AUDIT REPORT
ON
THE ACCOUNTS OF
POWER DIVISION AND ITS ATTACHED ENTITIES
AUDIT YEAR 2018-19

AUDITOR GENERAL OF PAKISTAN

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ABBREVIATIONS AND ACRONYMS

ACSR	Aluminum Conductor Steel Re-enforced
ADB	Asian Development Bank
AEL	Annual Energy Losses
AGP	Auditor-General of Pakistan
AGPR	Accountant General of Pakistan Revenue
AJ&K	Azad Jammu and Kashmir
ALM	Assistant Line Man
APG	Advance Payment Guarantee
B&C	Budget & Consolidation
BoD	Board of Directors
BoQ	Bill of Quantity
BPCs	Bulk Power Consumers
BPS	Basic Pay Scale
BTA	Business Transfer Agreement
BTU	British Thermal Unit
CAATs	Computed Assisted Auditing Techniques
CBA	Collective Bargaining Agent
CCC	Central Contract Cell
CCPP	Combined Cycle Power Plant
CDL	Cash Development Loan
CDWP	Central Development Working Party
CEO	Chief Executive Officer
CFL	Compact Florescent Lamps
CFO	Chief Financial Officer
CP	Commercial Procedure
CPGCL	Central Power Generation Company Limited
CPI	Consumer Price Index
CPP	Capacity Purchase Price
CPPA(G)	Central Power Purchasing Agency (Guarantee)
CSA	Consultancy Services Agreement
DAC	Departmental Accounts Committee
DCS	Distribution Control System
DDO	Drawing & Disbursing Officer
DECL	Dongfang Electric Corporation Limited
DS	Debt Services Liability
DSL	Defect Service Liability
DISCOs	Distribution Companies
DoP	Development of Power
ECC	Economic Coordination Committee
ECNEC	Executive Committee of the National Economic Council
EHV	Extra High Voltage
ELR	Energy Loss Reduction
EMB	Electrical Measurement Book
EoT	Extension of Time
EPA	Energy Power Agreement

EPP	Energy Purchase Price
ERO	Equipment Removal Order
ERP	Enterprise Resource Planning
FBR	Federal Board of Revenue
FC	Financial Closing
FCC	Foreign Currency Component
FCC	Fuel Cost Component
FCC	Fixed Cost Component
FCS	Free Consignee Store
FD	Finance Director
FESCO	Faisalabad Electric Supply Company
FIA	Federal Investigation Agency
FIDIC	International Federation of Consulting Engineers
FIEDMC	Faisalabad Industrial Estate Development and Management Co.
FOTP	Furnace Oil Treatment Plant
FPA	Fuel Price Adjustment
GCC	Gas Cost Component
GCC	General Condition of Contract
GENCOs	Generation Companies
GEPCO	Gujranwala Electric Power Company
GFR	General Financial Rules
GHCL	GENCO Holding Company Limited
GoP	Government of Pakistan
GSC	Grid System Construction
GSO	Grid System Operation
GST	General Sales Tax
GTPS	Gas Thermal Power Station
GWh	Gegawatt Hours
HEPEC	Hydro Electric Power Engineering Company
HESCO	Hyderabad Electric Supply Company
HFO	High Speed Furnace Oil
HP	Horse Power
HSD	High Speed Diesel
HT	High Tension
IAS	International Accounting Standards
Ibs	Incandescent Bulbs
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
ICL	Incandescent Lamp
ICSID	International Central for Settlement of Investment Disputes
IESCO	Islamabad Electric Supply Company
IPPs	Independent Power Producers
JPGCL	Jamshoro Power Generation Company Limited
JV	Journal Voucher
KAPCO	Kot Addu Power Company
KEL	Kohinoor Energy Limited
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
LCC	Local Currency Component
LD	Liquidated Damages
LESCO	Lahore Electric Supply Company
LoI	Letter of Intent
LPGCL	Lakhra Power Generation Company Limited
LT	Low Tension
MD	Managing Director
MDI	Maximum Demand Indicator
MEPCO	Multan Electric Power Company
MFDAC	Memorandum for Departmental Accounts Committee
MIS	Management Information System
MKWh	Million Kilo Watt Hour
MCFt	Million Cubic Feet
MOU	Memorandum of Understanding
MPS	Management Pay Scales
MRN	Material Return Note
M&S	Monitoring and Surveillance
M&T	Metering and Testing
MSR	Material at Site Register
MT	Metric Ton
MVA	Mega Volt Ampere
MW	Mega Watt
MWh	Mega Watt hour
NCPP	New Captive Power Producers
NEC	National Economic Council
NEO	Net Electric Output
NEPRA	National Electric Power Regulatory Authority
NGPS	Natural Gas Power Station
NIT	Notice Inviting Tender
NPCC	National Power Control Centre
NPGCL	Northern Power Generation Company Limited
NPMV	Non-Project Missed Volume
NPPMCL	National Power Parks Management Company Limited
NTDC	National Transmission and Despatch Company
NTPGL	Nandipur Thermal Power Generation Company Limited
OCC	Open Cycle Cost
O&M	Operation and Maintenance
PAC	Public Accounts Committee
PC Poles	Pre-stressed Concrete Poles
PCC	Particular Condition of Contract
PC-I	Planning Commission Proforma-I

