). Progress thereof would be communicated to Audit accordingly. The DAC directed to pursue the case with NAB and outcome intimated to Audit.

The DAC in its meeting held in January, 2015 directed the management to implement the directives of DAC meeting held in December, 2013. Further progress was not reported till finalization of the report.

Audit recommends that management needs to expedite the recovery besides vigorous pursuance of case in NAB.

(DP No. 556/2013-14)

17.3.2 Recoverable amount of tube-well subsidy – Rs 1,768.01 million

As per minutes of meeting circulated by the Chief Executive of Pakistan Secretariat dated March 16, 2002, the subsidy on tube-well shall be shared in the ratio of 40%:30%:30% between federal government, provincial government and WAPDA.

In QESCO, an amount of Rs 1,768.01 million was recoverable from the Government of Pakistan and Balochistan Government on account of their share of subsidy of tube-well. Non-recovery of long outstanding dues was a recurring loss to the company which was required to be recovered to enable the company to overcome its financial crises. Non-adherence to decision of government resulted in non-recovery of tube-well subsidy amounting to Rs 1,768.01 million up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that an amount of Rs 753.53 million and Rs 1,014.48 million was recovered from Government of Balochistan and Government of Pakistan on account of agriculture subsidy and efforts were being made to recover the balance amount.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification within 15 days and expedite the recovery balance amount. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 543/2014-15)

17.3.3 Recoverable amount of 25% tube-well subsidy from Federal Government and Balochistan Government – Rs 206.10 million

According to decision taken by the cabinet in its meeting dated June 9, 2007, 25% subsidy on electricity charges on the use of agricultural tube-wells was approved to boost agricultural production. The cost will be shared equally between federal and provincial Governments.

In QESCO, an amount of Rs 206.10 million was recoverable from Government of Pakistan and Government of Balochistan on account of 25% share of tube-wells subsidy. Non-recovery of long outstanding dues was a recurring loss to the company which was required to be recovered to enable the company to overcome its financial crises. Non-adherence to Cabinet's decision resulted in non-recovery of tube-wells subsidy amounting to Rs 206.10 million up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that an amount of Rs 46.51 million was recovered from Government of Pakistan on account of subsidy and efforts were being made to recover the balance amount.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification within 15 days and expedite the recovery balance amount. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 544/2014-15)

17.3.4 Non-recovery of fuel price adjustment - Rs 6,468.16 million

According to Para-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 QESCO, amount of Rs 6,468.16 million was recoverable from consumers on account of fuel price adjustment (FPA) despite the fact that the stay order had been vacated by the apex court. No efforts seemed to be made to recover the Company's revenue. Non-adherence to commercial procedures resulted into non-recovery of FPA of Rs 6,468.16 million during the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that efforts were being to recover the fuel price adjustment which was debited to the consumers.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 428/2014-15)

17.3.5 Loss due to theft of energy through illegal tube-well connections Rs 61.87 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 QESCO, an amount of Rs 61.87 million was pending for realization from 1,028 illegal tube well connections utilizing electricity directly without allotting reference number for agricultural purpose. Hence, the Company was deprived of its legitimate revenue of Rs 61.87 million. Non-adherence to WAPDA's guidelines resulted in loss due to non-recovery of Rs 61.87 million from the illegal tube-well connections during the financial year 2012-13.

The matter was taken up with the management in July, 2013 & reported to the Ministry from September to November, 2013 and discussed in DAC meeting held in December, 2013. The management replied that 740 connections had been regularized and notices had been issued to regularize remaining connections. The DAC directed to produce relevant record of completed actions for verification within fifteen days and complete the pending actions within one month.

The DAC in its meeting held in January, 2015 directed the management to implement the directives of DAC meeting held in December, 2013. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 94 & 441/2013-14)

17.3.6 Non-recovery of detection charges from agriculture tube-well connections – Rs 40.40 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 Circle Southern QESCO, out of 5,578 illegal agricultural connections, 2,693 were regularized and an amount of Rs 40.40 million were charged on account of detection charged for unregistered period which could not be recovered till date. Moreover, no efforts were seemed to be made for regularization of remaining illegal tube-wells. Non-adherence to WAPDA's guidelines resulted in non-recovery of detection charges amounting to Rs 40.40 million from agricultural consumers during the financial year 2013-14.

The matter was taken up with the Management in September, 2014 and reported to the Ministry in December, 2014. The management replied that the regularization programme was going continuously and the management also pursuing the matter with local police authorities, further progress would be intimated.

The DAC in its meeting held in January, 2015 directed the management to pursue the recovery of detection charges from agriculture tube-well consumers through special task force. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 427/2014-15)

17.3.7 Loss due to non-billing to consumers – Rs 37.98 million

According to Para-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 Loralai QESCO, 3.17 million energy units amounting to Rs 37.98 million received on three 11 KV feeders were not billed to consumers. Non-adherence to commercial procedure resulted in loss of Rs 37.98 million due to non-billing to consumers up to the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that receipt and billing of units were disturbed due non-allotment of feeder's code which was under process.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry to assess the factual position within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 363/2014-15)

17.3.8 Loss due to non-recovery of Neelum Jhelum surcharge and GST from employees – Rs 25.19 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, 20.55 million energy units were consumed by QESCO employees on which GST and Neelum Jhelum Surcharge (NJS) valuing Rs 25.19 million was not recovered from employees. The whole amount was paid by the employer rather than employees. Non-adherence to procedure resulted in loss of Rs 25.19 million due to non-recovery of NJS and GST from employees during the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in December, 2014. The management replied that the matter of Neelum Jhelum Surcharge/GST from the employees would be forwarded to Director Commercial QESCO for clarification. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to conduct fact finding inquiry at PEPCO level and submits its report to Ministry of Water & Power for final decision within one month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 347 & 411/2014-15)

17.3.9 Non-recovery of detection charges from consumers – Rs 8.07 million

According to Para-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 QESCO, 1,025 consumers were charged detection bills for 0.74 million energy units amounting to Rs 8.07 million which were not recovered from them. Non-adherence to commercial procedures resulted in non-recovery of detection charges amounting to Rs 8.07 million during the financial year 2013-14.

The matter was taken up with the management from August to September, 2014 and reported to the Ministry in December, 2014. The management replied that in one case an amount of Rs 0.21 million was recovered from the consumer and efforts were being made to recover the remaining amount from consumers.

The DAC in its meeting held in January, 2015 directed the management to produce the recovery record for verification within 15 days and expedite recovery of remaining amount. Further progress was not reported till finalization of the report.

Audit emphasizes expeditious recovery from consumers besides fixing responsibility.

(DP No. 342, 348 & 409/2014-15)

17.3.10 Non-capitalization of completed works – Rs 360.19 million

As per Paras-4.1.3 to 4.1.6 of Distribution Rehabilitation Guidelines September, 2003, total time for approval of work, execution and preparation of completion report will be restricted to 130 days.

In QESCO, fifty schemes valuing Rs 360.19 million were executed and completed during 2013-14 but not yet capitalized. Non-capitalization of completed schemes still existed in the books of the accounts as expenditure which deprived the Company to make them to add into the assets of the Company. Non-implementation of Distribution Rehabilitation Guidelines resulted in non-capitalization of completed schemes amounting to Rs 360.19 million during the financial year 2013-14.

The matter was taken up with the Management in July and August, 2014 and reported to the Ministry in December, 2014. The management replied that all the completed works had been capitalized through ledger posting summary.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 370 & 373/2014-15)

17.3.11 Blockage of funds due to unnecessary purchase of material under ADB Loan – Rs 82.50 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 PMU QESCO, electrical material worth Rs 82.50 million purchased under ADB Loan during 2010-2012 was lying unutilized in the stores. The material was purchased without necessity / demand. Poor inventory management resulted in blockage of Authority's funds of Rs 82.50 million up to the financial year 2013-14.

The matter was taken up with the management in August, 2014 and reported to the Ministry in December, 2014. The management replied that the material was procured as per requirements and allocation of funds. However, efforts were being made to utilize the same as early as possible. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to early utilize the material and produce relevant record for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 406/2014-15)

17.3.12 Undue favour extended to the consumers – Rs 4.58 million

As per SOP for commercial buildings/plazas circulated vide G.M (Operation) letter dated July 2, 2010, commercial buildings/market, plazas having covered area 1,000 sqft 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 G.M (PE&S) letter dated October 26, 1993.

In QESCO, thirty seven commercial consumers energized their supply through general distribution transformer rather than providing independent transformers and assessment of load. Non-adherence to SOP resulted in undue favour of Rs 4.58 million extended to the consumers during the financial year 2013-14.

The matter was taken up with the management in September, 2014 and reported to the Ministry in December, 2014. The management replied that the matter was inquired through inquiry committee who recommended that out of thirty shops, only five shops were electrified through a 50 KVA transformers and remaining thirty two shops were not using electricity as these were declared as godowns. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to produce relevant record in support of reply for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 367/2014-15)

CHAPTER-18

SUKKUR ELECTRIC POWER COMPANY LIMITED (SEPCO)

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.

Non-completion/finalization of Financial Statements

As per Company Ordinance-1984, the Company is required to finalize the financial statements within four months from the close of financial year. The Company could not finalize the financial statements up till December 31, 2014. The matter was taken up with the management since December 05, 2014. It was replied that the finalization of financial statement for the year ended June 30, 2014 was under process and would be submitted after completion of audit and approval of board of directors. This directorate is, therefore, unable to offer comments on the financial position of the Company.

18.2 AUDIT PARAS

18.2.1 Loss due to missing parts of transformers – Rs 5.16 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 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 SEPCO, as per stock balance report maintained by Deputy Managers Region Stores in February, 2014 eighty three transformers of various capacities were received in stores from field formations without its costly parts i.e. copper winding, core and oil. Non-adherence to WAPDA's guidelines resulted in loss of Rs 5.16 million due to missing of parts of transformers up to the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in November, 2014. The management replied that the constitution of inquiry committee was under process.

The DAC in its meeting held in January, 2015 directed the management to conduct inquiry at PEPCO level and submit its report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 209/2014-15)

18.2.2 Loss of revenue due to theft of energy – Rs 479.45 million

As per guidelines for Policy and Procedure on Detection Bills circulated vide letter dated October 26, 1999, whoever found to have connected his installations, appliances and apparatus with the work of license for the purpose of supply of energy without its written consent commits an offence to be prosecuted under section 39 & 39A of Electricity Act 1910 which require an FIR to be lodged with police. Further to compensate the loss sustained on account of theft, assessment bill to be served as per laid down procedures to such illegal and unregistered consumers.

In SEPCO, various culprits were found stealing of electricity through illegal means for which detection bills of 49.03 million energy units amounting to Rs 479.45 million were issued to them. In some cases, FIRs were issued however, out come of the FIRs and recovery of detection bills were not forthcoming from the record. Non-adherence to the detection procedures resulted in loss of revenue of Rs 479.45 million due to theft of energy through illegal means up to the financial 2013-14.

The matter was taken up with management from October, 2013 to October, 2014 and reported to the Ministry from December, 2013 to December, 2014. The management replied that an amount of Rs 312.45 million had been recovered whereas remaining cases were subjudice.

The DAC in its meeting held in January, 2015 directed the management to produce recovery record for verification within 15 days. DAC also directed to pursue the court cases vigorously. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 732/2013-14, 177 & 291/2014-15)

18.2.3 Non-recovery of use of system charges (UOSC) from sister companies Rs 429.48 million

As per Order-IV issued by NEPRA vide letter dated March 03, 2014, SEPCO was allowed to charge the users of its system a UOSC of system charge to other companies.

In SEPCO, 425.75 million units were exported to HESCO and QESCO. The amount of Rs 429.48 million was required to be recovered on account of use of system charges from the sister companies as per above orders of the Regulator but the same was not recovered. Non-adherence to above orders resulted in non recovery of Rs 429.48 million from sister companies during the financial year 2013-14.

The matter was taken up with the management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the matter had already been taken up with HESCO & QESCO for recovery of use of system charges.

The DAC in its meeting held in January, 2015 directed the management to resolve the issue at Chief Executive Officer's level meeting within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 404/2104-15)

18.2.4 Overpayment to Small Power Producers – Rs 19.25 million

According to Annex 'B' of Power purchase Agreement (PPA) between M/s Shikarpur Power Private Limited & M/s Dadu Power Private Limited with HESCO (now formulated as SEPCO) payment to the company for purchase of power would consist of following components i.e Fixed Cost Component (FCC), Financial Cost Component (FCC) and Gas Cost Component (GCC).

In SEPCO, on contrary to tariff determined by the Regulator, cost of energy was paid to power sellers on higher unit price as compared to that determined in tariff schedule. An overpayment of Rs 19.25 million was made from December, 2012 to August, 2014. Non-adherence to the rules and procedures resulted in overpayment of Rs 19.25 million to the SPP by allowing higher rate up to the financial year 2013-14.

The matter was taken up with the Management in October, 2014 and reported to the Ministry in December, 2014. The management replied that the payment was being made on the direction of the Court as per contract agreement. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in January, 2015 directed the management to conduct a fact finding inquiry at PEPCO level within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 388/2014-15)

18.2.5 Non-capitalization of completed village electrification schemes Rs 485.90 million

As per Paras-4.1.3 to 4.1.6 of Distribution Rehabilitation Guidelines September, 2003, total time for approval of work, execution and preparation of completion report will be restricted to 130 days.

In Construction Circle SEPCO, 439 village electrification schemes valuing Rs 485.90 million were executed and completed by SEPCO during 2013-14 but not yet capitalized. Non-capitalization of completed village electrification schemes and still existing in the books of the accounts as expenditure deprived the company to make them to add into the assets of the company. Non-implementation of the rules and procedures resulted in non-capitalization of completed village electrification schemes amounting to Rs 485.90 million during the financial year 2013-14.

The matter was taken up with the Management in July, 2014 and reported to the Ministry in December, 2014. The management replied that most of the completed schemes had been capitalized whereas capitalization of remaining schemes was under process.

The DAC in its meeting held in January, 2015 directed the management to produce the record of completed action for verification within 15 days and complete the pending action within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 387/2014-15)

18.2.6 Blockage of Company's funds due to non-completion of village electrification schemes – Rs 84.50 million

As per Paras-4.1.3 to 4.1.6 of Distribution Rehabilitation Guidelines September, 2003, total time for approval of work, execution and preparation of completion report will be restricted to 130 days.

In Construction Circle SEPCO, eighty eight village electrification schemes valuing Rs 84.50 million were taken under hand since 2010 by SEPCO but still were lying pending even during the financial year 2013-14. Non-implementation of the rules and procedures resulted in blockage of Company's funds due to non-completion of village electrification schemes amounting to Rs 84.50 million up to the financial year 2013-14.

The matter was taken up with the Management in July, 2014 and reported to the Ministry in December, 2014. The management replied that most of the schemes had been electrified whereas concerned officers / officials had been directed to complete the remaining schemes at the earliest.

The DAC in its meeting held in January, 2015 directed the management to produce the record of completed action for verification within 15 days and complete the pending action within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives besides fixing the responsibility.

(DP No. 405/2014-15)

CHAPTER-19

TRIBAL AREAS ELECTRIC SUPPLY COMPANY LIMITED (TESCO)

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.

Non-completion/finalization of Financial Statements

As per Company Ordinance-1984, the Company is required to finalize the financial statements within four months from the close of financial year. The Company could not finalize the financial statements up till December 31, 2014. The matter was taken up with the management since December 05, 2014. It was replied that the finalization of financial statement for the year ended June 30, 2014 was under process and would be submitted after completion of audit and approval of board of directors. This directorate is, therefore, unable to offer comments on the financial position of the Company.

19.2 AUDIT PARAS

19.2.1 Loss due to illegal use of energy – Rs 552.36 million

According to Sub Section 39-A(1) of Electricity Act 1910, whoever installs or uses any device, contrivance of artificial means for dishonest abstraction consumption or use of energy of license whether he derives any benefit there from or not shall be punished with imprisonment of either description for a term which may extent to three years, or with fine which may extend to five thousand rupees, or with both, and if it is proved that any device contrivance or artificial means for such abstraction consumption or use exists or has existed on a premises, it shall be presumed unless contrary is proved that such person has committed an offence.

In Operation Circle FATA, TESCO, 179 government departments i.e. Army / FC, private consumers, hospitals and schools were found using electricity through illegal means i.e. direct hooking, tempering the meters & kunda connections. No efforts were made to stop the illegal usage of energy. Non-adherence to the rules resulted in loss of Rs 552.36 million due to illegal use of energy during the financial year 2013-14.

The matter was taken up with management in August, 2014 and reported to the Ministry in November, 2014. The management replied that an amount of Rs 5.53 million had been recovered and the matter was under correspondence with political administration for recovery of remaining dues from Frontier Corps and Army.

The DAC in its meeting held in January, 2015 directed the management to produce the recovery record of Rs 5.53 million for verification within 15 days and pursue the remaining recovery with respective organizations. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 147/2014-15)

19.2.2 Loss of revenue due to non-recovery of detection charges Rs 3.40 million

As per guidelines for Policy and Procedure on Detection Bills circulated vide letter dated October 26, 1999, whoever found to have connected his installations, appliances and apparatus with the work of license for the purpose of supply of energy without its written consent commits an offence to be prosecuted under section 39 & 39A of Electricity Act, 1910 which require an FIR to be lodged with police. Further to compensate the loss sustained on account of theft, assessment bill to be served as per laid down procedures to such illegal and unregistered consumers.

In TESCO, thirteen culprits were found using electricity through illegal direct connections and detection bills amounting to Rs 3.40 million were served to the consumers. Neither the FIRs were registered against the culprits nor recovery of detection bills was made from the persons involved in theft of energy. Non-adherence to the procedures resulted in loss of revenue worth Rs 3.40 million due to non-recovery of detection bills during the financial year 2013-14

The matter was taken up with management in September, 2014 and reported to the Ministry in December, 2014. The management replied that out of thirteen connections, ten connections had been regularized, one connection demolished and remaining two connections were under process of regularization.

The DAC in its meeting held in January, 2015 directed the management to produce the relevant record for verification within 15 days and expedite the regularization process of pending two connections. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 245/2014-15)

19.2.3 Loss due to stealing of energy by tampering of meters and direct hooking – Rs 2.28 million

As per Paragraph-462J (a to c) of the Gazette of Pakistan published by Authority dated December 31, 2013, in order to commit theft of electric power, or dishonest consumer or use electric power or un-authorized distribution or supply of electric power shall be punishable with imprisonment for a term which may be extended to two years or with fine which may be extended to one million rupees or with both.

In Operation Circle FATA TESCO, (Mr. Noor Iqbal) Line Man-II was involved in stealing of energy by tampering of energy meter and using direct hooks. Moreover, the official had also provided free electricity to various person(s). Non-implementation of rules resulted in loss of Rs 2.28 million due to steeling of energy during the financial year 2013-14

The matter was taken up with the management in August, 2014 and reported to the Ministry in November, 2014. The management replied that the matter relates to PESCO and the observation raised by the Audit has been communicated to PESCO for initiating necessary action against the concerned official.

The DAC in its meeting held in January, 2015 directed the management to transfer this para to PESCO for further reply. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

(DP No. 150/2014-15)

CHAPTER-20

SPECIAL STUDY REPORT
ON
ENERGY CRISIS – REASONS AND SOLUTIONS

20. SPECIAL STUDY ON ENERGY CRISIS – REASONS AND SOLUTIONS

EXECUTIVE SUMMARY

Pakistan is going through acute energy crisis for past many years. In order to highlight the factors which contributed towards the energy crisis, Director General Audit, WAPDA conducted special study on the Mega Issues of 'Energy Crisis – Reasons and Solutions'. The main objectives of the study were to highlight the issues, constraints which caused the present energy crisis, its impact and identification of possible solutions as well as support required from the Government for the resolution of the crisis. Moreover, a comparative analysis with some other country will facilitate an independent evaluation of the practices followed in Pakistan for the generation, transmission and distribution of electricity and those used by that country.

The study concludes with the recommendations to reduce energy crisis in Pakistan.

a. Key findings

In pursuance to the above objectives, detailed plan was chalked out and the study was executed during the months from July to September, 2013. The audit team visited various offices of WAPDA/PEPCO/Ministry of Water and Power including office of Managing Director PEPCO, General Manager WPPO/CPPA/NPCC, NTDC, Private Power Infrastructure Board (PPIB) and National Electric Power Regulatory Authority (NEPRA), Islamabad to gather data. All these formations provided data requisitioned by the audit except GM National Power Control Center (NPCC), Islamabad. The key findings which emerged from the special study included the following;

- Non-recovery of Rs 1,204,165.75 million by NTDC from DISCOs and KESC.

(Para-20.9)

- Non-recovery of Rs 289 billion by DISCOs from power consumers (running and permanent defaulters).

(Para-20.9)

- Despite surging demand for electricity and abundantly available cheap renewable resources, the entities responsible for generation and development of renewable resources (i.e. WAPDA, PEPCO, PPIB, AEDB and PRES) failed to utilize these resources. The policies and practices of these formations as well as relevant Authorities badly lag behind the present energy requirements of the country.

(Para-20.2.1, 20.2.2, 20.2.3, 20.2.4, 20.2.5, 20.2.6 & 20.2.7)

- Circular debt is the most important factor causing power crisis. Significant amount of circular debt was accumulated due to non-payment of electricity bills by the end consumers as well as KESC. Non-recovery of interest charges on delayed payment from DISCOs, non-payment of subsidy by GOP, higher cost of electricity than the sale price and late filing of tariff petitions by DISCOs to NEPRA also contributed to accumulate the circular debts.

(Para-20.9)

- Significant amount of transmission and distribution losses amounting to Rs 15,636 million (3%) and Rs 16,522 million (17%) from 2010-11 to 2012-13 was one of the major cause of losses sustained by power sector entities. Almost all the entities failed to maintain their targets for line losses notified by NEPRA. In addition, there was no rationale behind the present permissible threshold for the line losses as these were not determined on technical or other relevant basis.

(Para-20.2.1 & 20.2.2)

- The power sector entities failed to conduct the energy audit in order to ensure efficient and effective utilization of energy and energy generation resources. Energy Efficiency and Conservation Act, 2011 was promulgated during the year 2011 for the conservation and efficient use of energy. Section 6 of the Act required constitution of the 'National Energy Conservation Authority' immediately after the promulgation of the Act whereas no such Authority was established to regulate the efficiency and effectiveness of the power sector entities.

(Para-20.12.1 & 20.12.2)

- Thermal power generation was the most expensive and non-renewable source of power generation. Major proportion of present power generation mix was attributed to thermal power generation which caused surge in the power tariff.

(Para-20.10)

- The Government paid off outstanding amount of circular debt of Rs 480 billion on July 31, 2013, however, the Government and the responsible authorities / organizations were not able to control the root causes of accumulation of the balance.

(Para-20.9)

- PEPCO incurred unjustified expenditure amounting to Rs 1,137 million during the financial year 2012-13 on account of advertisement on behalf of power distribution companies, resulting in extra financial burden on DISCOs.

(Para-20.9.4)

- Indigenous resources especially the renewable resources were abundantly available in the country which could be utilized to meet the demand for power generation. Suitable measures were not taken to utilize the indigenous resources.

(Para-20.10.1)

- Tariff included the component of capital cost of power plants of IPPs which was financed up to 70 to 80 percent from loans while 20 to 30 percent was financed from the equity of investors. Tariff was borne by the consumers whereas power plants would become the property of the investors. This was in a way undue favour to the investors and burden on consumers.

(Para-20.13.1)

b. Recommendations

1. Maximum power generation capacity of IPPs should be utilized to avoid payment of unutilized capacity and to minimize the per unit cost of electricity.
2. PEPCO should undertake concrete measures for the recovery of blocked funds in the form of receivables from consumers and Government. Recovery drive needs to be expedited with the involvement of provinces or deduction at source may be considered.
3. Reforms were required for the management of GENCOs. Plants should be

rehabilitated and proper maintenance schedules should be strictly followed to improve the efficiency of plants.

4. Proper measures need to be undertaken for the development of load management policy whereby the power was supplied to grid stations, feeders, subdivision on the basis of the amount recovered out of billing.
5. The Government may undertake concrete measures to eliminate all the bottle necks, including the financial constraints, in the installation of power plants based on indigenous fuel.
6. Energy audit of all power generating companies, NTDC and DISCOs may be carried out to avoid wastage of energy and promote energy conservation. Regular energy audit on annual basis may be ensured.
7. To overcome the power shortfall in the Country, a more balanced approach on power generation and power conservation may be laid down.
8. Targets set by NEPRA for transmission and distribution losses may be minimized by controlling the theft of electricity, proper maintenance of Transmission and Distribution system and monitoring of NEPRA targets at feeder/subdivision level. Over billing may be avoided to control the distribution losses. Power sector companies incurred average distribution losses of 20% during the financial year 2012-13, 2011-12 and 2010-11 against an average target of 15% set by NEPRA. Failure to meet targets resulted in losses of Rs 57 billion during the last three years reducing the revenue generation of the distribution companies. Sale of electricity and recovery of dues may be privatized at feeder/subdivision level. The feeders/subdivisions which pay the electricity bill should be provided electricity.
9. National Energy Conservation Authority should be established to devise and enforce energy conservation measures including energy efficient devices for all sectors of economy.

20.1 Introduction

Pakistan is going through acute energy crisis since the year 2006-07. The gap between demand and supply kept on widening year by year and the power deficit (shortfall) reached the level of 9,469 Mega Watts during the financial year 2012-13. Rapid surge in the gap resulted in long hours of load shedding i.e. for 12 to 20 hours of power shut down in rural and urban areas during a day.

Energy crisis adversely affected all sectors of life, specially the national industry. Large numbers of industrial units were shut down due to non-availability of power and surging cost of electricity. Moreover, regular load shedding triggered violent protest across the country resulting in significant damages to the infrastructure of the power sector entities.

The Government notified various power policies for the development and management of power sector. The core objective of these policies was to bridge the gap between demand and supply for the power. In addition, these policies were intended to make the power accessible for all consumers at affordable and sustainable cost. However, power conservation measures must be a major part of policy power initiatives to minimize the gap between power demand and supply.

Increased dependence on expensive and inefficient sources of power generation, failure to install the power generation projects in anticipation of future demand for power generation and increased transmission & distribution losses as well as rising cost of electricity were the main contributors towards the energy crisis. In addition, the government intervention pertaining to the notification of the tariff at subsidized rates and failure of the power sector entities to recover revenue from defaulters and power thieves further aggravated the problem as the working capital cycle of all these entities was blocked resulting in accumulation of circular debt.

20.1.1 Audit Objectives

This study is designed with an objective to highlight the issues, constraints which triggered the present energy crisis, its impact and identification of possible solutions as well as support required from the Government for the resolution of the crisis. Moreover, a comparative analysis with another country (India) was carried out with a view to facilitate an independent evaluation of the practices followed in Pakistan for the generation, transmission and distribution of electricity and those used by these countries.

In addition to the above, the power policies designed and notified for the development of power sector and its impact on present energy crisis was required to be evaluated.

The objectives of the study were translated into factors which includes review of the demand and supply of electricity, deterioration in the power generation capacity of power plants, utilization of indigenous resources, issue of piling up of the circular debt and other issues having direct or indirect impact on present energy crisis. The review would facilitate the comprehensive analysis of present crisis in the energy sector.

20.1.2 Audit scope and methodology

The scope of the study includes review of the control mechanism to regulate demand and supply of energy in Pakistan. In assessing the annual growth requirements, it was to be seen as to what were the constraints faced by the power sector. During the process, it was to be seen how far the alternate energy sources were available/explored and used. It was to be reviewed how much was the installed and actual generation of electricity and how far the resources were utilized to bridge the gap between demand and supply of electricity. Since, tariff determination was an important factor towards cost of electricity to the end consumers, therefore, it was to be examined with reference to the objective of electricity being affordable and sustainable supply of electricity at affordable price to the end consumers. Role of various institutions in response to emerging crisis could lead us to further recommendations to mitigate crisis and in achieving the objectives of energy policies, issued from time to time.

The revenue of power sector entities had to be realized within the stipulated time period in order to avoid piling up of the circular debt. The adequacy of the revenue along with the identification of bottlenecks in its realization was to be highlighted due to which the working capital of power sector entities remained blocked resulting in piling up of circular debt. The power policies have pivotal role in managing the power sector, therefore reforms introduced through power policies announced from time to time were evaluated and impact on the power sector was analyzed.

Combination of quantitative and qualitative analyses was carried out to complete the assignment however major emphasis was placed on the quantitative analysis. In addition to the above, meetings with various senior management officials were held to gain further insight. In this respect, data/ information were collected from power sector entities and the same were used in our analysis. In addition, the soft data/ information available through the electronic media were used to compile our analysis. International best practices provided us a reasonable basis to determine the efficacy of system in place in power sector.

20.1.3 Issues identified and audit findings

Power sector in Pakistan was facing a number of serious issues from the last five years. The energy crisis emerged as a result of poor corporate planning by the management of the power sector entities including WAPDA, PEPCO, GENCOs, NTDC, DISCOs, Ministry of Water and Power (PPIB, AEDB, PRES). Following major issues were identified during the Audit which resulted in present energy crisis and needs to be resolved for the revival of the power sector.

20.2 Demand-supply gap

20.2.1 The foremost reason for energy crisis can be traced from the fact that the gap between demand and supply kept on widening year by year and the power deficit (shortfall) increased to 9,469 MW (i.e. 45% of total installed capacity) during the financial year 2012-13 from 3,711 (i.e. 21% of total installed capacity) during the year 2004. During last five years (2008-2013) the demand increased from 17,852 MW to 19,545 MW at an annual growth rate of 2% (339 MW/year) due to increase in consumers and increase in power consumption. (**Table - 1)**

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management replied that the short fall was reduced from 7,183 MW in 2012 to 3,842 MW in 2013.

The DAC in its meeting held in August, 2014 directed the management to reconcile the figures with Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.2.2 Despite continuous increase in demand and having adequate installed capacity as referred above, concerned authorities failed to generate the requisite electricity. The power generation, instead of increasing, dropped from 53% of total installed capacity during the year 2009 to 48% during the year 2013. Major decline was in generation companies of PEPCO. It was mainly due to the non-availability of fuel to these generation companies. Persistent decrease in power generation with reference to demand for electricity resulted in long hours of load shedding, specially, during the years 2009 to 2013.

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management replied that the pace of the developments remained slow due to various reasons including law and order situation in the country.

The DAC in its meeting held on August, 2014 directed the management to submit revised reply to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

The power supply deficit can be attributed to the following factors:-

20.3 De-rationing of power plants

The power generation capability of public sector power generation plants i.e. GENCOs deteriorated significantly over a period of time leading to de-rationing of capacity. Moreover, the total installed capacity of the NTDC was 20,854 MW but the de-rated capacity was 19,170 MW as on 30th June 2013, which showed that the capacity had declined by 2,009 MW. Out of which 1,270 MW related to the GENCOs. The capacity of the GENCOs and Isolated GENCOs had declined by 26% and 38% respectively (as compared to 9% of IPPs). This was because of improper maintenance/non-rehabilitation/ non-replacement of power plants. However, even de-rated capacity of 19,170 MW was not utilized during the financial year 2012-13. **(Table - 2)**

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management of GENCO-I replied that major overhauling could not be carried out earlier. However, the rehabilitation of all four units had since been carried out under USAID programme in the year 2012-13.

The DAC in its meeting held in August, 2014 directed the management to submit the reply to Audit along with documentation within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.4 NPCC failed to utilize idle capacity of 9,094 MW resulting in widening of demand supply gap

The dependable (de-rated) capacity of 19,170 MW remained available during the year 2012-13 but only 10,516 MW was utilized and remaining 9,094 MW (45%) remained idle during the financial year 2012-13. The major reasons of non-utilization of the capacity were:

- Less demand raised by National Power Control Center (NPCC) (a subordinate office of NTDC),
- Non-availability of fuel due to financial constraints,

- Heavy forced outages due to non-maintenance of power plants in public sector
- Dependence on IRSA for release of water in case of hydel power plants.

Even when a sum of Rs 480 billion of circular debt was paid, the capacity of electricity production was not fully utilized. The short generation of electricity against installed capacity was also effected due to inclusion of unfavorable clause 9.1(b) of PPA of IPPs under Power Policy, 1994. According to this clause, if a Company produces electricity once in 18 consecutive days in a month equal to 50% of demand, it will be entitled for capacity payment of full month. The non-utilization of available capacity caused an increase in the gap between Demand and Supply of electricity which was the main reasons of energy crises in the Country. **(Table-3)**

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

The DAC in its meeting held in August, 2014 directed the management to submit reply along with documents to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.5 Failure to utilize capacity caused a loss due to higher unit cost hydel energy – Rs 70,346 million

The major part of the payments made to hydel units consist of capacity payments i.e. 94%. Average per unit cost of hydel units was Rs 1.58 / kwh. A new IPP (Laraib) was inducted in hydel section during 2013 having per unit cost was Rs 8.60 which was higher as compared to other hydel units in public sector. Per unit cost of a project of SHYDO (Malakand) was also higher i.e. Rs 6.03 / Kwh. **(Table - 3)**

20.5.1 GENCOs

GENCOs had a total generating capacity of 3,798 MW, out of which only 1,558 MW was utilized during 2012-13. Almost 60% of plants remained idle and per unit cost was Rs 13.21 per unit. Our single plant of Coal (GENCO IV) remained 85% idle during the year. Audit was of the view that had the full capacity of GENCOs utilized then per unit cost of GENCOs would have been Rs 5.42 per unit. **(Table - 3)**

From the following table it was evident that 1,647 MW capacities of GENCOs remained idle during the year 2012-13. Capacity of 810 MW was not utilized by the NPCC which caused artificial shortage of electricity in the country and capacity of 510 MWs could not be utilized due to heavy forced outages. GENCO-I remained idle by 61% i.e. 509 MW out of 840 MW, 54% capacity of GENCO-III remained idle i.e. 833 MWs out of 1530MWs and 88% capacity of GENCO-IV remained idle i.e. 26 MWs out of 30 MWs.

GENCO	Capability	Forced Outages*	Planned Outages**	Stand by NPCC***	Total Idle Capacity	
	(MW)	(MW)	(MW)	(MW)	(MW)	(%age)
GENCO-I	840	87	210	211	509	61
GENCO-II	1,180	218	22	38	279	24
GENCO-III	1,530	178	95	560	833	54
GENCO-IV	30	26	-	-	26	88
TOTAL	**3,580**	**510**	**327**	**810**	**1,647**	**46**

Source: Summary of E forms from GM Thermal

* a total interruption of the complex's generating capability that is not the result of (i) a request by WAPDA in accordance with this Agreement; (ii) a scheduled outage or a maintenance outage; (iii) a force majure event; or (iv) condition caused by WAPDA or by the Grid system. (Reference: contract agreement with IPP's)

** a planned interruption of the complex's generating capability that (i) has been scheduled and allowed by WAPDA in accordance with Section 6.3, and (ii) is for inspection, testing, preventive maintenance, corrective maintenance, repairs, replacement or improvement of the Complex. (Reference: contract agreement with IPP's)

*** Power readily available for use by the National Power Control Centre if required.

20.5.2 Independent Power Producers (IPPs)

Total power generation capacity of IPPs was 8,215 MW but the average generation of IPPs was 5,389 MWs during the financial year 2012-13. Maximum capacity of the IPPs was not utilized despite the surging demand resultantly many IPPs remained idle during the period as detailed below. The current average per unit cost of IPPs was Rs 14.03 per unit and if the full generating capacity of IPPs was efficiently utilized the average per unit cost would have been Rs 9.02 per unit. The payment of idle capacity charges to the IPP's was also a cause of additional burden on public exchequer and added to the cost of electricity produced. During the financial year 2012-13, NTDC had to make capacity payments of the idle capacity to the tune of Rs 39,411 million to the IPP's. **(Table-3)**

Sr. No.	IPP	Fuel	Installed Capacity	Capacity utilized	Idle Capacity	Percentage of idle Capacity
			(MW)	(MW)	(MW)	%age
1	CHASNUPP-II	Nucl.	315	184	131	42

2	AES LALPIR	RFO	350	199	151	43
3	KOT ADDU POWER	Mixed	1,336	690	646	48
4	DAVIS ENERGON	Gas	1	0.51	.49	49
5	LIBERTY	Gas	212	108	104	49
6	SAPPHIRE POWER	Gas/HSD	212	106	106	50
7	HUBCO NWL	RFO	214	99	115	54
8	SAIF POWER	Gas/HSD	205	90	115	56
9	ORIENT	Gas/HSD	213	69	144	68
10	HALMORE	Gas/HSD	207	45	162	78
11	JAPAN	RFO	107	12	95	89
12	SEPCOL	RFO	110	12	98	89
13	SABA	RFO	125	10	115	92

Source: Procurement Reports CPPA

Independent Power Producers M/s Japan, Southern and Saba Power were not generating electricity as per contracted capacity. Average production of electricity of these companies remained only 16.6%, 14.01%, 6.59% respectively during last two years and a payment of Rs 3,017.28 million was made for non-utilized capacity under the unjustified Clause-9.1(b) of Power Purchase Agreement.

Statement showing the payment of un-used capacity of power plants

Sr. No.	Name of Independent Power Producer	Installed Capacity (MW)	Un-used Capacity (MW)	Amount (Rs in million)
1	Japan Power Company	107	95	749.774
2	Southern Electric Power Company	110	98	1,126.184
3	Saba Electric Power Company	125	115	1,141.326
Total:-		**342**	**308**	**3,017.284**

Source: WAPDA Private Power Organization

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management replied that the new power addition of 4,601 MW through hydro electric power plants, PEPCO / Public was expected to be connected to the national grid during 2013-14, efforts (both on short term and long term basis) were being made to end load shedding.

The DAC in its meeting held in August, 2014 directed the management to submit reply along with documents to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.6 Efficiency of power plants

20.6.1 Loss due to de-rationing of GENCOs – Rs 16,960.51 million

In addition to the de-rationing in the power generation capacity of GENCOs as referred in 20.3 above, the efficiency and availability of these plants was not according to the standards fixed by NEPRA. The power plants of GENCOs consumed excess fuel resulting in production of electricity at higher rates. The major cause of such inefficiency emerged due to improper maintenance of the power generation plants by GENCOs despite the fact that a huge expenditure of Rs 199.64 million (GENCO-I), Rs 139.78 million (GENCO-II), Rs 301.65 million (GENCO-III) and Rs 70.64 million (GENCO-IV) was incurred on maintenance of plants during 2012-13. Resultantly the cost of power generation increased as these power plants consumed more fuel as compared to standard fuel consumption. Table below shows the units generated by each power generation company (i.e. GENCO), fuel consumption standard and actual consumption during the financial year 2012-13.

Losses sustained by GENCOs due to non-maintenance of generation plants

(Rs in million)

Generation Company	Net Electrical Output (NEO) MKWH	* Standard Fuel Consumption	Actual Fuel Consumption	Loss	Loss %
1	**2**	**3**	**4**	**5 = 4 – 3**	**6 = 5/3**
GENCO – I	1,967.74	30,901.02	33,777.38	2,876.36	9.31
GENCO – II	6,367.47	26,422.14	38,119.66	11,697.52	44.27
GENCO – III	495.551	87,263.70	89,599.55	2,335.85	2.68
GENCO – IV	273.312	158.097	209.29	51.193	32.38
A – Total loss due to excess fuel consumption				**16,960.93**	

Source: Statistical Report prepared by each GENCO (E Form)

*** The standard fuel consumption is defined by the Vendor (equipment supplier)**

Above table indicated that in general GENCOs consume more fuel as compared to the standard fixed by NEPRA, making their power generation quite inefficient. However, GENCO–II was relatively more cost inefficient as compared to the rest of GENCOs, registering higher losses to the public exchequer.

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management of GENCO-I replied that major overhauling could not be carried out previously. However, the rehabilitation of all four units has since been carried out under USAID programme in the year 2012-13.

The DAC in its meeting held in August, 2014 directed the management of GENCO-II, III & IV to submit the reply to Audit along with documents within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.6.2 Less generation by GENCOs caused a loss of Rs 240,626.51 million

The power plants generated less electricity as compared to the standard generation requirements. Review of the data revealed that the generation was 49% of the total de-rated capacity of four power generation companies (GENCOs) which was 51% less than the standard power generation requirements as mentioned below. GENCOs failed to generate requisite amount of power as mentioned below;

Generation Company	Power to be Generated (MKWH)	Actual NEO (MKWH)	Loss (MKWH)	Loss (Rs. in million)	Generation by level (%age)
GENCO – I	8,970.24	1,967.74	7,002.50	115,384.56	22
GENCO – II	7,201.53	6,367.47	834.061	6,547.38	88
GENCO – III	1,115	495.551	619.449	114,969.73	44
GENCO – IV	1,314.00	273.312	1,040.69	3,724.83	21
B – Total loss due to less generation			**9,496.70**	**240,626.51**	49

Source: Statistical Report prepared by each GENCO (E Form)

There are two fold reasons for the present state of affairs. GENCOs were not exploited to the available capacity on the one hand and de-rating of capacity over a period of time due to out-dated plants. Moreover, most of the plants were not operational because of non-repair and working inefficiently. This sector sustained a loss of 240,626.51 million against non-production of 9,497 MKWh units during the financial year 2012-13.

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management of GENCO-I replied that major overhauling could not be carried out previously.

The DAC in its meeting held in August, 2014 directed the management to submit the reply to Audit along with documents within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.7 Poor planning for capacity addition

The annual summary dated March, 2012 of capacity addition given by

PEPCO shows that the generation capacity will be 23,928 MW as compared to projected demand of 25,887 MW resultantly gap between demand and supply may remain at 1,365 MW up to year 2016. Hence, the country would continue to be exposed to power crisis. Even the installed generation capacity was not being fully utilized.

Table showing the shortfall of demanded capacity and installed capacity

Year	*Future Capacity demand (MW)	Installed capacity (MW)	Capacity Addition planned (MW)	Total capacity (MW)	Shortage of capacity (MW)
	A	B	C	B+C = D	E = A - D
2013-14	23,233.00	20,986.00	1,926.00	22,912.00	321.00
2014-15	24,532.00	22,912.00	1,016.40	23,928.40	603.60
2015-16	25,887.00	23,928.40	593.00	24,521.40	1,365.60

Source: Statistical reports prepared by PEPCO.

**** The future demand comprises, demand for electricity throughout the year.***

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

The DAC in its meeting held in August, 2014 directed the management of PEPCO to submit revised reply containing future plan regarding utilization of available capacity along with documents to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.8 Failure in load management by NPCC led to closure of 15,277 industrial units causing an estimated loss of Rs 272,023.54 million potential revenue to DISCOs

The National Power Control Centre (NPCC) was established for the management of smooth and economical transmission of electricity to the end consumers. However, it was noticed that no load management policy was developed for the demand from power producers and allocation of electricity among consumers. The evidence of transparent procurement of electricity and its distribution to the end consumers was not forthcoming.

Due to poor load management all sectors of consumers were badly affected specially the cottage industry. NPCC did not allocate the requisite load of electricity to industrial areas all across the country due to which the industrial units were badly affected. A total number of 15,277 industrial units had been shut down since 2006, out of which 85% were cottage industrial units. Resultantly, loss of revenue amounting to Rs 272,023.54 million was being borne by the DISCOs since 2006.

A proper load management policy needs to be framed with the consent of the Provinces/ DISCOs. Load should have been managed to give priority to small industry. Due to non-production of electricity such industry could not make payment of Rs 1,452.58 million to the DISCOs and such amount was still recoverable. **(Annexure-A & Table-4)**

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management of GEPCO and LESCO replied that the industrial consumers were disconnected due to non-payment of electricity bills.

The DAC in its meeting held in August, 2014 directed the management to submit the record in support of the reply to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.9 Circular debt

The issue of circular debt remained the biggest constraint in utilization of available capacity of electricity for more than last five years. The circular debt increased from Rs 149,055 million as on June 30, 2009 to Rs 530,060 million as on June 28, 2013. GoP paid a sum of Rs 480 billion till July 31, 2013 to reduce the circular debt to Rs 90,412 million but the real issues as mentioned below were not addressed to control the growth and future accumulation.

The major reasons for continued increase in circular debt are as follows:

i) Non-payment of cost of electricity by the DISCOs/KESC to CPPA/NTDC which accumulated to Rs 1,204,165.75 million as on June 30, 2013. **(Table – 5)**

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management of DISCOs replied that payment of electricity dues was being paid regularly to CPPA.

DAC in its meeting held on August 07, 2014 directed the management of PEPCO and CPPA to reconcile the figures of receivables with all DISCOs and submit the reply to Audit within a month. However, no further reply / documents were produced to Audit till printing of this report.

ii) Poor recovery of electricity bills by DISCOs particularly HESCO, QESCO, PESCO, and SEPCO. There was outstanding amount of Rs 288,807 million against the consumers of all DISCOs as on June 30, 2013. **(Table – 6 & 7)**

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management of LESCO, IESCO, GEPCO, MEPCO and PESCO replied that they had a very good recovery percentage.

The DAC in its meeting held in August, 2014 directed the management of PEPCO and CPPA to reconcile the figures of receivables with all DISCOs and submit the revised reply along with documents to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.9.1 Unjustified payment of supplementary charges on account of late payment – Rs 50,954 million

Significant portion of the circular debt included the amount of supplementary charges which comprises huge interest payment made to IPPs by CPPA on account of late payment. This huge amount of Rs 50,954 million was recoverable by NTDC from DISCOs on account of supplementary charges as on June 30, 2012 (The amount as on June 30, 2013 not yet booked). This amount remained outstanding since 2009. The short recovery resulted into shortage of funds for payment to IPPs and contributed significantly towards piling up of circular debt. The major cause of non-recovery was that the DISCOs except QESCO were reluctant to book the amount of supplementary charges in their accounts. The amount was not recognized on the grounds that the interest expenses were incurred due to delay in release of subsidy by the Government of Pakistan, therefore the expenses could not be borne by the DISCOs. **(Table - 8)**

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management of DISCOs replied that NEPRA did not allow passing of the late payment charges to consumers. Audit is of the view that DISCOs already charging late payment surcharge to its consumers therefore it will be unjust to further charge consumers.

The DAC in its meeting held in August, 2014 directed the management of PEPCO and CPPA to reconcile the figures of receivables with all DISCOs and submit the reply to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.9.2 Late notification of tariff by the Ministry

NEPRA determines the tariff of all DISCOs, which became applicable to consumers when the same is notified by the Government of Pakistan but usually the tariff was being notified after an average delay of four months. A sum of Rs 49,304.59 million piled up due to late notification by four months. The delay for an average period of four months resulted in accumulated loss of Rs 246,525 million during the past five years. NEPRA determines tariff of each DISCO on the basis of revenue requirement mentioned in tariff petitions filed by each DISCO. However, due to late notification of tariff by the Government, DISCOs were facing shortage of funds. The DISCOs could not collect the determined revenue from consumers and therefore unable to transmit required funds to Central Power Purchase Agency (CPPA). Resultantly the CPPA could not make the payments to IPPs and circular debt increased to this extent. **(Table - 9)**

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management of the DISCOs replied that tariff petitions were being submitted within the stipulated time period but the delay was on the part of NEPRA.

The DAC in its meeting held in August, 2014 directed the management DISCOs to submit record in support of the reply to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.9.3 Gross loss due to higher cost of sales of electricity than sales price Rs 126,363 million

The financial statements of DISCOs for the years 2008-09 to 2011-12 (financial statements not yet prepared for 2012-13) showed that all the companies during the 2011-12 and some companies from 2008-09 to 2010-11 could not even recover the cost of sales and sustained gross loss as major reasons for gross loss as were that the electricity purchase price was higher than the sales price of electricity and failure of DISCOs to file the tariff petition before NEPRA well before the processing time of four months as required by NEPRA. The gross losses of companies worked out as under.

Sr. No.	Year	Gross Loss (Rs in million)
1	2011-12	*101,139
2	2010-11	13,633
3	2009-10	8,874
4	2008-09	2,717
	TOTAL	**126,363**

Source: Financial Statements of DISCOs
* During the financial year 2011-12, all the DISCOs reported Gross Loss. (Table – 8)

This total amount of Rs 126,363 million was added to the circular debt as DISCOs were not able to earn the requisite amount of revenue. Resultantly, the DISCOs could not make payments to NTDC against the purchase price of electricity. Such operating loss piled up at CPPA/NTDC in the form of circular debt which resulted in energy crisis in the country. It is pertinent to mention here that the major cause of power crisis was the widening gap between the cost of electricity and revenue charged from the consumers. This gap was increasing on annual basis as evident from the attached statement. **(Table - 10)**

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management replied that such gross losses were due to delayed determination and notification of annual tariff by the Government.

The DAC in its meeting held in August, 2014 directed the management of DISCOs to submit record in support of the reply to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.9.4 a) Unjustified expenditure made by CPPA – Rs 17,608 million

As per the "resolution of the issues of circular debt in the power sector" of the Finance Division dated May 21, 2009, GoP will remove the bank borrowings (along with markups) that are on the books of power companies as a consequence of GoP's unpaid subsidies from financial year 2004-05 to 2008-09. These liabilities were amounting to Rs 216 billion. MoF will place these amounts in a holding company under the Ministry of water and Power outside the power sector (wholly owned by the GoP) and the repayment of it would be managed through other means such as asset sales over the next three to five years. The servicing of these liabilities will be reflected in the budget.

An amount of Rs 216 billion of principle and interest of loans was transferred to Power Holding Company Private Limited (PHPL) in compliance with the decision of Government of Pakistan. As per resolution of Finance Division such re-payments were to be made by the Government. However, a payment of Rs 17,608 million was made by CPPA in respect of loan and interest transferred to PHPL, which was against the resolution of Ministry of Finance. The payment of Rs 17,608 million to PHPL was irregular and unjustified. This amount was pulled out from the power sector which resulted in shortage of funds and increase in circular debt. **(Table - 11)**

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management replied that the amount has been received from Federal Government.

The DAC in its meeting held in August, 2014 directed the management to submit record in support of the reply to Audit within a month. Further progress was not reported till finalization of the report.

b) Unjustified expenditure on advertisment – Rs 1,137 million

Another reason for increase in circular debt was the unjustified payments by CPPA resulting in financial constraints for making payments to IPPs. The CPPA (a subordinate formation of NTDC) can only incur expenditure for procurement of electricity from IPPs, GENCOs and WAPDA on half of DISCOs, for delivering of electricity through 500 KV, 220 KV and 132KV network. An instance was observed whereby a huge payment of Rs 1,137 million was made to various advertising agencies on the direction of PEPCO, which was against the objects of purchase of electricity. **(Table-12)**

The whole Power Sector was under high liquidity crisis; even companies not have funds to make payments for energy produced in the country then why such huge payments were being made under the head “Advertisement”. It was worth mentioning that DISCOs, GENCOs, and NTDC had also refused to bear these expenses. It was a clear leakage of funds from the system without any substantial benefit and had played vital role in creation of circular debt, ultimately worsening the financial position of the CPPA.

CPPA incurred ultra virus expenditure on advertisement despite the fact that it was going through financial crisis due to which it could not pay power producers against invoices raised by them. Non-payment to power producers on timely basis resulted in accumulation of the circular debt and long hours of load shedding.

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

The DAC in its meeting held in August, 2014 directed the management of CPPA to submit the reply along with documents to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.10 Uneconomical energy mix

During the year 1983 the energy mix comprised 36% thermal energy and 64% hydel energy, whereas at present i.e. during the financial year 2012-13, out of total installed generating capacity 20,854 MW, this mix had reversed whereby 68% of energy was generated through thermal resources and 32% energy was generated using hydel resources.

Year	**Hydel (MW)**	**%age**	**Thermal (MW)**	**%age**	**Total (MW)**
1983	2,547	64	1,407	36	3,954
2013	6,733	32	14,121	68	20,854

Hydroelectric power stations were classified as the most efficient power plants. It was the cheapest source of producing electricity but since the promulgation of Power Policies of 1994 and 2002 no sufficient hydro power plants were developed. Only thermal power plants were inducted in Private Sector which caused increase in price of electricity. The cost of generation of electricity was very high due to heavy reliance on IPP's which had a high per unit rate of electricity i.e. Rs 13.36 per KWh for IPPs of Power Policy, 1994 and Rs 15.63 per KWh for IPPs of Power Policy, 2002.

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management replied that energy mix was changed due to power policies of Federal Government, financial constraints and law and order situation in the country.

The DAC in its meeting held in August, 2014 directed the management of WAPDA & PEPCO to submit a comprehensive reply along with documents to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

Following are the major flaws in energy mix in Pakistan:-

20.10.1 Non-utilization of indigenous resources

It was observed that Pakistan was blessed with abundance of renewable (i.e. Hydel, solar, wind, biomass, tidal etc.) energy sources and non-renewable resources (i.e. natural gas, coal, etc.). The major reason for non-utilization of these resources was that the focus of the Governments was only on RFO based power plants. IPPs having capacity of 9,000 MWs were inducted since 1994 and the indigenous resources were always ignored. The quantum of availability of indigenous resources and present status of their utilization was explained as under:-

i) Wind energy

It was a renewable resource for power generation and according to press release by Overseas Pakistan Investment Corporation (OPIC), Pakistan possesses wind power generation capacity of over 132,000 MW. However, Alternative Energy Development Board (AEDB) in its report "Renewable Energy in Pakistan: Status and Trends" declared that Pakistan had exploitable potential of 50,000 MW of electricity generation through wind energy. India was generating energy from this source 18,420 MW which is 8% of its total generation.

Out of the total available capacity only 51 MW (Zorlu Enerji Pakistan 1MW and FFC Energy Limited 50 MW) i.e. 0.1% has yet been generated. Leveled upfront tariff of wind projects had been announced by NEPRA which was Rs 16.27 per Kwh.

ii) Solar energy

According to the research report issued by AEDB, the solar power generation potential in Pakistan was about 200-250 watts square meter per day. However, despite being a sunshine country, this source had yet not been utilized as presently solar energy was not contributing in the total energy mix of the country while India was generating 1,176 MW energy from this source.

iii) Biomass

Biomass consist of growing plants or the remains of growing things, it includes trees, grasses, crops, agro residues aquatics plants, animal manure, etc. As sun was the source of wood and all other biomass, wood conforms to be a renewable source of energy, which would be available as long as the sun shines.

Biogas, one of the most significant types of biomass energy, makes optimal utilization of the valuable natural resource of dung. It provides clean gas for meeting cooking and energy needs as well as enriched bio-fertilizer for improvement of fertility/ productivity of agricultural lands. In a research report issued by AEDB, 17.25 million cubic meter of biogas can be produced daily which could be used for generating power, besides meeting the house hold cooking requirements. In addition, producing 96.6 million kg of bio-fertilizer per day or 35.04 million tons of bio-fertilizer per year, which was an essential requirement for sustained the fertility of agricultural lands.

However, there was not a single facility developed by AEDB/ PPIB for the exploitation of this resource while 1,249 MW electricity was being generated in India from this source.

iv) Coal (non-renewable resource)

According to a study carried out by National Electric Power Regulatory Authority (NEPRA), the country had coal reserves of 185,175 million tones. It was anticipated that, if properly exploited, Pakistan's coal resources may generate more than 100,000 MW of electricity for the next 100 years. However, presently PEPCO has only one coal based power generation plant i.e. Lakhra Power Generation Company (GENCO – IV), having installed capacity of 150 MW. Out of the total installed capacity, only 31 MW were being generated which was 0.031% of total available potential. GENCO-IV was not operating at full potential due to closure of 100 MW power generation plants i.e. two generation plants of 50 MW each since 2009. These two plants were closed due to non-maintenance of major parts on timely basis. In India 128,326 MW (57%) electricity was being generated from coal.

v) Hydel power projects

There was identified hydel power generation capacity of 58,037 MW in the country. Out of this, hydel power projects having total capacity of 50,938 MW were identified in the Vision 2025, whereas no initiatives have yet been undertaken for the materialization of these resources. In addition to the above, 18 hydro projects having capacity of 15,500 MW were to be completed by 2010. However, non-completion of these projects within the stipulated time period aggravated the energy crisis as these projects could have added another 14,456 Million KWh into the national grid annually. Another major project of Dasu (4,000 MW) is planned to be completed up till 2019 but concrete efforts were evident. Non-development of these projects was the main cause of in economic energy mix which ultimately resulted in high tariff. Delay in these projects can be attributed to poor planning and practices of the relevant entities as well as the Authorities. **(Table-13 & 14)**

vi) Tidal energy

The coastline of Pakistan, which was about 1,045 km-long with dominant features, was the best resource for harnessing tidal energy. In Sindh, two sites, creek system of Indus delta of 170 km and two to five meters tidal heights at the Korangi Creek, were available to exploit the tidal energy. Sonmiani Beach and Kalamat were also good prospects of tidal energy in Balochistan. However, despite having the potential, the resource has neither been evaluated nor any efforts for the materialization of the same had yet been carried out.

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

The DAC in its meeting held in August, 2014 directed the management of WAPDA & PEPCO to submit the comprehensive reply containing efforts, achievements and hurdles along with documents to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.10.2 Dependence on expensive sources of power generation

Our 50 % reliance was on IPPs which have the highest per unit rate of electricity i.e. Rs 13.36 per KWh for IPPs of 1994 power policy and Rs 15.63 per Kwh for IPPs of 2002 power policy. Per unit rates of Hydel projects were very low as compared to all other sources i.e. Rs 1.58 per Kwh. It is also evident that the average unit price of Ex-WAPDA GENCOs was still low as compared to IPPs. Highest per unit price of electricity relate to IPPs of 2002 Power Policy.

(Rs. in million)

Sr. No.	Source of Generation	Dep. Capacity (MW)	NEO (MKWH)	Percentage of total Generation	Capacity Payment	Energy Payment	Total	Avg. Rate (Rs / (KWH)
1	Hydel	6,825	30,033	34%	44,644	2,755	47,399	1.58
2	Ex-WAPDA GENCOs	3,798	12,871	15%	12,554	157,481	170,035	13.21
3	IPPs 1994	5,821	30,983	35%	80,339	333,505	413,844	13.36
4	IPPs 2002	2,393	13,097	15%	44,814	159,876	204,690	15.63
5	Others	332	1,287	1%	1,228	12,298	13,526	10.51
Total			88,270		183,578	665,916	849,494	9.62

Source: Procurement Reports (CPPA)

Per unit cost of IPPs based on RFO was considerably higher as compared to other IPPs. Average per unit cost of IPPs on RFO was Rs 17.84 per Kwh, which ranged from Rs 16.50 per Kwh to Rs 19.07 per Kwh. Most of the payment was made to the RFO companies, 79% of total payment of IPPs of 1994 was made to the RFO companies against their share of 57% in net electrical output. In addition, 1,222 MW projects were installed based on Gas and HSD, per unit cost of these projects were also very high due to non-allocation of gas to these plants. Most of the production was made on HSD instead of Gas. As per contract these plants had to run the plant on HSD only for three month in a financial year when Gas would not be available. Instead of this they produced more units on HSD and less on Gas. For example Sapphire power plant produced 369 million units on gas and 509 million units on HSD.

The power generation from Hydel resources was the cheapest source of generation followed by the wind, natural gas, nuclear and coal. However, the contribution of these resources, except Hydel was next to negligible i.e. 1%. In addition, thermal power units, being the most expensive source of generation, owned by the GoP i.e. GENCOs and Independent Power Producers (IPPs) contribute to 65% of the total power generation. **(Table - 15)**

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

The DAC in its meeting held in August, 2014 directed the management of WAPDA & PEPCO to submit the comprehensive reply containing efforts, achievements and hurdles along with documents to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.10.3 Non-conducting of energy audit

In present scenario of high energy crises the Government should have ensured the Energy Audit of all DISCOs, GENCOs, IPPs and NTDC to ascertain the reasons of high generation cost, low efficiency of the power plants etc. No such efforts were made by the GOP to improve the system and save the interest of the consumers.

NEPRA determines the tariff without conducting the energy audit which is unjustified. An energy audit is required to ascertain the actual transmission, distribution and generation losses of NTDC, DISCOs and all Generating units.

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

The DAC in its meeting held in August, 2014 directed the management of GENCOs that energy Audit be conducted. DISCOs and NTDC should also complete their studies and submit the reports to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.11 Transmission and distribution losses

Electric power transmission and distribution losses include losses in transmission between sources of supply and points of distribution and in the distribution to consumers, including pilferage.

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management replied that an independent analytical study/evaluation of transmission and transformation losses of NTDC is under process.

20.11.1 Loss due to inefficient transmission lines by NTDC - Rs 15,636 million

NEPRA allowed 2.5 % losses for transmission of 500/220 KV Transmission Network of NTDC while transmission losses remained 3.03% in 2010-11, 2.83% in 2011-12 and 3.08% in 2012-13 as shown below.

Loss of revenue due to transmission losses

Sr. No	Year	Units Input from all sources GWh	Units Sent out GWh	Units Lost During Transmission GWh	Percentage of Units Lost (%)	Units Allowed for Transmission Loss by NEPRA 2.5%	Units Lost in Excess of Target GWh	Avg. Sale Rate (DISCOs) Rs/KWh	Loss of Revenue (Rs in million)
1	2012-13	88,270	85,554	2,716	3.08	2,207	509	14.664	7,468
2	2011-12	89,721	87,182	2,539	2.83	2,243	296	11.894	3,520
3	2010-11	90,481	87,741	2,740	3.03	2,262	478	9.724	4,648
Total							**1,283**		**15,636**

Source: source wise generation provided by NEPRA.

Theses high transmission losses were due to poor maintenance and inadequate transmission and grid stations network of 500/220 KV. Had the transmission losses remained within targets, these lost units also available to end user. In addition to it the revenue amounting to Rs 15,636 million would have been generated during a period of three year and available to PEPCO/CPPA for payment to IPPs.

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management replied that Independent analytical study / evaluation of transmission and transformation T&T losses of NTDC is under process as desired by NEPRA.

The DAC in its meeting held in August, 2014 directed the management to complete the study and submit the report to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.11.2 Loss due to inefficiencies in distribution system of DISCOs Rs 16,522 million

Distribution losses of DISCOs remained 16.88%, 16.89% and 17.01% during 2012-13, 2011-12 and 2010-11. As compared to other Asian countries, these losses were extremely high. In, China, Sri Lanka and Bangladesh, the T&D losses were only 6%, and 14% and 2% respectively: while for Organization for Economic Co-operation and Development (OECD) member countries, T&D losses were just 7%.

In Pakistan, NEPRA allowed targets for distribution losses for the DISCOs but almost all of them failed to meet the targets. NEPRA had given different targets to different companies which ranges from 9.5% to 28% (2012-13), despite the fact that distribution system was almost the same except in Islamabad territory. Increase cost of electricity added to the incentive of theft for consumers. NEPRA has desired to carry out a study for T&D losses in tariff determination of DISCOs so that a correct and authentic target can be allowed but no such study had been carried out as yet and there was no rational behind the approval of already allowed line losses by NEPRA, therefore, causing and unjustified burden on consumers.

Sr. No.	Name of Company	Total Units Received (MKWh)	Total Units Billed (MKWh)	Units Lost (MKWh)	Percentage Loss	Loss of Revenue (Rs in million)
1	Punjab	52,443	46,468	5,975	11.39%	1,512
2	KPK	12,108	8,457	3,652	30.16%	6,554
3	Sind	8,953	6,250	2,703	30.19%	8,122

4	Balochistan	4,681	3,812	869	18.57%	334
	Total	**78,185**	**64,987**	**13,199**	**16.88%**	**16,522**

Source: Statistical reports from PITC

Punjab had the lowest distribution losses of 11.39 % and Balochistan suffered 18% losses, Sindh and KPK suffered highest line losses in the country i.e. 30%. Had the PEPCO properly manage the activities of DISCOs, the distribution losses could be minimized and energy could be saved and made available to end consumer and also the load shedding and circular debt be minimized. **(Table-16.1, 16.2 & 16.3)**

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management replied that targets fixed by NEPRA were based on unrealistic basis and various studies were being carried out to reduce the line losses.

The DAC in its meeting held in August, 2014 directed the management of DISCOs (except FESCO, GEPCO and IESCO) to bring the T&D losses within NEPRAs target and submit the reply along with documents to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.12 Energy conservation

20.12.1 During March, 2008 urgent measures for additional power generation was recommended by the Government of Pakistan. In addition to installation of additional capacity, the following measures of energy conservation were also recommended.

(i) PEPCO would arrange distribution of 10 million energy saver bulbs to ensure substantial energy saving.

(ii) PEPCO would forthwith introduce time of use metering for industrial and large commercial consumers for capitalizing on the saving potential in this measure.

(iii) Prime Minister would be requested to ask the Chambers and trade bodies for their support toward energy conservation measures by way of adopting all energy conservation measures including early closure of shopping centers etc.

(iv) In order to ensure fast-track implementation of the above measures for power generation, Ministry of Finance would provide necessary guarantees and cash flows to PEPCO.

None of the above measures were adopted by PEPCO to save the electricity since 2008. The PEPCO executed a loan agreement with ADB for procurement of 30 million energy savers during April, 2010 but the said procurement was not completed till June, 2013 hence no results were arrived at to save the electricity. In addition, these energy savers were to be provided by PEPCO through loan from Asian Development Bank and there cost would ultimately be charged to end consumers via tariff which was also unjustified. Installation of TOU meters and early closure of shopping centers was also not implemented in true spirit.

At Government there was emphasized on production/generation of electricity, but a very routine approach towards sensitizing the public on energy conservation. To save energy coercive measure like increasing the cost of electricity used which ultimately become counter productive as these increase the instances of theft etc. Public is required to be educated regarding use of energy efficient domestic as well as industrial appliances like fans, heaters, electric motors, lighting system etc. In addition efficiency of the appliances being used in the country needed to be standardized for energy conservation. Government needs to formulate the law for manufacturing of appliances designed for standardized and economic consumption of electricity. Government should also subsidize the energy efficient devices and equipment of renewable resources.

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management replied that 3.17 million energy savers had been distributed and saved 105.67 MW.

The DAC in its meeting held in August, 2014 directed the management of DISCOs to submit the position of CFL. Management of PEPCO was directed to submit the position of TOU meters and reply along with documentations be submitted to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC’s directives.

20.12.2 Energy Efficiency and Conservation Act, 2011 was promulgated during the year 2011 for the conservation and efficient use of energy. Section-6 of the Act required constitution of the ‘National Energy Conservation Authority’ immediately after the promulgation of the Act whereas no such Authority had been established to regulate the efficiency and effectiveness of the power sector entities.

The demand abruptly jumped due to change of life style of Pakistani community. Millions of electric appliances were manufactured and imported and thrown in the market as a result of which 3,570 MW load of these appliances added in the system which caused the problem. Audit was of the view that demand raised could not be envisaged and fulfilled by the authority and any counter efforts were not made to fulfill the demand and conservation measures could not be materialized for making these appliances energy efficient.

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management replied that the constitution of National Energy Conservation Authority is under process and further progress would be intimated to Audit. No further progress was intimated.

20.13 Other factor

20.13.1 Inclusion of capital cost in the tariff charged from end consumers

28 IPPs were inducted in the system from 1994. Under the Power Policy of 1994 and 2002 private power producer had to invest only 20 to 30 percent of the capital in the business and rest of the 70 to 80 percent was to be financed through the local and foreign banks.

The payment of 80 percent of capital cost amounting to USD 5,481 million along with the interest cost of these plants was being included in the tariff charged from the customers. Inclusion of principal amount of debt in per unit cost of electricity was unjustified. Audit was of the view that only the interest can be charged because it was the cost of borrowing. Ultimately a consumer was paying for the capital amount of the IPP as included in the tariff, which was clear burden on the shoulders of the consumers and on the other hand consumers were not getting any benefit of such payments and upon the complete payment of the loan, the all the assets will be the property of IPPs. It was worth mentioning here that all the major and minor overhauling cost of plants was also being born by the end consumers.

Even if the plants were to be handed over to the power producer, consumers should have been given credit of the payment which they were making for the capital expenditure on the behalf of the IPPs. While determining the tariff of such IPPs, NEPRA did not consider the fact that the payment of capital cost by the consumer was not justified and in any case consumer could not be held responsible for the payment of capital expenditure incurred by the IPPs for building/ acquiring their assets.

The relief against capital contribution by the power consumers needs to be incorporated in the tariff determination procedure of NEPRA. **(Table-17)**

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

The DAC in its meeting held in August, 2014 directed the management of NTDC (WPPO) to submit the reply along with documents to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.13.2 Losses to economy

There was persistent increase in demand for electricity; however, PEPCO failed to satisfy such demand since last several years resulting in huge losses to the economy of Pakistan. The shortfall in the demand been shown in the Table–18.

Failure to generate electricity to meet the rising demand resulted in failure to achieve desired rate of growth in Gross Domestic Product (GDP). Resultantly, heavy economic losses were sustained by the country during the past few years.

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management replied that the unfortunately mega projects like "Kala Bagh" politicized and efforts remained un-successful. Had the Kala Bagh Dam project completed the energy crisis according to its commercial operation date, the energy crisis in terms of electricity could have been averted. Audit holds that Kala Bagh was one of the factor only but why the rest of the 50,000 MW could not be materialized.

The DAC in its meeting held in August, 2014 directed the management to reconcile the figures with Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.13.3 Loss due to write off by DISCOs against 26,496 consumers Rs 20,288.21 million

Huge amount of Rs 20,288.21 million was written off against 26,496 consumers during the financial year 2012-13. Audit was of the view that the DISCOs do not had powers to write off such a heavy receivables/debts without proper and valid justification.

Analysis showed that major amounts were written off by SEPCO, HESCO and QESCO amounting to Rs 9,809.87 million, Rs 8,450.47 million and Rs 1,975.57 million respectively. Non-recovery of such a huge amount of receivables from consumers and simply writing off the amount was in contravention with the relevant rules and regulations framed for this purpose.

Non-recovery from consumers and written off such a heavy amount badly affected the working capital position of the DISCOs and made a substantial contribution to the Circular debt and Energy Crisis in the country.

Receivables written off during financial year 2012-13

(Rs in million)

Sr. No.	Name of Company	No. of Consumers	Total Amount Written Off
1	SEPCO	9,743	9,806.866
2	HESCO	11,784	8,450.466
3	QESCO	2,553	1,975.567
4	PESCO	1,672	50.242
5	MEPCO	718	4.831
6	IESCO & GEPCO	26	0.236
	TOTAL	**26,496**	**20,288.208**

There was no evidence that these companies had exhausted all the efforts to realize the blocked funds. Therefore, Audit suggested to investigate the matter and justify the writing off such a heavy receivables from the books of DISCOs.

The matter was taken up with the management in September, 2013 and reported to the Ministry in November, 2013. The management replied in case of HESCO and SEPCO, that Govt. of Sindh was reluctant to make payment of electricity while its departments were using electricity through both sanctioned and unsanctioned connections. Govt. of Sindh did not honour the decision made by following prominent forums:

a. Task Force constituted by National Assembly's standing committee
b. Decision made by Advisor to Chief Minister Sindh
c. Decision made by the Sub committee of standing committee
d. Decision made by the Honorable High Court for payment of current bill (But 100% current bill was not paid)

But the GoS not complied to any of the above decisions then on decision Sub Committee of Counsel of Common Interest, under chairmanship of the Chief Minister Sindh write off was made.

The DAC in its meeting held in August, 2014 directed the management of FESCO, LESCO, QESCO and TESCO to submit the reply along with documents to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

20.14 Conclusion

In view of the forgoing, it is concluded that:

- PEPCO's de-rated capacity of existing plants could not be used due to non- rehabilitation / replacement. 2,009 MW capacity could be utilized by rehabilitation/replacement existing plants of GENCOs.
- Electricity was not being procured from the IPPs according to their contracted capacity.
- Circular debt which was most important factor causing power crisis. Huge circular debt was accumulated due to non-payment of electricity bills by the end consumers as well as KESC. Non-recovery of interest charges on delayed payment from DISCOs, non-payment of subsidy by GOP, higher cost of electricity than the sale price and late filing of tariff petitions by DISCOs to NEPRA also contributes to accumulate the circular debts.
- As all the IPPs inducted in the system were on 80% debt basis, which was ultimately being recovered from the end consumers of Pakistan. Therefore, an amount of US$ 5,481 million was imposed on the shoulders of public for supplying electricity at very high rates.
- Excessive heat rate above the standard had adversely affected the efficiency of the plants (GENCOs).
- Non-maintenance of power generation plants resulting in less generation and high cost of electricity.
- National Power Control Center (NPCC) was responsible for management of demand and supply of power in economic way. There was no policy for management of supply and demand of power in NPCC. Reportedly, the demand and supply of power as well as load shedding was being managed on telephone calls.
- The entities responsible (WAPDA, PEPCO, PPIB, AEDB and PRES) for development of indigenous resources did not take interest to procure electricity by use of indigenous resources (both renewable and non-renewable) of the Country. There was 58,000 MW of hydel potential (renewable resource), 100,000 MW of coal (non-renewable resource), 132,000 MW of wind (renewable resource), and 200-250 watt per square meter per day of solar power (renewable resource) available in the

country which was totally ignored. Our neighbor country India was producing 57% (128,000 MW) electricity on coal but in Pakistan this resource was totally ignored.

- The coal reserves were abundantly available in the country whereas dependence for power generation on these resources was next to negligible i.e. only 31 MW were being generated out of this resource. On the other hand KESC was undertaking concrete measures for the utilization of this resource and had initiated the construction of coal based power generation plant of 1,200 MW at Thar coal fields. Moreover, it was also undergoing reforms for the conversion of existing RFO based power generation plant of 1,260 MW into coal based plant.
- AEDB was established during the year 2003 for the development of power generation industry using renewable resources. However, after the lapse of 10 years it failed to make substantial contribution towards the national power generation capacity using renewable resources. There were enormous amount of renewable resources available in the country (i.e. 132,000 MW wind energy, 57,000 MW hydel energy etc.) which can fulfill the national demand for electricity however these resources had yet not been exploited. KESC, on the other hand, was in the final phase to establish Bio Waste-to-Energy plant of 22 MW whereas no concrete efforts were undertaken by AEDB for the utilization of this resource.
- Electricity was being generated from most expensive source i.e. High Speed Diesel (HSD) or Residue Furnace Oil (RFO) instead of renewable resources. Abnormally higher capacity payments were being made to various IPPs and expensive electricity was procured from IPPs instead of GENCOs.
- Increased dependence on expensive sources of power generation resulting in un-affordable power prices for the end consumers.
- As per decision of Supreme Court in respect of Rental Power Plants “The Federal Government /WAPDA /PEPCO /GENCOs had failed to control pilferage of electricity from the system because of bad governance and failure of the relevant authorities to enforce the writ of the Government”.
- Energy Efficiency and Conservation Act, 2011 was promulgated during the year 2011 for the conservation and efficient use of energy. Section-6

of the Act required constitution of the 'National Energy Conservation Authority' immediately after the promulgation of the Act whereas no such Authority had been established to regulate the efficiency and effectiveness of the power sector entities.

- Significant amount of transmission and distribution loss was major cause of losses sustained by power sector entities. Almost all the entities failed to maintain their targets for line losses notified by NEPRA.
- Review of the Tariff Determination announced by NEPRA revealed that the capital cost of power plants of IPPs was included in tariff and being recovered from the consumers, despite the fact that the power plants would be property of the investors. This resulted in undue favor to the investors and burden on consumers.
- Huge amount was paid to other entities and irrelevant expenditure was made by PEPCO. In addition, heavy amount of receivables was irregularly written off by the DISCOs.
- There was no evidence of coordination of work between the entities and authorities responsible for the development of renewable sources of power generation. Various organizations including, WAPDA, PEPCO, PPIB, AEDB, Pakistan Renewable Energy Society (PRES), Pakistan Council of Renewable Energy Technologies (PCRET) and Renewable & Alternative Energy Association of Pakistan (REAP) were established for the development of power generation resources specially the renewable resources, however, the contribution made by these organizations was minimal.

20.15 Recommendations:

- Maximum power generation capacity of IPPs should be utilized to avoid payment of unutilized capacity and to minimize the per unit cost of electricity.
- PEPCO should undertake concrete measures for the recovery of blocked funds in the form of receivables from consumers and Government.
- Federal Government should transfer funds to the provincial Governments after adjusting the amounts receivables to reduce the circular debt portion of provincial Governments.
- Government should also subsidize the energy efficient devices and

equipment of renewable resources and reversible meter should be installed to cut the cost of storing the energy through batteries.

- Reforms are required for the management of GENCOs. Plants should be rehabilitated and proper maintenance schedules should be strictly following to improve the efficiency of plants.
- The power generation plants of GENCOs should be properly maintained in order to obtain the maximum output from these plants.
- Public should the encouraged to use electric equipments using requiring less electricity such as energy savers, less electricity consuming fans and electric motors. This will help in energy conservation and result in lessoning the gap between demand and supply.
- Recovery drives must be expedited with the cooperation of provinces. Moreover measure should be undertaken for the development of load management policy whereby the power is supplied to grid stations/ consumers on the basis of the amount recovered out of billing.
- Indigenous resources specially the renewable resources are abundantly available in the country which can be utilized to meet the demand for power generation. The Government shall undertake concrete measures to eliminate all the bottle necks, including the financial constraints, in the installation of these power plants. In addition, instead of establishing number of organizations (i.e. PPIB, AEDB, PRES, REAP, PCRET) with similar objectives, the planning and development may be carried out by a single organization which will not only lessen the extra burden on national exchequer but also enable efficient development of renewable resources.
- Energy audit of all power generating companies, NTDC and DISCOs should be carried out to avoid wastage of energy and promote energy conservation.
- Targets set by NEPRA for transmission and distribution losses should be minimized by controlling the theft of electricity, proper maintenance of Transmission and Distribution system and monitoring of NEPRA targets at feeder level/subdivision level. Over billing should be avoided to control the distribution losses. Power sector companies incurred average line losses of 20% during the financial year 2012-13, 2011-12 and

2010-11 against an average target of 15% set by NEPRA. Failure to meet targets resulted in losses of Rs 57 billion during the last three years. Power may be distributed to the consumers based upon the revenue recovery from each power grid

- The National Energy Conservation Authority should be established to devise and enforce energy conservation measures for all sectors of economy.
- The Government should improve the existing system of generation and transmission of electricity, by taking all necessary steps, including clearing of circular debt, etc., so that electricity can be generated to the maximum capacity.

CHAPTER-21

PERFORMANCE AUDIT REPORT
ON
SATPARA DAM PROJECT SKARDU

21. PERFORMANCE AUDIT REPORT OF SATPARA DAM PROJECT SKARDU

EXECUTIVE SUMMARY

Director General of Audit WAPDA conducted an audit of Satpara Dam Project Skardu in May-June, 2014. The main objectives of the audit were to evaluate the economy, efficiency and effectiveness of the project. The audit was conducted in accordance with the prevailing rules and regulations.

Satpara Dam Project Skardu has been constructed near the town of Skardu in Northern Areas of Pakistan. This Project is a part of WAPDA Vision-2025 Programme .The proposed Dam is 128 ft high and stores 0.093 MAF of water. Hydro Power potential for the project was 13 MW with the addition of two power houses (3&4) at left bank canal; it was to be enhanced up to 17.6 MW. The stored water was to be used to irrigate 15,000 acres of land and to provide 3 million gallons of drinking water per day. The Project was approved by the Executive Committee of National Economic Council (ECNEC) in September 2002 with a total cost of Rs 2,090.43 million and revised on September 2009 with total cost of Rs 4,480.02 million.

Key Audit Findings:

Following are the key Audit findings of Performance Audit Report of Satpara Dam Project.

- i) The completion of project was delayed for about 8 years.
- ii) Cost over-run Rs 4,059.57 million.
- iii) In addition to revenue loss, beneficiaries of the project were deprived of safe drinking water, water for irrigation and cheap electricity.
- iv) Targets could not be achieved due to non-completion of the project in time.
- v) Non-approval of PC-1 (2nd Revision) in time.
- vi) An amount of Rs 6,150 million was incurred up to February, 2014 against a total approved cost of Rs 2,090.43 million.
- vii) Irregular purchase of vehicles.
- viii) Non-mutation of land valuing Rs 181.91 million.
- ix) Non-finalization of disputed land awards valuing Rs14.52 million.

x) Non-recovery of Rs 591.86 million on account of cost of electricity.

Recommendations

The Audit recommends to:-

i) Implement schedule given in PC-I of the project.
ii) Vigorously pursue continuous flow of funds.
iii) Regulate the land acquisition proceedings and payments as per provisions of the Land Acquisition Act, 1894 to avoid excess payments.
iv) Strictly adhere to public procurement Rules, 2004 for transparency in award of contracts.
v) Adhere to the conditions and clauses of contracts.
vi) Ensure proper monitoring and surveillance of project works for achieving quality and timely completion of project.
vii) Strengthen internal controls to avoid financial irregularities.
viii) Ensure timely resolution of issues between stakeholders to avoid delay.
ix) Suggest monitoring mechanism regarding achievement of intended objectives of the project.

21.1 Introduction

The Director General of Audit, WAPDA conducted an audit of Satpara Dam project Skardu in May - June, 2014. The project was planned to be constructed near the town of Skardu in Northern Area of Pakistan. This project is a part of WAPDA Vision-2025 Programme. The dam is 128 ft high and stores 0.093 MAF of water. Hydropower potential for the proposed project was 13 MW; with the addition of 2 power houses at Left Bank Canal (3&4) it was enhanced up to 17.16 MW. The stored water irrigates 15,000 acres of land and provides three (03) million gallons of drinking water per day.

To achieve construction targets, whole project was divided into the following independent packages:

- Lot-1A: Civil & Hydraulic Steel Works
- Lot-1B: Electrical & Mechanical Works
- Lot-2: Irrigation System
- Lot-4: Shatung Nullah Diversion – deferred for the time being

- Power House No.3&4: Civil & Hydraulic Steel Works
- Power House No.3&4: Electrical & Mechanical Works

The project was approved by the Executive Committee of National Economic Council (ECNEC) in September, 2002 with a total cost of Rs 2,090.43 million and revised on September 3, 2009 with total cost of Rs 4,480.02 million.

Consultancy services contract for Satpara Dam project was signed on November 23, 2002 between Water and Power Development Authority (WAPDA) and a Joint Venture (JV) of local consulting firms, Pakistan Engineering Services (Pvt.) Ltd., Lahore, in the lead, M.M Pakistan (Pvt). Ltd, Lahore, Mirza Associate Engineering Services (Pvt) Ltd, Lahore. Zaheeruddin Consultants (Pvt.) Ltd., Karachi, In Consult (Pvt.) Ltd, Lahore and Technica International, Islamabad. Project Advisor was M/s Coyne-et-Bellier, Paris, France. Contract for construction of Civil and Hydraulic Steel Works (Lot : 1A) was awarded to M/s DESCON Engineering Ltd on April 14, 2003. Original date for the completion of dam and powerhouse (Lot : 1A) was January 13, 2007 but was delayed up to July, 2011.

Lot: 2 Contract (Irrigation System) was awarded to Central China Power Group (CCPG). Letter of Acceptance was signed by the Contractor on August 28, 2004. Notice for the commencement of work was issued on November 23, 2004. The contractor started his work in June, 2006. The contractor resumed the construction activities on July 13, 2009 after stoppage of works from July, 2008 with a demand for revision of rates for balance quantities. The contract for Lot-1A mobilized at site in first week of March, 2011 after winter closure and completed the remaining 3% works of Dam and Power House 1&2 on July 31, 2011.

Civil works contract for Power House No 3 & 4 was awarded to M/s DESCON on April 25, 2011 for Rs 441.55 million with a completion period of 22 month. The contractor completed the project works by Jun 30, 2013. Electrical and maintenance work for Power House No 3 & 4 was awarded to M/s Andritz for Rs 516.45 million on June 9, 2011 with a completion period of 21 months. The contractor completed the work by June 30, 2013.

a) Objectives of the project

Objectives of the project are following:

- Generation of 17.16 MW of electricity
- Irrigation of 15,000 acres of land

- Provision of 3.1 million gallons per day drinking water for the people of Skardu
- Improved standard of living.
- Employment opportunities during construction,
- Socio-economic uplift of the area.

b) Beneficiaries

Local community of Skardu

c) Time phasing

Construction period including detail engineering design was 48 months.

d) Source of finance

Government of Pakistan & USAID

e) Type of finance

Local	Rs 3,925.34 million
Foreign	Rs 554.68 million

21.2 Audit objectives

The main audit objectives of the project are:

- To evaluate whether the project succeeded in achieving objectives as envisaged in PC-I
- To evaluate whether the internal controls were operative and functioning effectively.
- To examine whether the awarding and execution of contracts were on merit and successfully executed.
- To see that the payments to the consultants were made in accordance with the provision of the agreements and that the consultants fulfilled their obligations successfully.
- To evaluate cost and/ or time over run
- To evaluate issues regarding the economy and efficiency in completion and operation of the project.
- To assess the effectiveness of project in terms of envisaged benefits.

21.3 Audit scope and methodology

Audit period to be covered for Performance Audit was 2003 to date. During this period, an expenditure of Rs 6,191.21 million had been incurred. The auditable record of the project was available at the office of the General Manager Projects (Northern Areas) GBHP Colony, Haitian and Project Director, Satpara

Dam Project, Skardu, Gilgit Baltistan.

Audit activity started with preparation of Preliminary Survey Report (PSR). After approval of Preliminary Survey Report (PSR) from competent authority, audit assignment plan was prepared and then audit program was developed.

Following audit methodology has been adopted during the course of execution of performance audit:-

a) Site visits
b) Interview and discussion with project management and
c) Examination of selected record/documents of the project on sample basis

21.4 Organization and management

The project was headed by a Project Director (BPS-19) under the administrative control of General Manager, Projects (Northern Areas). After the completion of dam, post of PD has been converted into post of Resident Engineer. No substantial shortfall in available strength of staff for project was observed. Audit examined the performance and efficiency of executive and staff working on the project regarding organization and management during the execution of the Satpara dam project. In this aspect, following shortcomings were observed by audit

21.5 Audit findings

21.5.1 Non-production of record

Public Accounts Committee issued the directives on June 30, 2004 to the department to make available all information/record to audit as and when required by them, otherwise, disciplinary action will be initiated against persons responsible for the delay under Section-14C (2&3) of the Auditor-General's Ordinance, 2001.

Following record in respect of five contracts was not produced to audit in spite of many written and verbal requests by the management of Satpara Dam Project Skardu:-

i) Notice for innately tenders
ii) Advertisement in different news papers
iii) Tender issue/sale register
iv) Tender received register

v) Bidding documents
vi) Comparative statements
vii) Pre-qualification of contractors
viii) Mics. correspondence during tendering stage

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that record being very old was difficult to produce.

The DAC in its meeting held in December, 2014 directed the management to produce and get verified the record from Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.5.2 Non-mutation of land – Rs 181.91 million

As per Section-42 of Land Revenue Act, 1967, the land purchased by some one must be muted in the name of buyer to avoid future inconveniences.

During the Performance audit of the accounts of Project Director, Satpara Dam Project, Skardu, it was noticed from the updated status of land acquired that total 74.74 acres land having value Rs 181.91 million had been acquired for the project but not mutated in the name of WAPDA. Non-mutation of land could create dispute between land owners and WAPDA. It was a matter of serious concern which needs to be resolved at the earliest. Poor asset management resulted in non-mutation of the land valuing Rs 181.91 million up to financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that the matter was being persued vigorously with the Revenue Department. Further progress in the matter will be intimated to Audit.

The DAC in its meeting held in December, 2014 directed the management to get the mutation of land completed and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.5.3 Irregular settlement of contractor's claims – Rs 235 million

According to Clause-60.10 of the contract, "the amount due to the contractor under any IPC issued by the Engineer pursuant to this clause, or to any term of the contract, shall subject to Clause-47, be paid by the employer to the contractor within 42 days after such IPC has been delivered to the employer".

During the Performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was noticed that contractor's claims (Lot 1-A) amounting to Rs 1,476.84 million were pending due to dispute raised during the execution of the contract. But further development was not forthcoming from the record. Non-adherence to contract clauses resulted in irregular settlement of contractor's claims of Rs 235 million up to the financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that the subject disputed claims had been finally settled for Rs 235 million against the contractor's claims of Rs 1,476.84 million in the Authority meeting held on Jan 24, 2014 and minutes issued vide letter dated February 06, 2014.

The DAC in its meeting held in December, 2014 directed the management to provide the item-wise list of works of Rs 235 million along with supporting documents and justifications for global settlement and get record verified from Audit. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.5.4 Non-finalization of disputed land acquisition awards – Rs 14.52 million

As per procedure of land to be acquired for a project by WAPDA, it is necessary that all land acquisition awards must be finalized at the earliest.

During the Performance audit of the accounts of Project Director Sat Para Dam Project Skardu, it was noticed that 11.675 acres land valuing Rs 14.52 million had been acquired in May, 2011. But the same was under dispute with Revenue Department (Lot-2-LBC). Non-implementation of procedure for land acquisition award resulted in non-finalization of disputed land acquisition awards of Rs 14.52 million up to the financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that the project office would make efforts and continue to coordinate with the Collector Skardu for the finalization of remaining awards at the earliest.

The DAC in its meeting held in December, 2014 directed the management to finalize the disputed land acquisition awards within a month under intimation to Audit/Ministry. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.5.5 Non-submission of completion report

As per provision of PC-I of the project, "the Engineer is contractually bound to submit the completion report on completion of project".

During the Performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was observed that the consultants were required to prepare the completion reports up to February 28, 2014 as depicted from General Manager Project Northern Areas letter dated January 23, 2014. But the same was not prepared / submitted so far.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that the Engineer was contractually bound to submit the completion report which was under preparation. No further progress was intimated.

The DAC in its meeting held in December, 2014 directed the management to provide the completion report to Audit within a month.

Audit recommends implementation of the DAC's directives.

21.6 Financial management

There was no re-appropriation and surrenders observed at the project. The weekly, fortnightly, quarterly, half yearly financial reports were regularly submitted to the Project Director.

These reports were based on the standard format. The monthly accounts were regularly submitted to head office i.e. GM Finance (Water). Further reconciliation statements were also prepared at the end of the each month. The payments were made in accordance with the terms and conditions and as per rules and regulations. The project was financed by PSDP and USAID.

Following shortcomings were observed by audit regarding financial management:-

21.6.1 Non-recovery on account of cost of electricity – Rs 591.86 million

According to Table-11.2 of 1st revised PC-I, "financial benefits / income to the project will be generated by selling the electricity produced from the four (04) power houses".

During the Performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was observed that total 183.11 million units had been sold to Government of Gilgit-Baltistan up to May 07, 2014 but an amount of Rs 49 million had been received so far against units sold. Hence, an amount of Rs 591.86 million was still outstanding which needed to be recovered from the

Government of Gilgit-Baltistan at the earliest in the best interest of the Authority. Non-adherence to Authority's instructions resulted in non-recovery of Rs 591.86 million on account of cost of electricity up to the financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that the matter would be taken up with the Government of Gilgit-Baltistan by the Authority and outcome would be intimated to Audit.

The DAC in its meeting held in December, 2014 directed the management to make concrete efforts to finalize the issue of billing with Government of Gilgit-Baltistan and submit a comprehensive report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.6.2 Non-recovery from ISRIP – Rs 2.44 million

As per Para-23(2) of Section-1 of Book of Financial Powers, "any sum due to the Authority shall be recoverable as arrears (unspent)".

During the Performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was observed that an amount of Rs 4.02 million was paid to Director ISRIP. Out of which an amount of Rs 1.58 million had been adjusted on July 20, 2006 but an amount of Rs 2.44 million was still outstanding. Non-adherence to Authority's instructions resulted in non-recovery of Rs 2.44 million from ISRIP up to the financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. It was replied that matter would be pursued with the concerned office for recovery/arrangement of Audit Certificate under intimation to Audit.

The DAC in its meeting held in December, 2014 directed the management to get the recovery verified from Audit within a week. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.6.3 Unauthorized payment on account of escalation – Rs 817.28 million

According to Sub-Clause-70.1 conditions of particular application Part-II of contract agreement, "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".

During the Performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was noticed that an amount of Rs 817.28 million was paid to various contractors on account of escalation. But no documentary evidence i.e. reasons for claiming/ granting of escalation and approval of competent authority was made available to Audit. Non-implementation of contract clauses resulted in unauthorized payment of Rs 817.28 million on account of escalation up to the financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that payment of escalation was made to the contractor M/s DESCON for Lot 1A& M/s CCPG for Lot-2 in light of contract agreement. The departmental reply was not considered satisfactory by Audit.

The DAC in its meeting held in December, 2014 directed the management to furnish the detailed reply and get record verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.6.4 Unjustified claims of consultant on account of rent and utility bills Rs 1.68 million

According to Clause-12 of consultant's agreement, "the consultant shall make their own arrangements for office and residential accommodation in connection with the assignment including furnishing".

During the Performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was noticed that consultant claimed Rs 1.68 million on account of rent, telephone and electricity bills in respect of office accommodation. Following shortcomings in the bills were noted by Audit:-

i) Photo copy of stamp paper without any name, address and number had been used.
ii) Lease agreements of the same building were in different names.
iii) Lease agreement for December 1, 2003 to August 31, 2010 had not been provided to Audit.
iv) Rent for the same building had also been charged to Golan Gol Hydropower Project during the same period.
v) Electricity and telephone bills were being charged to SDP and Golan Gol Hydropower Project

Non-adherence to rules resulted in unjustified payment of Rs 1.68 million on account of utility bills to consultant up to the financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that the building situated at 188-Y, DHA, Lahore was a three storey building with a basement as well. The office of SDC was situated in 2nd floor and the rent of 2nd floor was charged to SDC. No documentary evidence was shown to Audit.

The DAC in its meeting held in December, 2014 directed the management to get verify the record from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.7 Procurement and contract management

A complete detail of the work to be executed was available in the PC-1. To achieve construction targets, the whole project was divided in four independent contracts viz:-

a) Contract Lot-1A Civil work of Dam & Power House # 1&2,

b) Contract Lot-1B & E &M works of Power House # 1&2

c) Contract Lot-2 Irrigation System.

d) Contract Lot-4 Shantung Nullah diversion.

The contract for consultancy services was awarded to M/s Satpara Dam Consultants. Advance payments were made to contractors on submitting the bank guaranties with the approval of competent authority. Following shortcomings were observed by Audit:-

21.7.1 Non-recovery of advance payment from contractor – Rs 6.06 million

According to Clause-60.7 of conditions of particular application (CPA), "the advance payment shall be repaid through percentage deductions from the interim payments certified by the engineer in accordance with this clause…..".

During the performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was observed that an advance payment of Rs 60 million was made to M/s DESCON on August 28, 2006. But the recovery of Rs 6.06 million was still outstanding. Non-adherence to Authority's instructions resulted in non-recovery of advance payment of Rs 6.06 million from contractor up to the financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that advance payment made to M/s DESCON against bank guarantee had been fully recovered. No documentary evidence was shown to Audit.

The DAC in its meeting held in December, 2014 directed the management to get the record verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.7.2 Loss on account of interest charges – Rs 57.48 million

According to Clause-60.10 of Conditions of Contract, "the amount due to the contractor under any interim certificate issued by the Engineer shall be paid by the Employer within 28 days after such interim certificate has been delivered to the Employer. In the event of the failure of the Employer to make payment within the times stated, the Employer shall pay to the contractor interest at the rate stated in the appendix".

During the performance audit of the accounts of Project Director Satpara Dam Project, Skardu, it was observed that an amount of Rs 57.48 million had been paid as interest on delayed payment in respect of Lot-1A and Lot-2. Non-adherence to Authority instructions resulted in loss of Rs 57.48 million on account of interest charges up to the financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that as per COC, the contractor was entitled to receive interest upon all sums due and unpaid after 56 days. In the year 2009 and 2010, the releases from PSDP had remained restricted and payment to contractor could not be made within due dates against the work done and the contractor had completed the dam work. The project remained suspended due to funds constraints and in the year 2011 USAID funded the project and the project had since been completed.

The DAC in its meeting held in December, 2014 directed the management to get the record verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.7.3 Loss due to non-awarding of contract to the 1st lowest bidder Rs 361.41 million

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

During performance audit of Satpara Dam Project Skardu, it was observed that a contract for supply installation, testing & commissioning of E&M works for power house # 3 & 4 was awarded to M/s Andritz, the 2nd lowest bidder for Rs 599.64 million instead of 1st lowest bidder M/s Al-Fajar with bid price of Rs 238.23 million. Non-observance of PPRA rules resulted in loss of Rs 361.41 million due to non-awarding of contract to the 1st lowest bidder up to the financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management stated that detailed / revised reply would be submitted in due course of time.

The DAC in its meeting held in December, 2014 directed the management to furnish revised reply and get the record /justification verified from Audit. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.7.4 Irregular award of contract – Rs 441.55 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".

During performance audit of Satpara Dam Project Skardu, it was observed that a contract for construction of civil & hydraulic steel works for Power House # 3 & 4 was awarded to M/s DESCON-J&P through Supplementary Agreement No. 1 in violation of PPRA rules. Non-observance of PPRA rules resulted in irregular award of contract valuing Rs 441.55 million up to the financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that the works were executed through supplementary agreement to contract. All the codal formalities were observed in award of the contract within the time constraints.

The DAC in its meeting held in December, 2014 directed the management to furnish revised reply and give reasons for non-calling of tenders along with documentary evidences within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.7.5 Unsatisfactory quality of feasibility reports and non-provision of bidding documents

As per contract procedure the contract documents must be in standard forms and format. The quality of documents should be up to the mark.

During the performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was observed that delay in completion of all the contracts was due to un-authentic survey data and poor quality of feasibility reports. It was revealed that provisions of the contract agreement were not workable. Resultantly, the completion of works/projects was delayed which caused an increase in cost as well as deferment of envisaged benefits. The documents related to award of contract were not shown to Audit.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that under the directives of the ECNEC, an inquiry on the subject matter was under process with the Ministry of Kashmir Affairs, findings of which were awaited.

The DAC in its meeting held in December, 2014 directed the management to provide detailed reply along with supporting evidences and results of investigation by the Ministry under the instruction of the ECNEC within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.8 Construction and works

The Project was completed in June, 2013 but not handed over to the project authorities. The land acquisition was the major issue. The design of the project was changed after the incident of earth quake of October, 2005. Therefore, the cost estimate was prepared in accordance with design. All contractors were drafted by safe guarding the project interests. However the project was delayed 7 years. The contractors schedules given in the PC-1 was not followed by the contractor and as well as by the management.

In this aspect, following shortcomings were observed by audit.

21.8.1 Non-rectification of deficiencies

As per clauses of contract, the contractor was responsible to remove all the deficiencies pointed out by the employer.

During the performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was observed that some deficiencies had been pointed out by Project Director Satpara Dam on September 20, 2013. But the same had not been rectified so far.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that all claims which had contractual demerits had been rejected by the engineer.

The DAC in its meeting held in December, 2014 directed the management to get the record verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.8.2 Unjustified expenditure – Rs 5.82 million

According to Clause-51.1 of Conditions of Contract, "the Engineer shall make any variation of the form, quality or quantity of the works or any part thereof that may, in his opinion, be necessary and for that purpose, or if for any other reason it shall, in his opinion, be appropriate, he shall have the authority to instruct the Contractor to do and the Contractor shall do".

During the performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was noticed from the Secretary WAPDA letter dated August 10, 2011 that the Engineer had proposed to increase the width of the bridge from 5 to 12 feet through draft variation order No. 28 at the cost of Rs 5.82 million. According to Engineer the existing bridge and surge chamber's were not sufficient for transportation of heavy machinery like surge chamber installation of gate, stop log and gantry crane etc. Poor planning cause extension in the bridge and results in extra burden of Rs 5.82 million to the authority up to the financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that during execution it was noticed that the pillar of the bridge was coming in the core of the dam. Therefore, the design was reviewed by the Consultant SDC and proposed steel Bridge.

The DAC in its meeting held in December, 2014 directed the management to provide the revised reply within 15 days. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.8.3 Unjustified payment due to work done with new rates Rs 627.08 million

According to Clause-52.1 of Condition of Contract, "all variation shall be valued at the rates and prices set out in the Contract if, in the opinion of the Engineer, the same shall be applicable. If the Contract does not contain any rates or price 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".

During the performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was noticed from the Contract Lot-2 (Irrigation System) that an amount of Rs 627.08 million was paid to the contractor for various BOQ items instead of original amount of Rs 444.09 million. This payment was made by enhancing the BOQ rates without rate analysis which came to 141% of the work done on the original BOQ rates. Non-observance of rules resulted in unjustified payment of Rs 627.08 million due to work done on new rates up to the financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that in the interest of works, the rates were reviewed and new rates for certain items were agreed with the contractor, which were approved by the Authority in its meeting held on July 01, 2009.

The DAC in its meeting held in December, 2014 directed the management to conduct inquiry and results of inquiry be furnished to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.9 Assets management

Asset management includes proper recording, maintains and utilization of the project assets. Audit had verified the misuse of asset, operational expenditures and physical verification report of the asset available at the project.

Following shortcomings were observed by Audit:-

21.9.1 Non-return of T&P items – Rs 5.72 million

According to Clause-13.170 of Special Provisions, "at such time when portions of the T&P provided by the Contractor are no longer required for the execution of the work, and in accordance with a schedule of time and the instructions furnished by the Engineer, the Contractor shall return and hand over to the Employer in reasonably good condition, fair wear and tear considered".

During the performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was noticed that T&P items valuing Rs 5.72 million were purchased by consultants and cost thereof was reimbursed from WAPDA under direct cost. These items were returnable to WAPDA after completion of project, which were not handed over. Non-adherence to Authority's instruction resulted in non-return of T&P items valuing Rs 5.72 million by consultant up to the financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that Consultant were contractually bound to return the T&P items to WAPDA but were supposed to be returned after completion of the work. All T&P items had already been returned back to WAPDA while the major record was being compiled and would be handed over in due course.

The DAC in its meeting held in December, 2014 directed the management to get verify the record from Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.9.2 Non-handing over of assets by the contractor – Rs 177.45 million

According to Clause-13.170 of Special Provisions, "at such time when portions of the facilities provided by the Contractor are no longer required for the prosecution of the work, and in accordance with a schedule of time and the instructions furnished by the Engineer, the Contractor shall vacate and hand over to the Employer in reasonably good condition, fair wear and tear considered, all buildings, housing, area improvements, utility systems, equipment, furniture and other facilities including furnishing and supplies constructed or provided as part of the facilities".

During the performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was noticed that an amount of Rs 177.45 million was paid to the contractor M/s DESCON on June 17, 2003 as mobilization advance to construct and furnish the staff/office accommodation, dispensary, mosque, recreation centre and water tank, etc. But only incomplete office building, hostel, dispensary was handed over to employer by the contractor instead of full furnished office, accommodation well equipped dispensary and recreation centre. Non-adherence to Authority's instructions resulted in non-handing over of assets valuing Rs 177.45 million by the contractor up to the financial year 2013-14.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that handing over/taking over of the contractor camp was under process.

The DAC in its meeting held in December, 2014 directed the management to get verified the record from Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.10 Compliance with grant/loan covenants

It includes assessment of compliance with grant/ loan covenants, instances of non compliance and the details of the funds provided by the donors.

Following shortcomings were observed by audit:-

21.10.1 Non-compliance of issues by the Chinese contractor

As per contents of letter dated April 26, 2014 "some technical and financial issues have been pointed out by the Project Director. As a matter of routine all shortcomings/deficiencies must be complied with".

During the performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was noticed that the Project Director pointed out some technical and financial issues relating to the project. No further development towards rectification/compliance of technical and financial issues by the Chinese Contractor was forthcoming from the record.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that the matter had already been taken up with the contractor.

The DAC in its meeting held in December, 2014 directed the management to get verified the record from Audit within a month.

Audit recommends implementation of the DAC's directives.

21.11 Environment

It includes compliance with Pakistan Environment Protection Act, 1997. Either the project has negative or positive impact on the environment.

Auditors noted following observation during audit regarding environment:-

21.11.1 Non-execution of work – Rs 1,193.11 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982, "all losses whether of public money or of store, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During the performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was noticed that a work for diversion of Shatung Nullah (Contract Lot-4) was approved/sanctioned for Rs 1,193.11 million. But further development in respect of above mentioned work was not forthcoming from the record.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that due to intense pressure from various Environmental Agencies on adverse effects of Shatung Nullah on wild life of Deosai Plain especially brown bear habitat, the project was deferred for execution in Authority meeting held on May 4, 2005. The reply was not acceptable as no documentary evidence in support of reply was provided to Audit.

The DAC in its meeting held in December, 2014 directed the management to carry out the environmental impact assessment of diversion of Shatung Nullah along with fixing responsibility for poor planning. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.12 Sustainability

Sustainability refers to avoiding extinction of natural recourses at the cost of further generations. The project was sustainable as it was hydel project and the water is being utilized for irrigation purposes.

Following shortcomings were observed by audit during audit of Satpara Dam Project Skardu:-

21.12.1 Loss due to non-production of electricity as per installed capacity 333,645 MWH

According to PC-I, the power house at Skardu on its completion had to deliver 17 MW electricity.

During the performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was noticed that Satpara Dam Project was designed to produce 17 MW electricity but the project could not produce 17 MW electricity even a single day since its establishment. As a consequence, it was observed that during the year 2011 to 2013 project produced only 113,116 MWH against the planned production of 446,760 MWH which resulting in a shortfall of 333,645

MWH. It was a matter of serious concern that the project could not achieved its primary objective and was constantly performing under-capacity.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that due to low reservoir levels, release of water as per drinking/irrigation requirements and non-connectivity with national grid, electricity could not be produced according to the installed capacity.

The DAC in its meeting held in December, 2014 directed the management to remove the hindrances in full impounding of dam and connecting the system with National grid.

Audit recommends implementation of the DAC's directives.

21.13 Overall assessment

Overall assessment refers to performance of project with reference to three Es i.e. Economy, Efficiency and Effectiveness. It includes three Es:-

Economy:

It includes procurement of goods services at competitive rates. It was without compromising of qualities.

Efficiency:

It includes proper utilization of available recourses.

Effectiveness:

It includes the achievement of desired objectives.

Observations noted by audit regarding over-all performance are:-

21.14 Time over-run up to 99 months

As per PC-I, the dam and power house at Skardu was to be completed within a period of 45 months after the commencement of works.

During the performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was observed that as per PC-I the project was to be completed within 45 months from the date of commencement but the project could not be completed in the scheduled period as depicted from the following table:-

Sr. No.	Contracts Lots	Commencement Date	Duration (In months)	Actual Date of Completion	Time Over-run (In months)
1.	LOT 1-A	14.04.2003	45	31.07.2011	99
2.	LOT 1-B	05.11.2003	45	31.11.2010	84
3.	LOT-2	23.11.2004	30	30.06.2012	91

It indicated that the project had been delayed by 7 to 8 years.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that as per original PC-1, Satpara Dam Project was to be completed on December, 2006 but due to various reasons like design revisions, adverse climatic conditions and inadequate allocation of funds, project was delayed.

The DAC in its meeting held in December, 2014 directed the management to justify the delay in completion of the project within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.15 Cost over-run – Rs 4,059.57 million

As per PC-I, the dam and power house at Skardu was to be completed at a total cost of Rs 2,090.43 million as approved by the ECNEC in September, 2002. The PC-I was revised in September, 2009 with a total cost of Rs 4,480.02 million.

During the performance audit of the accounts of Project Director Satpara Dam Project Skardu, it was observed that an expenditure of Rs 6,150 million was incurred up to March, 2014 against original PC-I cost of Rs 2,090.43 million. Resultantly, the project cost was over run to the tune of Rs 4,059.57 million.

The matter was taken up with management in June, 2014 and reported to the Ministry in November, 2014. The management replied that as per original PC-1, Satpara Dam Project was to be completed on December, 2006 but due to various reasons like design revisions, adverse climatic conditions and inadequate allocation of funds, project was delayed.

The DAC in its meeting held in December, 2014 directed the management to justify the cost overrun of Rs 4,059.57 million within a month. Further progress was not reported till finalization of the report.

Audit recommends implementation of the DAC's directives.

21.16 Conclusion

Satpara Dam Project was approved under WAPDA's Vision-2025 programme of Water Resources and Hydro power Development. The Project Management could not manage and closely monitor all the activities timely due to which the benefits envisaged in the PC-I proforma could not be achieved well in time and were delayed unnecessarily.

- Due to following factors the project was delayed unnecessarily and cost increased by Rs 4,100.78 million against original PC-I.

- Slow acquisition of land.
- Deferment of diversion of Shatung Nullah.
- Works could not be awarded in time.
- Preparation of un-realistic estimates.
- Award of work on higher rates.
- Slow/poor progress of works by contractors due to lack of supervision by management and consultants.
- Grant of liberal extension to the contractors/consultants.
- Non imposition of liquidated damages.
- Payment of escalation bills lavishly.
- Payment of EOTs/delays to contractors for which they themselves were responsible.

21.17 Recommendations

- WAPDA should acquire land required only for project as per PC-I and complete its mutation.
- PPRA Rules-2004 should be strictly followed and procurement in a transparent manner should be ensured.
- Planning/Execution systems should be improved for better results.
- Work should be awarded after site clearance and completion of land acquisition with the confirmation of funds availability.
- Efforts should be made to curtail the expenditure other than the works according to proportionate provision of PC-I.
- Dispute of electricity charges with Government of Gilgit-Biltistan should be amicably resolved and revenue be realized at the earliest.
- The department should have a system to monitor the progress of all works.
- In future, all the environmental impacts should be catered for in dam design to avoid last minute changes affecting dam capacity.
- The management should have a system to monitor that;
  - i) The resources used are cost effective.
  - ii) Waste and duplication is avoided.
  - iii) Resources used are planned, managed and controlled.

- Timely handing over of assets like office / staff accommodation / dispensary etc. to the WAPDA should be ensured.
- Propriety must be kept in view before incurring any expenditure and responsibility should be fixed where any loss has occurred due to negligence/ carelessness.
- Huge time and cost over-run in the project should be investigated to avoid such instances in future.
- Steps should be taken to ensure that electricity is produced according to installed capacity of 17 MW.

21.18 Acknowledgement

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

ANNEXURES & TABLES

Annexure-I

AUDIT PARAS, NOT CONSIDERED SIGNIFICANT ENOUGH TO REPORT TO THE PARLIAMENT, INCLUDED IN MFDAC

(Rs in million)

Sr. No.	DP No.	Name of Formation	Subject	Amount
1	1815	Water	Un-authorized payment of direct cost to consultants-Rs 1.29 million	1.29
2	1831	Water	Loss due to non-increasing the rent of quarters – Rs 0.55 million	0.55
3	1845	Water	Excess payment to consultants on account of overheads & fee on project allowance – Rs 9.15 million	9.15
4	1863	Water	Non-recovery of liquidated damages – Rs 1.64 million	1.64
5	1869	Water	Non-disposal/auction of off road vehicles – Rs 1.58 million	1.58
6	1871	Water	Non-disposal of surplus material – Rs 1.95 million	1.95
7	1874	Water	Recoverable O&M expenditure and capital cost from Govt. of Sindh and Balochistan – Rs 2,138.57 million	2,138.57
8	1875	Water	Excess payment on account of fuel escalation – Rs 14.10 million	14.10
9	1881	Water	Blockage of Authority's funds – Rs 10.50 million	10.50
10	1882	Water	Non-recovery of demurrage charges from suppliers/consignee Rs 11.63 million	11.63
11	1887	Water	Loss due to non-recovery of L.D. charges - Rs 18.61 million	18.61
12	1890	Water	Irregular expenditure on irregular appointment of daily wage staff Rs 1.01 million	1.01
13	1892	Water	Infructuous expenditure due to non-execution of project Rs 115.48 million	115.48
14	1895	Water	Non-disposal/auction of material/off road vehicles - Rs 1.35 million	1.35
15	1902	Water	Huge receivables of Medical share from WAPDA & Corporate Entities Rs 1,080.76 million	1,080.76
16	1903	Water	Loss due to non-recovery from employees – Rs 1.31 million	1.31
17	1914	Water	Non-disposal of off road vehicles and material – Rs 2.64 million	2.64
18	1915	Water	Non-production of record of expenditure – Rs 40.72 million	40.72
19	1908	Water	Unjustified preparation of PC-II for excess amount - Rs 308.45 million	308.45
20	1909	Water	Excess claim of salary cost-man months claimed than contract price Rs 2.35 million	2.35
21	1910	Water	Irregular purchase of 50 KVA Generator – Rs 1.57 million	1.57
22	1919	Water	Undue favour to the contractor due to non-recovery of advance payment and liquidated damages – Rs 1.25 million	1.25
23	1774/2 013-14	Water	Undue favour to contractors due to non-obtaining of performance security – Rs 1.132 million	1.13
24	1821	WHEP	Blockage of Authority's funds due to unncessary procurement of diesel generator set – Rs 4.57 million	4.57
25	1823	WHEP	Unauthorized expenditure against variation and provisional orders Rs 10,635.23 million	10,635.23
26	1828	WHEP	Unauthorized expenditure on purchase of vehicles – Rs 41.70 million	41.70
27	1832	WHEP	Irregular procurement of vehicles – Rs 10.06 million	10.06
28	1834	WHEP	Wasteful expenditure due to non-completion of contracts Rs 234.41 million	234.41
29	1837	WHEP	Loss due to unjustified cancellation of a fishing contract Rs 2.55 million	2.55
30	1841	WHEP	Unjustified payment to consultants – Rs 1.49 million	1.49
31	1842	WHEP	Loss due to double payment to consultants – Rs 45.44 million	45.44
32	1853	WHEP	Loss due to non-deduction of income tax – Rs 6.94 million	6.94
33	1854	WHEP	Non-renewal of performance bank guarantees – Rs 57.34 million	57.34
34	1877	WHEP	Loss due to non-recovery of lease rent of WAPDA Land Rs 1.77 million	1.77
35	1884	WHEP	Non-return of packing material by the contractor – Rs 4.52 million	52.00

36	1893	WHEP	Loss due to unknown whereabouts of stores in transit Rs 208.72 million	208.72
37	1896	WHEP	Loss due to non-deduction of income tax – Rs 5.83 million	5.83
38	1899	WHEP	Undue favour to contractor by accepting less amount of performance security – Rs 3,001.31 million	3,001.31
39	1912	WHEP	Loss due to cost and time over run in award of contract Rs 4,251.84 million	4,251.84
40	1916	WHEP	Loss due to theft of electrical material – Rs 0.21 million	0.21
41	2	PEPCO	Un-authorized expenditure on hiring of consultant - Rs 3 million	3.00
42	3	PEPCO	Loss due to irregular payment of pay and allowances - Rs 1.392 million	1.39
43	559	PEPCO	Unjustified expenditure due to violation of village electrification criteria Rs 304.12 million	304.12
44	560	PEPCO	Irregular transfer of funds to M/s Sui Northern Gas Pipelines Rs 80 million	80.00
45	562	PEPCO	Un-authorized expenditure of public funds by installing transformers of higher capacity – Rs 2.93 million	2.93
46	585	PEPCO	Irregular expenditure on hiring of consultant/advisor on contract basis Rs 1.51 million	1.51
47	586	PEPCO	Loss due to theft of vehicle – Rs 1 million	1.00
48	588	PEPCO	Non-disposal of unserviceable/scrap material, vehicles & power cables Rs 67.82 million	67.82
49	591	PEPCO	Un-justified expenditure on retainership fee & professional expenses Rs 8.40 million	8.40
50	597	PEPCO	Loss due to non-conducting of enquiry against shortage of furnace oil Rs 0.29 million	0.29
51	491	GENCO-I	Irregular award of works due to violation of PPRA Rules Rs 15.83 million	15.83
52	17	GENCO-II	Unauthorized expenditure out of project funds – Rs 460 million	460.00
53	41	GENCO-II	Irregular procurement of material – Rs 2.59 million	2.59
54	420	GENCO-II	Loss due to consumption of excess heat rate per KWH from NEPRA standard- Rs 4,565.11 million	4,565.11
55	423	GENCO-II	Loss due to delay in placement of purchase order – Rs 0.51 million	0.51
56	451	GENCO-II	Loss due to non-recovery of standard rent – Rs 1.13 million	1.13
57	452	GENCO-II	Unjustified placement of purchase order - Rs 5.58 million	5.58
58	492	GENCO-III	Loss due to fire incident – Rs 9.01 million	9.01
59	494	GENCO-III	Non-recovery of liquidated damages from the contractors Rs 34.37 million	34.37
60	530	GENCO-III	Loss due to forced stoppage of power plant – Rs 308.01 million	308.01
61	549	GENCO-III	Loss due to asymmetrical auction of used oil to unapproved firm Rs 1.47 million	1.47
62	642	GENCO-III	Un-authorized expenditure in violation of PC-I – Rs 2.33 million	2.33
63	648	GENCO-III	Un-authorized/irregular expenditure in violation of PC-I Rs 6.83 million	6.83
64	529	GENCO-IV	Loss due to forced stoppage of power plant – Rs 270.36 million	270.36
65	8	NTDC	Non-submission of adjustment accounts – Rs 74.21 million	74.21
66	9	NTDC	Non-recovery of cost of theft material from contractor – Rs 3.21 million	3.21
67	10	NTDC	Loss due to non-recovery of cost of tower material from contractors Rs 1.98 million	1.98
68	16	NTDC	Undue favour to the contractors due to non-obtaining of insurance policies – Rs 412.17 million	412.17
69	54	NTDC	Un-authorized expenditure due to abnormal variation – Rs 84.79 million	84.79
70	57	NTDC	Un-due favour to the contractors due to non-obtaining of insurance coverage –Rs 1,147.24 million	1,147.24
71	447	NTDC	Loss due to non-remittance of income tax - Rs 55.26 million	55.26
72	454	NTDC	Recoverable amount of standard rent from employees – Rs 2.92 million	2.92
73	463	NTDC	Loss due to less deduction of income tax from contractor Rs 9.14 million	9.14

74	466	NTDC	Loss due to irregular extension of time in delivery period Rs 4.35 million	4.35
75	470	NTDC	Irregular procurement beyond the provision of PC-I of material Rs 107.61 million	107.61
76	471	NTDC	Unjustified payment of crop compensation – Rs 9.55 million	9.55
77	474	NTDC	Likely loss due to excess percentage of adjustable portion in price escalation formula – Rs 115.60 million	115.60
78	500	NTDC	Unauthorized expenditure due to non-approval of variation orders Rs 246.44 million	246.44
79	501	NTDC	Loss due to non-installation of martial as per specification of BOQs of contract – Rs 11 million	11.00
80	504	NTDC	Irregular expenditure on execution of Civil Works – Rs 13.11 million	13.11
81	505	NTDC	Irregular procurement of material – Rs 2.99 million	2.99
82	533	NTDC	Loss due to non-recovery of cost of land from TEPA – Rs 56.31 million	56.31
83	541	NTDC	Loss due to damage of Circuit Breakers – Rs 2.50 million	2.50
84	542	NTDC	Loss due to defects in 600 AH Battery Bank – Rs 10.50 million	10.50
85	557	NTDC	Non-completion of pending works - Rs50 million	50.00
86	611	NTDC	Unauthorized expenditure on construction of NTDC sub-stations and transmission lines – Rs 8,054 million	8,054.00
87	612	NTDC	Unauthorized expenditure on civil works – Rs 48.41 million	48.41
88	46	FESCO	Loss due to application of wrong tariff – Rs 2.57 million	2.57
89	195	FESCO	Undue favour to the consumers on account of non-recovery of fixed charges – Rs.0 84 million	0.84
90	216	FESCO	Loss due to fire incident – Rs 23.45 million	23.45
91	254	FESCO	Loss due to less charging of energy units of peak hours Rs 3.89 million	3.89
92	256	FESCO	Loss due to misappropriation of electrical material – Rs 0.91 million	0.91
93	258	FESCO	Recoverable amount of standard rent from employees – Rs 1.54 million	1.54
94	320	FESCO	Non-completion of work at the risk and cost of the contractor defaulting Rs 1.72 million	1.72
95	235	GEPCO	Non-forfeiture of security/performance bond – Rs 1.74 million	1.74
96	236	GEPCO	Non-recovery of penalty from employees on account of shortage, theft and misappropriation of material – Rs 1.21 million	1.21
97	240	GEPCO	Loss due to non-recovery of supply charges against temporary connections – Rs 1.84 million	1.84
98	269	GEPCO	Loss due to misappropriation of electrical material – Rs 2.23 million	2.23
99	271	GEPCO	Loss due to excess drawal of material by the contractor Rs 0.56 million	0.56
100	274	GEPCO	Loss due to damage of electrical equipment – Rs 42.54 million	42.54
101	317	GEPCO	Non-accountal of record of distribution of CFLs – Rs 39.92 million	39.92
102	318	GEPCO	Non-accountal of record of distribution of CFLs – Rs 96.34 million	96.34
103	546	GEPCO	Recoverable amount of GST subsidy of agricultural consumers from Punjab government -Rs 551.84 million	551.84
104	548	GEPCO	Recoverable amount of tariff subsidy from federal government Rs 7,572.63 million	7,572.63
105	169	HESCO	Loss due to illegal energy connections – Rs 4.31 million	4.31
106	321	HESCO	Less recovery of security deposit from tube-well consumers Rs 1.07 million	1.07
107	403	HESCO	Recoverable amount from sponsor of housing society– Rs 58.45 million	58.45
108	495	HESCO	Less recovery of capital cost from tube-well consumers Rs 1.03 million	1.03
109	174	SEPCO	Undue favor to the consumer due to non-installation of independent transformers – Rs 1.85 million	1.85
110	208	SEPCO	Loss due to misappropriation of distribution transformers Rs 2.27 million	2.27
111	212	SEPCO	Non-recovery of standard rent from un-authorized occupants Rs 2.39 million	2.39

112	288	SEPCO	Non-replacement of material found under specification Rs 3.20 million	3.20
113	361	SEPCO	Loss due to less-billing of energy units- Rs 1.93 million	1.93
114	80	IESCO	Non-recovery of detection charges from consumers – Rs 1.57 million	1.57
115	122	IESCO	Loss due to misuse of tariff – Rs 3.10 million	3.10
116	123	IESCO	Loss due to non-recovery of fuel price adjustment – Rs 2.92 million	2.92
117	125	IESCO	Less recovery of cost of deposit works – Rs 19.33 million	19.33
118	156	IESCO	Loss due to non-installation of separate circuit breaker to industrial consumer – Rs 1.54 million	1.54
119	158	IESCO	Loss due to non-recovery of fixed charges on account of mis-use of tariff – Rs 1.52 million	1.52
120	441	IESCO	Non-recovery/charging of GST & income tax – Rs 18.77 million and liquidated damages from the contractor – Rs 5.08 million	23.85
121	476	IESCO	Unjustified expenditure due to illegal agreement – Rs 11.60 million	11.60
122	665	IESCO	Non-adjustment of subsidy claims against bad debts – Rs 0.53million	0.53
123	666	IESCO	Advance receipt of tariff differential subsidy amounting to Rs 8,681.40 million	8,681.40
124	310	LESCO	Loss of revenue due to non-replacement of sluggish meters Rs 84.38 million	84.38
125	384	LESCO	Non-recovery of cost of independent feeder from consumer Rs 2.08 million	2.08
126	401	LESCO	Loss due to waiver off late payment surcharge- Rs 3.64 million	3.64
127	496	LESCO	Loss due to non-removal of defects in the electrical equipments Rs 2.66 million	2.66
128	499	LESCO	Loss due to invalid bank guarantee and non-disconnection of connection Rs 6.13 million	6.13
129	555	LESCO	Loss due to non-installation of T.O.U meters – Rs 2 million	2.00
130	569	LESCO	Loss due to missing of vehicles - Rs 0.80 million	0.80
131	582	LESCO	Loss of revenue due to non-replacement of sluggish meters Rs 64.47 million	64.47
132	607	LESCO	Non-recovery of Capital cost from tube-well consumers Rs 2.05 million	2.05
133	664	LESCO	Non-transfer of loan to PHPL – Rs 5,000 million	5,000.00
134	23	MEPCO	Non-recovery of supply charges against temporary connections Rs 2.17 million	2.17
135	26	MEPCO	Loss of revenue due to non-billing of 0.19 million units to the consumers – Rs 3.38 million	3.38
136	353	MEPCO	Non-recovery of detection charges from consumer – Rs 0.77 million	0.77
137	376	MEPCO	Non/less recovery of feeder rehabilitation charges – Rs 0.39 million	0.39
138	433	MEPCO	Less recovery of cost of deposit works – Rs 2.12 million	2.12
139	479	MEPCO	Loss due to ignoring of 1st lowest bidder – Rs 3.78 million	3.78
140	481	MEPCO	Recoverable amount of excess expenditure from NHA Rs 24.76 million	24.76
141	488	MEPCO	Non-renewal of expired bank guarantees received in lieu of security deposits from industrial consumers – Rs 28.13 million	28.13
142	507	MEPCO	Recoverable amount on account of RCO – Rs 2.23 million	2.23
143	509	MEPCO	Loss due to wrong application of tariff – Rs 1.85 million	1.85
144	511	MEPCO	Non-recovery of outstanding energy charges – Rs 3.36 million	3.36
145	517	MEPCO	Loss due to unjustified refund of liquidated damages charges Rs 3.44 million	3.44
146	522	MEPCO	Loss due to non-recovery/adjustment of advances from suppliers Rs 107.53 million	107.53
147	111	PESCO	Loss due to embezzlement, over/double payment of cash Rs 1.28 million	1.28
148	112	PESCO	Undue favour to the consumers due to non-installation of independent transformers to Plaza/markets – Rs 1.39 million	1.39
149	142	PESCO	Non-recovery of excess expenditure over the deposited amount	1.73

			Rs 1.73 million	
150	186	PESCO	Loss due to misappropriation of electrical material – Rs 0.9 million	0.90
151	196	PESCO	Loss due to fire incident – Rs 12.10 million	12.10
152	275	PESCO	Loss due to WAPDA material confiscated from scarp market Rs 1.06 million	1.06
153	278	PESCO	Loss due to non-recovery of capital cost from consumer Rs 1.10 million	1.10
154	40	QESCO	Loss due to damage of distribution system – Rs 1.00 million	1.00
155	247	QESCO	Loss due to receipt of substandard TOU meters – Rs 2.06 million	2.06
156	343	QESCO	Loss due to sabotage activity – Rs 3.50 million	3.50
157	369	QESCO	Recoverable amount from independent consumers on account of energy losses beyond permissible limit – Rs 2.53 million	2.53
158	372	QESCO	Wasteful expenditure due to works abandoned – Rs 3.06 million	3.06
159	407	QESCO	Non-accountal of electrical material – Rs 1.36 million	1.36
160	414	QESCO	Non-recovery of liquidated damages from the supplier – Rs 2.96 million	2.96
161	152	TESCO	Non-recovery of supply charges against temporary connections Rs 0.93 million	0.93
162	153	TESCO	Non-removal of material of consumers running through direct hooking Rs 3.68 million	3.68
			TOTAL	**61,568.27**

advertisement by publication of the title and brief description of the petition was also affected on 4th July, 2012. Comments/replies and filing of intervention request; if any, was desired from the interested person within 7 days of the publication.

2 **Filing of reply/intervention request/comments**

2.1 In response to the notice of admission and hearing no one opted to file intervention on the said petition. However, comments from Lahore Chambers of Commerce & Industry and The Institute Of Engineers , Pakistan were received, which the Authority decided to address in the said petition.

Lahore Chamber Of Commerce & Industry

2.2 Lahore Chamber of Commerce & Industry vide letter # PS(SVP)/2012 dated 21st June , 2012 , submitted the following comments that;

- LCCI has been approached by a delegation of Cottage Industry that in the scenario of shortage of energy it has become difficult to run their industry and earn the bread and butter for their children. A high tariff of electricity allocated for the cottage industry is a big barrier which sweeps back their earnings and leaves them hand to mouth.
- Cottage industry was of the view that a relief in the tariff like large industry may please be allotted to them. In fact the cottage industry is a back bone of the large industry which provides basic equipment and necessary tools to the large industry as vendors. It is a genuine reason we therefore believe that they may please be considered for a relief in the tariff.

The Institute Of Engineers, Pakistan

2.3 The Institute of Engineers, Pakistan gave the following comments on the Petition:-

- Cost stated to be adjusted with assumed T&D losses of 12%. What are the actual loses. If these are more, then the company must be recovering it through some other head e.g O&M etc. In this case, burden should not be transferred to paying consumers.
- Company should fix the pay & allowances of their employees as per their financial health and "Election Year" should be no consideration.
- The recruitment for 2579 jobs should be linked only with additional work. The existing staff is already performing for the existing work.
- Establishment of more divisions should also be linked with additional work.
- Advertisement expenditure should be reduced considerably.

2.2 The Authority decided to conduct a hearing on the said Petition on 19th July, 2012 at Lahore Chamber of Commerce & Industry, in order to arrive at just and informed decision. The date of hearing was communicated and published along with the notice of admission to the interested stakeholders and general public.

NEPRA AUTHORITY
NATIONAL ELECTRIC POWER REGULATORY AUTHORITY

Table – 1

DEMAND VS. ACTUAL PRODUCTION

Financial year	Total Installed Capacity (MW)	*Maximum peak time demand (MW)	Actual production of Electricity (MW)	Short production of Electricity (MW)
1998	13683	9209	6080	3129
1999	13800	9351	6128	3223
2000	14444	9609	6378	3231
2001	15534	10128	6673	3455
2002	15819	10459	6948	3511
2003	15819	11044	7311	3733
2004	17367	11598	7887	3711
2005	17395	12595	8393	4202
2006	17395	13487	9386	4101
2007	17526	15838	10027	5811
2008	17827	17398	9848	7550
2009	18022	17852	9632	8220
2010	18892	18467	10151	8316
2011	20986	18521	10340	8181
2012	20443	18944	10242	8702
2013	20716	19545	10076	9469

Source: Generation Statistics37th issue

**Including KESC*

Table – 2

DE-RATION OF PUBLIC SECTOR POWER PLANTS

WAPDA/PEPCO		Installed Capacity MW	De-rated Capacity MW	De-ration in MW	% age
1	Power Capacity of Thermal Power Stations	4,829	3,580	1,249	26
2	Power capacity of Isolated GENCO's	56	35	21	38
	TOTAL	**4,885**	**3,615**	**1,270**	**-**

Source: Generation Statistics37th issue

Table – 3

Detail of Payment of Idle capacity and per unit cost of each generating unit for the financial year 2012-13

				In terms of MWs				In terms of Units			Payment in mill Rs.						
Sr. No	Generators		Fuel Type	Dep Capacity (MWH)	Actual Out put MW	Actual Plant factor % age	Idle Capacity in %age	Actual Net Electrical Output (MKWH)	Possible Net Electrical Output (MKWH)	Short production (MKWH)	Capacity Payment (Mill. Rs.)	Energy Payment (Mill. Rs.)	Total (Mill. Rs.)	% age of Capa city Paym ent	Payment for Idle capacity (Mill. Rs.)	Actual Per Unit cost in Rs.	Per unit Cost if Full Capacity is availed Rs.
1	Hydel																
	1	Wapda Hydel	Hydel	6,612	3,348	51	49	29,326	57,921	28,595	41,063	2,149	43,212	95%	20,272	1.47	0.75
	2	Jagran	Hydel	30	12	41	59	107	263	155	-	215	215	0%	-	2.00	0.82
	4	Pehure	Hydel	18	5	29	71	45	158	112	189	28	218	87%	135	4.82	1.38
	3	Malakund	Hydel	81	45	56	44	395	710	314	2,049	335	2,384	86%	908	6.03	3.36
	5	Laraib	Hydel	84	18	22	78	159	736	576	1,344	28	1,372	98%	1,053	8.60	1.86
	Sub-Total:-			**6,825**	**3,428**	**50**	**50**	**30,033**	**59,787**	**29,754**	**44,644**	**2,755**	**47,399**	**94%**	**22,368**	**1.58**	**0.79**
2	Ex-WAPDA GENCOs																
	1	GENCO-II	Mixed	1,400	770	55	45	6,357	11,564	5,207	3,335	38,571	41,905	8%	1,502	6.59	3.62
	2	GENCO-IV	Coal	31	5	15	85	40	256	216	295	175	470	63%	249	11.85	1.83
	3	GENCO-I	Mixed	799	238	30	70	1,968	6,600	4,632	3,973	33,980	37,953	10%	2,788	19.28	5.75
	4	GENCO-III	Mixed	1,568	546	35	65	4,507	12,952	8,445	4,951	84,756	89,707	6%	3,228	19.90	6.93
Sub-Total:-				**3,798**	**1,558**	**41**	**59**	**12,871**	**31,371**	**18,500**	**12,554**	**157,481**	**170,035**	**7%**	**7,767**	**13.21**	**5.42**
3	IPPs																
	1	Davis Energon	Gas	1	1	51	49	4	8	4	-	-	-	-	-	-	-
	2	UCH	Gas	551	460	83	17	3,796	4,551	755	9,559	10,939	20,499	47%	1,587	5.40	4.50
1994	3	FKPCL	Gas	151	134	89	11	1,107	1,247	140	1,355	4,636	5,991	23%	152	5.41	4.80
	4	CHASNUPP-I	Nucl.	300	257	86	14	2,121	2,478	357	8,924	3,008	11,932	75%	1,285	5.63	4.82
	5	ROUSCH	Gas	395	307	78	22	2,535	3,263	727	6,212	11,703	17,915	35%	1,385	7.07	5.49
	6	HCPCL	RFO	129	80	62	38	658	1,066	408	1,462	3,326	4,788	31%	559	7.28	4.49

	7	ALTERN	Gas	27	23	87	13	194	223	29	357	1,066	1,424	25%	47	7.35	6.38
	8	CHASNUPP-II	Nucl.	315	184	58	42	1,519	2,602	1,083	9,959	1,431	11,391	87%	4,144	7.50	4.38
	9	Iran	Import	39	39	100	-	375	322	-	-	3,657	3,657	0%	-	9.75	11.35
	10	LIBERTY	Gas	212	108	51	49	892	1,751	859	1,063	8,873	9,936	11%	522	11.14	5.67
	11	KEL	RFO	124	88	71	29	725	1,024	300	942	11,018	11,960	8%	275	16.50	11.68
	12	JAPAN	RFO	107	12	11	89	101	884	783	178	1,523	1,700	10%	157	16.79	1.92
	13	SEPCOL	RFO	110	12	11	89	97	909	811	196	1,467	1,663	12%	175	17.11	1.83
	14	HUBCO	RFO	1,200	959	80	20	7,673	9,600	1,927	14,244	123,324	137,568	10%	2,860	17.93	14.33
	15	SABA	RFO	125	10	8	92	85	1,033	948	212	1,318	1,529	14%	194	18.06	1.48
	16	AES PAKGEN	RFO	349	234	67	33	1,936	2,883	947	4,350	31,339	35,689	12%	1,429	18.44	12.38
	17	AES LALPIR	RFO	350	199	57	43	1,643	2,891	1,248	4,234	26,653	30,887	14%	1,827	18.80	10.68
	18	Kot Addu Power	Mixed	1,336	690	52	48	5,521	10,688	5,167	17,091	88,225	105,316	16%	8,262	19.07	9.85
	Sub-Total:-			**5,821**	**3,797**	**65**	**35**	**30,983**	**47,422**	**16,493**	**80,339**	**333,505**	**413,844**	**19%**	**24,860**	**13.36**	**8.73**
2002	1	Engro Energy	Gas/HSD	214	205	96	4	1,693	1,768	74	3,266	8,077	11,378	29%	137	6.72	6.44
	2	Foundation Power	Gas	172	167	97	3	1,380	1,421	40	3,220	6,713	9,934	32%	92	7.20	6.99
	3	Orient	Gas/HSD	213	69	33	67	573	1,759	1,186	2,948	6,539	9,487	31%	1,987	16.54	5.39
	4	Saif Power	Gas/HSD	205	90	44	56	742	1,693	951	3,373	9,396	12,769	26%	1,894	17.20	7.54
	5	Attock Gen	RFO	156	152	97	3	1,255	1,289	33	3,182	18,482	21,664	15%	83	17.26	16.81
	6	Atlas Power	RFO	214	167	78	22	1,383	1,768	385	4,252	20,612	24,864	17%	925	17.98	14.07
	7	Liberty Power	RFO	196	174	89	11	1,438	1,619	181	4,348	21,712	26,060	17%	485	18.12	16.10
	8	Sapphire Power	Gas/HSD	212	106	50	50	877	1,751	874	3,669	12,449	16,118	23%	1,830	18.37	9.20

	9	Halmore	Gas/HSD	207	45	22	78	374	1,710	1,336	3,863	3,076	6,939	56%	3,018	18.56	4.06
	10	Nishat Chunian	RFO	196	155	79	21	1,283	1,619	336	4,151	20,119	24,270	17%	861	18.92	14.99
	11	Nishat Power	RFO	195	155	79	21	1,276	1,611	334	4,084	20,146	24,230	17%	848	18.98	15.04
	12	Hubco NWL	RFO	214	99	46	54	820	1,768	948	4,458	12,520	16,978	26%	2,390	20.70	9.60
Sub-Total:-				**2,394**	**1,586**	**66**	**34**	**13,097**	**19,774**	**6,678**	**44,814**	**159,841**	**204,690**	**22%**	**14,550**	**15.63**	**10.35**
IPP's Total:-				**8,215**	**5,389**	**66**	**34**	**44,079**	**67,197**	**23,170**	**125,153**	**493,346**	**618,534**	**20%**	**39,411**	**14.03**	**9.20**
4	Others																
	1	TPS-Quetta	Gas	25	11	44	56	96	219	123	-	722	722	0%	-	7.50	3.30
	2	SPPs	Mixed	257	132	51	49	1,158	2,251	1,093	730	11,561	12,291	6%	355	10.62	5.46
	3	Zorlu	Wind	1	1	55	45	5	9	4	40	15	55	73%	18	11.29	6.24
	4	FFCEL	Wind	49	3	6	94	28	429	402	457	-	457	100%	428	16.55	1.07
Sub-Total:-				**332**	**147**	**44**	**56**	**1,287**	**2,908**	**1,622**	**1,227**	**12,298**	**13,526**	**9%**	**800**	**10.51**	**4.65**
Total (Acquisition):-				**19,170**	**10,516**	**55**	**45**	**88,270**	**161,263**	**73,046**	**183,578**	**665,881**	**849,494**	**22%**	**70,346**	**9.62**	**5.27**

Source: CPPA	
Scheduled Outage Allowance	
IPPs	500 Hrs
Hubco and KEPCP	750 Hrs

Table – 4

STATEMENT SHOWING THE COTTAGE INDUSTY DISCONNECTED DUE TO POOR LOAD MANAGEMENT							
SR NO.	DISCO	TOTAL NO. OF CONSUMERS	TOTAL LOAD (kw)	TOTAL OUTSTANDING AMOUNT	AVERAGE SALE RATE FOR THE FY 2012-13 in RS.	*UNITS ON THE BASIS OF LOAD for 8 year (2006 to 2013)	**LOSS OF REVENUE FOR 8 YEARS RS.
1	LESCO	4099	178101	923,214,103	14.00	6,240,659,040	87,384,554,353
2	GEPCO	2385	65200	118,708,425	13.96	2,284,608,000	31,902,549,463
3	FESCO	2,476	61,997	77,933,601	14.39	2,172,374,880	31,265,053,420
4	IESCO	853	26001	16,796,827	13.64	911,075,040	12,426,944,919
5	MEPCO	2364	70350	67,463,062	14.86	2,465,064,000	36,624,870,631
6	PESCO	1110	39905	77,736,136	16.45	1,398,271,200	22,994,766,266
7	HESCO	708	46655	248,643,026	17.29	1,634,791,200	28,260,174,277
8	SEPCO	332	18363	417,725,910	16.96	643,439,520	10,915,533,472
9	QESCO	279	8892	30,813,594	12.56	311,575,680	3,913,936,119
10	TESCO	671	10994	308,996,416	16.45	385,229,760	6,335,157,507
	TOTAL	**15277**	**526458**	**1,452,579,280**		**18,447,088,320**	**272,023,540,429**
Source : Power Information Technology Company (PITC)							
NOTE:	Consumers disconnected since 01-01-2006						
*	Total Load in KW x24x 365 x 8	/2 for Average load					
**	Units x Average Sale Rate						

Table-5

AMOUNTS RECEIVABLE OF NTDC AGAINST SALE OF ELECTRICITY

Rupees in million

DISCO	2009	2010	2011	2012	2013
PESCO	158,418.70	130,093.07	253,173.20	299,065.83	383,286.92
HESCO	52,130.42	85,848.52	108,494.29	140,864.87	140,467.06
QESCO	47,580.54	68,416.41	75,623.58	91,297.86	130,199.66
MEPCO	42,537.55	66,801.37	67,844.75	84,602.94	129,299.29
LESCO	16,093.61	33,861.19	28,477.59	56,184.58	98,460.00
SEPCO	-	-	-	4,026.13	71,759.41
FESCO	16,906.39	26,310.33	23,461.08	39,624.25	67,794.62
IESCO	253.54	5,304.68	8,319.61	23,872.08	45,859.81
GEPCO	9,558.13	16,088.54	12,453.69	24,412.97	45,588.83
KESC	-	-	-	-	89,437.15
TOTAL	**343,478.89**	**432,724.11**	**577,847.78**	**763,951.51**	**1,204,165.75**

Source: NTDC/CPPA (Treasury)

Table – 6

RECEIVABLES OF ALL DISCOS FROM CONSUMERS

(Rs. in Million)

SR. NO.	CATEGORY	TOTAL UP TO 1 YEAR	UP TO 3 YEAR	OVER 3 YEARS	TOTAL
1	Total receivables from government consumers	2,485	11,152	66,469	80,106
2	Total receivables from private consumers	11,578	40,211	156,912	208,701
	TOTAL	**14,063**	**51,363**	**223,381**	**288,807**

Source: Power Information Technology Company (PITC)

Table – 7
Billing, Collection and Percentage of Recovery of DISCOs

		FY 2012-13					FY 2011-12					FY 2010-11				
Sr.No	**Company**	**Billing**	**Share**	**Collection**	**Recovery %**	**Short Recovery**	**Billing**	**Share**	**Total Amount Collected**	**Recovery %**	**Short Recovery**	**Billing**	**Share**	**Collection**	**Recovery %**	**Short Recovery**
1	**LESCO**	163866.08	23.24%	160340.32	97.85%	3,525.76	157111.19	24.07%	151033.22	96.13%	6,077.97	138501.07	24.12%	135871.73	98.10%	2,629.34
2	**GEPCO**	63705.26	9.04%	62588.19	98.25%	1,117.07	61590.6	9.44%	60642.84	98.46%	947.76	56110.25	9.77%	55458.2	98.84%	652.05
3	**FESCO**	95606.35	13.56%	94710.59	99.06%	895.76	85562.27	13.11%	84240.14	98.45%	1,322.13	74289.17	12.94%	74110.68	99.76%	178.49
4	**IESCO**	84123.41	11.93%	79445.45	94.44%	4,677.96	74988.34	11.49%	71875.1	95.85%	3,113.24	67015.2	11.67%	62580.72	93.38%	4,434.48
5	**MEPCO**	107931.97	15.31%	99034.67	91.76%	8,897.30	98263.67	15.06%	95559.16	97.25%	2,704.51	84636.65	14.74%	82922.12	97.97%	1,714.53
6	**PESCO**	71749.2	10.18%	60699.71	84.60%	11,049.49	64354.25	9.86%	53079.66	82.48%	11,274.59	52427.64	9.13%	43104.86	82.22%	9,322.78
7	**HESCO**	33943.93	4.81%	27560.39	81.19%	6,383.54	32054.02	4.91%	22155.41	69.12%	9,898.61	29324.54	5.11%	19740.53	67.32%	9,584.01
8	**SEPCO**	33023.3	4.68%	17707.6	53.62%	15,315.70	29496.99	4.52%	15007.06	50.88%	14,489.93	23977.78	4.18%	11760.39	49.05%	12,217.39
9	**QESCO**	36006.55	5.11%	11460.63	31.83%	24,545.92	34027.37	5.21%	12301.47	36.15%	21,725.90	31249.94	5.44%	12809.99	40.99%	18,439.95
10	**TESCO**	15024.61	2.13%	17947.75	119.46%	(2,923.14)	15239.81	2.33%	962.63	6.32%	14,277.18	16637.51	2.90%	11036.23	66.33%	5,601.28
	TOTAL	**704,980.66**	**100.00%**	**631495.3**	**89.58%**	**73,485.36**	**652,688.51**	**100.00%**	**566856.69**	**86.85%**	**85,831.82**	**574,169.75**	**100.00%**	**509395.45**	**88.72%**	**64,774.30**

Source: Power Information Technology Company (PITC)

Table – 8
DETAIL OF SUPPLEMENTARY CHARGES

Sr #	DISCO's	Supplementary Charges				
		2009-10	**2010-11**	**2011-12**	**2012-13**	**Total**
1	LESCO	(1,275,276,276)	(4,740,526,104)	(2,806,005,984)	**Not Yet Booked by CPPA**	(8,821,808,364)
2	FESCO	23,667,753	(2,766,139,084)	(2,062,952,878)		(4,805,424,209)
3	MEPCO	(968,236,129)	(3,565,100,054)	(2,843,698,442)		(7,377,034,625)
4	QESCO	-	23,424	-		23,424
5	GEPCO	-	(2,045,036,627)	(1,186,924,092)		(3,231,960,719)
6	IESCO	-	(2,457,694,653)	(1,957,028,003)		(4,414,722,656)
7	PESCO	(1,001,699,041)	(3,830,459,816)	(5,596,487,831)		(10,428,646,688)
8	HESCO	(655,521,421)	(2,491,371,444)	(1,938,366,466)		(5,085,259,331)
9	KESC	-	(3,923,020,526)	(2,866,572,557)		(6,789,593,083)
TOTAL		**(3,900,732,867)**	**(25,819,348,308)**	**(21,258,036,253)**		**(50,954,426,251)**

*Negative Interest Debit not booked by DISCO
*Positive Interest Excess booked by DISCO
Source : NTDC/CPPA

Table – 9

STATEMENT SHOWING FINANCIAL IMPACT DUE TO DELAY IN NOTIFICATION OF TARIFF BY GOVERNMENT OF PAKISTAN

DESCRIPTION	IESCO	LESCO	GEPCO	FESCO	MEPCO	PESCO	HESCO	QESCO	SEPCO	Total
	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs	Rs
Tariff Determined for FY 2012-13	13.64	14.00	13.96	14.39	14.86	16.45	17.29	12.56	16.96	14.90
Currently Notified Tariff	10.73	11.05	11.83	11.34	11.95	13.77	13.20	12.15	13.65	12.19
Difference of Tariff 2011-12 and 2012-13 in Rs.	2.91	2.95	2.14	3.05	2.91	2.67	4.09	0.41	3.31	2.72
No of Units Sold in Million Wh from Date of Determination	2,067	5,208	1,681	2,245	2,019	2,555	671	722	522	17,691.56
Financial Impact of Delay in Notification (Rs. in Mill)	**6,005.14**	**15,389.94**	**3,595.24**	**6,853.69**	**5,865.78**	**6,826.27**	**2,742.14**	**297.90**	**1,728.48**	**49,304.59**

STATEMENT SHOWING DELAY IN NOTIFICATION OF TARIFF BY GOVERNMENT OF PAKISTAN

DESCRIPTION	IESCO	LESCO	GEPCO	FESCO	MEPCO	PESCO	HESCO	QESCO	SEPCO
Current Month	30/07/2013	30/07/13	30/07/13	30/07/13	30/07/13	30/07/13	30/07/13	30/07/13	30/07/13
Tariff Determination Date	01/04/2013	01/03/13	01/04/13	01/04/13	01/05/13	01/03/13	01/05/13	01/05/13	01/05/13
Delay in days	-120.00	-151.00	-120.00	-120.00	-90.00	-151.00	-90.00	-90.00	-90.00
Delay in Months	**-4.00**	**-5.03**	**-4.00**	**-4.00**	**-3.00**	**-5.03**	**-3.00**	**-3.00**	**-3.00**

Table – 10
Gross Profit / Loss of Discos

Financial Year	2011-12			2010-11			2009-10			2008-09		
DISCOs	**Revenue**	**Cost of Electricity**	**Gross Profit / (Loss)**	**Revenue**	**Cost of Electricity**	**Gross Profit/ (Loss)**	**Revenue**	**Cost of Electricity**	**Gross Profit/ (Loss)**	**Revenue**	**Cost of Electricity**	**Gross Profit/ (Loss)**
FESCO	87,358	95,292	**-7,934**	76,865	72,055	4,810	74,676	68,257	6,419	59,065	52,887	6,178
GEPCO	68,526	69,527	**-1,001**	59,976	56,396	3,580	57,507	50,152	7,355	44,302	44,264	38
HESCO	57,887	68,124	**-10,237**	67,905	66,360	1,545	63,516	59,118	4,398	56,091	45,424	10,667
IESCO	72,909	80,313	**-7,404**	68,157	63,028	5,129	66,062	57,429	8,633	49,714	43,865	5,849
LESCO	152,496	167,897	**-15,401**	135,568	125,219	10,349	130,809	116,532	14,277	90,319	82,197	8,122
MEPCO	109,404	124,398	**-14,995**	95,010	96,817	**-1,807**	87,446	86,515	931	62,928	61,887	1,041
PESCO	78,608	106,474	**-27,865**	71,987	81,086	**-9,099**	66,827	75,275	**-8,448**	53,479	53,357	122
TESCO	11,357	20,846	**-9,489**	14,982	17,709	**-2,727**	16,183	16,609	**-426**	36,853	28,682	8,171
QESCO	47,124	49,770	**-2,646**	43,939	38,288	5,651	42,315	37,001	5,314	9,931	12,648	-2,717
SEPCO	17,471	21,639	**-4,168**	0	0	0	0	0	0	0	0	0
TOTAL	**703,140**	**804,280**	**-101,139**	**634,389**	**616,958**	**17,431**	**605,341**	**566,888**	**38,453**	**462,682**	**425,211**	**37,471**

Source: Financial Statements of DISCOs

Table – 11
Detail of interest paid by NTDC/CPPA to PHPL during Financial Year 2012-13

Sr. No.	**Date**	**Amount** (Rs)
1	28/06/2012	12,500,000
2	03/07/2012	4,670,098,264
3	02/08/2012	207,584,000
4	23/08/2012	4,454,015,000
5	12/11/2012	193,964,566
6	03/12/2012	3,958,741,958
7	18/12/2012	170,617,331
8	23/12/2012	27,760,000
9	06/03/2013	3,599,925,637
10	17/07/2013	312,648,776
	TOTAL	**17,607,855,532**

Table – 12
Advertisement made by NTDC/CPPA during Financial Year 2012-13

Sr. No.	**Name of DISCO**	**Amount** (Rs)
1	LESCO	201,752,878
2	FESCO	77,077,638
3	MEPCO	9,633,069
4	QUESCO	147,551,489
5	GEPCO	194,308,443
6	IESCO	483,272,412
7	PESCO	-
8	HESCO	23,124,799
9	SEPCO	-
	TOTAL	**1,136,720,728**

Table – 13

Annual energy Generation loss due to delay in implementation of hydropower projects planned under vision-2025
(To be completed up to 2010)

Sr. No.	Name of Project	Capacity (MW)	Annual energy (million KWh)
1	Jinnah	96	688
2	Malakand-III	81	528
3	New Bong	79	579
4	Golen Gol	106	436
5	Allai Khawar	121	463
6	Khan Khawar	72	306
7	Duber Khawar	130	595
8	Satpara Dam	13	Not available
9	Pehur High Level Canal	15	89
10	Raised Mangla (30 Ft)	130	644
11	Doyian	490	Not available
12	Neelum-Jhelum	969	5,150
13	Kalabagh	3,600	Not available
14	Kohala	740	4,752
15	Matiltan	84	246
16	Gulpur	116	Not available
17	Abbasian	125	Not available
18	Rajdhani	132	Not available
19	Lawi	70	Not available
20	Lower Spat Gha	610	Not available
21	Lower Plas valley	621	Not available
22	Bunji	7100	Not available
	TOTAL	**15,500**	**14,476**

Source: GM Hydel

Table – 14

COMPARISON WITH POWER GENERATION OF PAKISTAN AND INDIA

Sr. No.	**Source of Power Generation**	**Pakistan**		**India**	
		Installed Capacity	**Contribution in the generation mix**	**Installed Capacity**	**Contribution in the generation mix**
	Non Renewable	**MW**	**%**	**MW**	**%**
1	Coal	31	0.14%	128,326	57%
2	Natural Gas	1,796	9%	20,262	9%
3	Nuclear	615	3%	4,800	2%
4	RFO + HSD	11,628	56%	5,786	3%
		13,978	**67%**	**159,174**	**71%**
	Renewable				
5	Hydel	6,825	33%	42,775	19%
6	Wind	51	0.24%	18,420	8%
7	Biomass	-	0%	1,249	1%
8	Bagasse Cogeneration	-	0%	2,240	1%
9	Waste to energy	-	0%	96	0%
10	Solar	-	0%	1,176	1%
11	Tidal Energy	-	0%	3.75	0%
		6,876	**33%**	**65,960**	**29%**
	Total Capacity	**20,854**	**100%**	**225,133**	**100%**

Source of generation mix of India: the data is collected from Wikipedia encyclopedia

Table – 15

AVERAGE RATE OF PER UNIT OF ELECTRICITY OF GENERATING UNITS FOR THE FINANCIAL YEAR 2012-13

Ex-WAPDA GENCOs								
Sr. No	**Generators**	**Fuel**	**Dep. Capacity (MW)**	**NEO (MKWH)**	Capacity Payment (Mill. Rs.)	Energy Payment (Mill. Rs.)	**Total (Mill. Rs.)**	**Avg. Rate (Rs./ MKWH)**
ii.	GENCO-II	*Mixed	1,400	6,356.680	3,334.633	38,570.518	41,905.151	6.59
iv.	GENCO-IV	Coal	31	39.638	294.709	174.867	469.575	11.85
i.	GENCO-I	*Mixed	799	1,968.017	3,973.287	33,979.804	37,953.091	19.28
iii.	GENCO-III	*Mixed	1,568	4,507.091	4,950.888	84,755.917	89,706.805	19.90
Sub-Total:-			**3,798**	**12,871.426**	**12,553.517**	**157,481.106**	**170,034.622**	**13.21**

IPPs of 1994								
Sr. No	**Generators**	**Fuel**	**Dep. Capacity (MW)**	**NEO (MKWH)**	**Capacity Payment (Mill. Rs.)**	**Energy Payment (Mill. Rs.)**	**Total (Mill. Rs.)**	**Avg. Rate (Rs./ KWH)**
1	UCH	Gas	551	3,795.840	9,559.251	10,939.255	20,498.506	5.40
2	FKPCL	Gas	151	1,107.035	1,355.333	4,635.899	5,991.232	5.41
3	CHASNUPP-I	Nucl.	300	2,121.198	8,924.373	3,007.541	11,931.914	5.63
4	ROUSCH	Gas	395	2,535.436	6,211.991	11,702.709	17,914.699	7.07
5	HCPCL	RFO	129	657.953	1,461.637	3,325.938	4,787.576	7.28
6	ALTERN	Gas	27	193.794	357.165	1,066.348	1,423.512	7.35
7	CHASNUPP-II	Nucl.	315	1,519.329	9,959.463	1,431.422	11,390.885	7.50
8	*IRAN	Import	39	375.137	0.000	3,656.680	3,656.680	9.75
9	LIBERTY	Gas	212	891.807	1,063.290	8,873.043	9,936.333	11.14
10	KEL	RFO	124	724.652	941.687	11,017.831	11,959.518	16.50
11	JAPAN	RFO	107	101.280	177.540	1,522.827	1,700.367	16.79
12	SEPCOL	RFO	110	97.178	196.032	1,466.934	1,662.966	17.11
13	HUBCO	RFO	1,200	7,672.502	14,243.988	123,323.861	137,567.849	17.93
14	SABA	RFO	126	84.697	211.597	1,317.837	1,529.435	18.06
15	AES PAKGEN	RFO	349	1,935.835	4,349.855	31,339.489	35,689.344	18.44
16	AES LALPIR	RFO	350	1,643.326	4,234.416	26,652.907	30,887.324	18.80
17	Kot Addu Power	Mixed	1,336	5,521.277	17,091.220	88,224.757	105,315.977	19.07
18	Davis Energon	Gas	10	4.237	0.000	0.000	0.000	0.00
Sub-Total:-			**5,821**	**30,982.512**	**80,338.837**	**333,505.280**	**413,844.118**	**13.36**

IPPs of 2002 Policy								
Sr. No	**Generators**	**Fuel**	**Dep. Capacity (MW)**	**NEO (MKWH)**	**Capacity Payment (Mill. Rs.)**	**Energy Payment (Mill. Rs.)**	**Total (Mill. Rs.)**	**Avg. Rate (Rs./ MKWH)**
1	Attock Gen	RFO	156	1,255.122	3,181.652	18,482.262	21,663.914	17.26
2	Atlas Power	RFO	214	1,383.014	4,252.158	20,612.251	24,864.408	17.98
3	Nishat Power	RFO	195	1,276.445	4,084.388	20,145.619	24,230.006	18.98
4	Foundation Power	Gas	172	1,380.319	3,220.303	6,713.226	9,933.528	7.20
5	Orient	Gas	213	345.916	2,948.356	1,634.030	9,487.146	16.54
		HSD		227.539		4,904.760		
6	Nishat Chunian	RFO	196	1,282.990	4,150.629	20,119.043	24,269.672	18.92
7	Saif Power	Gas	205	385.581	3,372.801	1,843.016	12,768.554	17.20
		HSD		356.865		7,552.737		
8	Engro Energy	Gas	214	1,691.501	3,266.203	8,076.645	11,378.207	6.73
		HSD		1.910		35.359		0.00
9	Sapphire Power	Gas	212	368.698	3,668.678	1,752.987	16,117.639	18.37
		HSD		508.762		10,695.975		
10	Hubco NWL	RFO	214	820.120	4,458.161	12,519.666	16,977.827	20.70
11	Liberty Power	RFO	196	1,438.329	4,347.542	21,712.496	26,060.038	18.12
12	Halmore	Gas	207	294.475	3,862.895	1,408.342	6,939.127	18.56
		HSD		79.332		1,667.890		
	TOTAL			**13,096.918**	**44,813.766**	**159,876.304**	**204,690.066**	**15.63**

Others									
Sr. No	**Generators**	**Fuel**	**Dep. Capacity (MW)**	**NEO (MKWH)**	**Capacity Payment (Mill. Rs.)**	**Energy Payment (Mill. Rs.)**	**Total (Mill. Rs.)**	**Cost of Generation (Rs./kWh)**	**Avg. Rate (Rs./kWh)**
1	TPS-Quetta	Gas	25	96.312	-	722.340	722.340	7.50	7.50
2	Zorlu	Wind	1	4.840	40.027	14.608	54.636	3.02	11.29
3	FFCEL	Wind	50	27.625	457.282	0.000	457.282	0	16.55
4	SPPs	Mixed	257	1,157.838	730	11,561.380	12,291.838	9.99	10.62
	TOTAL		**332**	**1,286.615**	**1,227.768**	**12,298.329**	**13,526.096**	**9.56**	**10.51**

Source: Procurement Reports (CPPA)

Table – 16.1
DISTRIBUTION LOSSES
FOR FINANCIAL YEAR 2012-13
(All Figures in Million)

Sr. No	Name of Company	Total Units Received	Total Units Billed	Units Lost	Percentage Loss	NEPRA Target	Units Allowed By NEPRA	Units Lost in Excess of NEPRA Target		Avg Sale Price per Unit	Loss of Revenue
		MKWh	MKWh	MKWh	%	%	MKWh	%	MKWh	Rs. (million)	Rs. (million)
1	LESCO	16,355	14,285	2,071	12.66%	12.00%	1,963	0.66%	108	14	1,512
2	GEPCO	6,530	5,920	610	9.35%	10.50%	686	-1.15%	-	14	-
3	FESCO	9,499	8,586	912	9.61%	10.83%	1,029	-1.22%	-	14	-
4	IESCO	8,421	7,764	657	7.81%	9.50%	800	-1.69%	-	14	-
5	MEPCO	11,638	9,913	1,725	14.82%	15.00%	1,746	-0.18%	-	15	-
6	PESCO	10,500	7,162	3,339	31.80%	28.00%	2,940	3.80%	399	16	6,554
7	HESCO	4,678	3,524	1,154	24.66%	22.00%	1,029	2.66%	125	17	2,154
8	SEPCO	4,275	2,726	1,549	36.23%	28.00%	1,197	8.23%	352	17	5,968
9	QESCO	4,681	3,812	869	18.57%	18.00%	843	0.57%	27	13	334
10	TESCO	1,608	1,295	313	19.49%	-	-	-	313	-	-
	TOTAL	**78,185**	**64,986**	**13,199**	**16.88%**	**-**			**1,323**	**134**	**16,522**

Source: Statistical Reports Prepared by PEPCO

Table – 16.2
DISTRIBUTION LOSSES
FOR FINANCIAL YEAR 2011-12

(All Figures in Million)

Sr. No	Name of Company	Total Units Received	Total Units Billed	Units Lost	Percentage Loss	NEPRA Target	Units Allowed By NEPRA	Units Lost in Excess of NEPRA Target		Avg Sale Price per Unit	Loss of Revenue
		MKWh	MKWh	MKWh	%	%	MKWh	%	MKWh	Rs. (million)	Rs. (million)
1	LESCO	16,585	14,467	2,118	12.77%	12.00%	1,990	0.77%	128	11	1,411
2	GEPCO	6,845	6,178	667	9.75%	10.50%	719	-0.75%	-	12	-
3	FESCO	9,509	8,580	928	9.76%	10.83%	1,030	-1.07%	-	11	-
4	IESCO	8,182	7,537	645	7.88%	9.50%	777	-1.62%	-	11	-
5	MEPCO	11,987	10,218	1,769	14.76%	15.00%	1,798	-0.24%	-	12	-
6	PESCO	10,430	7,062	3,368	32.29%	28.00%	2,920	4.29%	448	14	6,169
7	HESCO	4,498	3,381	1,117	24.83%	22.00%	990	2.83%	127	13	1,681
8	SEPCO	4,180	2,666	1,513	36.20%	28.00%	1,170	8.20%	343	14	4,682
9	QESCO	4,824	4,086	737	15.29%	18.00%	868	-2.71%	-	12	-
10	TESCO	1,940	1,466	475	24.46%	-	-	-	-	-	-
	TOTAL	**78,979**	**65,641**	**13,338**	**16.89%**		**12,263**		**1,046**	**110**	**13,944**

Source: Statistical Reports Prepared by PEPCO

Table – 16.3
DISTRIBUTION LOSSES
FOR FINANCIAL YEAR 2010-11

(All Figures in Million)

Sr. No	Name of Company	Total Units Received	Total Units Billed	Units Lost	Percentage Loss	NEPRA Target	Units Allowed By NEPRA	Units Lost in Excess of NEPRA Target		Avg Sale Price per Unit	Loss of Revenue
		MKWh	MKWh	MKWh	%	%	MKWh	%	MKWh	Rs. (million)	Rs. (million)
1	LESCO	16,965	14,741	2,224	13.11%	12.00%	2,036	1.11%	188	9	1,705
2	GEPCO	7,180	6,439	741	10.31%	10.50%	754	-0.19%	-	10	-
3	FESCO	9,527	8,596	931	9.77%	10.80%	1,029	-1.03%	-	9	-
4	IESCO	8,333	7,674	659	7.91%	9.50%	792	-1.59%	-	9	-
5	MEPCO	11,991	10,189	1,802	15.03%	15.00%	1,799	0.03%	4	10	36
6	PESCO	10,491	6,977	3,514	33.50%	28.00%	2,937	5.50%	577	11	6,441
7	HESCO	8,386	5,814	2,572	30.67%	28.00%	2,348	2.67%	224	12	2,576
8	SEPCO	-	-	-	-	-	-		-	-	-
9	QESCO	4,715	4,048	667	14.14%	18.00%	849	-3.86%	-	11	-
10	TESCO	2,199	1,735	464	21.10%	-	-		-	-	-
	TOTAL	**79,786**	**66,212**	**13,574**	**17.01%**		**12,543**		**993**	**79**	**10,759**

Source: Statistical Reports Prepared by PEPCO

Table – 17
Table of Debt and Equity of Independent Power Producers

Sr. No.	IPP		Debt (million US$)	%	Equity (million US$)	%	Capital (million US$)
1	UCH	Gas	500.000	79	130.5	21	630.500
2	FKPCL	Gas	127.500	75	42.5	25	170.000
3	ROUSCH	Gas	540.320	100	0	-	540.320
4	HCPCL	RFO	115.521	74	40	26	155.521
5	ALTERN	Gas	4.362	48	4.8	52	9.162
6	LIBERTY	Gas	127.880	64	73	36	200.880
7	KEL	RFO	96.520	70	42.08	30	138.600
8	JAPAN	RFO	83.640	68	39.6	32	123.240
9	SEPCOL	RFO	91.948	77	27	23	118.948
10	HUBCO	RFO	1,236.600	77	371.5	23	1,608.100
11	SABA	RFO	108.000	71	43.658	29	151.658
12	AES PAKGEN	RFO	249.000	72	95	28	344.000
13	AES LALPIR	RFO	269.300	74	95	26	364.300
14	Engro Energy	Gas/HSD	153.501	75	51.17	25	204.668
15	Foundation Power	Gas	162.605	75	54.20	25	216.807
16	Orient	Gas/HSD	134.085	75	44.70	25	178.780
17	Saif Power	Gas/HSD	168.979	80	52.81	20	211.224
18	Attock Gen	RFO	118.881	80	37.15	20	148.601
19	Atlas Power	RFO	168.320	75	56.11	25	224.427
20	Liberty Power	RFO	179.858	75	59.95	25	239.811
21	Sapphire Power	Gas/HSD	152.098	75	50.70	25	202.797
22	Halmore	Gas/HSD	173.532	75	57.84	25	231.376
23	Nishat Chunian	RFO	163.220	80	51.01	20	204.025
24	Nishat Power	RFO	163.220	80	51.01	20	204.025
25	Hubco NWL	RFO	191.907	70	68.54	30	274.153
	Total		**5,480.797**	**77**	**1,639.811**	**23**	**7,095.922**

Source: PPIB

Table – 18
TABLE SHOWING THE LOSS TO THE ECONOMY

Financial year	Total Installed Capacity (MW)	Year wise demand of electricity (MW)	Actual production of Electricity (MW)	Short production of Electricity (MW)	GDP Growth Rate %	Actual GDP Growth Rate %	Difference %	GDP (Actual) US $ Billion	GDP (Projected) US $ Billion	Loss of GDP Growth US $ Billion
2004	17,367	11,598	7,887	3,711	8.96	4.73	4.23	83.20	-	-
2005	17,395	12,595	8,393	4,202	8.96	7.48	1.48	98.00	106.78	2.93
2006	17,395	13,487	9,386	4,101	8.96	8.96	-	110.00	119.86	-
2007	17,526	15,838	10,027	5,811	8.96	5.82	3.14	128.00	139.47	9.71
2008	17,827	17,398	9,848	7,550	8.96	5.54	3.42	143.00	155.81	9.26
2009	18,022	17,852	9,632	8,220	8.96	4.99	3.97	164.00	178.69	16.71
2010	18,892	18,467	10,151	8,316	8.96	0.36	8.60	162.00	176.52	47.78
2011	20,986	18,521	10,340	8,181	8.96	2.58	6.38	176.00	191.77	34.62
2012	20,502	18,944	10,242	8,702	8.96	3.66	5.30	211.00	229.91	50.68
2013	20,854	19,545	10,076	9,469	8.96	4.36	4.60	231.00	251.70	21.10
									TOTAL	**192.79**

Source: Statistical Reports Prepared by PEPCO and economic data of Pakistan