PD	Project Director
PDP	Proposed Draft Para
PEC	Pakistan Engineering Council
PEDO	Pakhtunkhwa Energy Development Organization
PEPCO	Pakistan Electric Power Company
PESCO	Peshawar Electric Supply Company
PHPL	Power Holding Private Limited
P&D	Planning and Development
P&G	Preliminary and General
P&I	Planning & Investigation
PITC	Power Information Technology Company
PMU	Project Management Unit
PO	Purchase Order
POL	Petrol, Oil and Lubricants
PPA	Power Purchase Agreement
PPIB	Pakistan Power Infrastructure Board
PPPMCL	Pakistan Power Parks Management Company Limited
PPRA	Public Procurement Regulatory Authority
PSCs	Public Sector Companies
PSDP	Public Sector Development Programme
PSO	Pakistan State Oil
PWP	Peoples Works Programme
PTESU	Power Transformer Engineering Services Unit
QESCO	Quetta Electric Supply Company
RCO	Reconnection Order
REP	Rural Electrification Project
RFO	Residual Furnace Oil
RO	Revenue Officer
RTR	Reliability Test Run
SAP	System Augmentation Project
SCADA	Supervisory Control and Data Acquisition
SCC	Special Condition of Contract
SEPCO	Sukkur Electric Power Company
SEPCOL	Southern Electric Power Company Limited
S&I	Surveillance & Intelligence
SHYDO	Sarhad Hydro Development Organization
SMS	Secured Metering System
SNGPL	Sui Northern Gas Pipelines
SR	Store Requisition
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
TDS	Tariff Differential Subsidy
TESCO	Tribal Areas Electric Supply Company
TLC	Transmission Line Construction

TNO	Transmission Network Operator
ToC	Taking Over Certificate
ToU	Time of Use
TPS	Thermal Power Station
UOSC	Use of System Charges
VD	Voltage Drop
VDC	Volts Direct Current
VO	Variation Order
WAPDA	Water and Power Development Authority
WCC	WAPDA Computer Centre
WEPS	WAPDA Equipment Protection System
WPPO	WAPDA Power Purchase Organization

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 Accounts 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 Power Division & its attached entities for the financial year 2017-18 as well as some observations pertaining to the previous audit years. The Directorate General of Audit Power conducted audit of these entities during the year 2018-19 on test check basis with a view to reporting significant findings to the relevant stakeholders. The main body of the Audit Report includes only the systematic issues and audit findings carrying value of rupees one million and above. Relatively less significant issues have been listed in Annexure-I as MFDAC. These shall be pursued with the Principal Accounting Officer at DAC level and in case the PAO does not initiate appropriate action, the audit findings shall be included in next year 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 of Pakistan in pursuance of the Article 171 of the Constitution of the Islamic Republic of Pakistan 1973, for causing it to be laid before both houses of Majlis-e-Shoora [Parliament].

Islamabad
Dated:

(Javaid Jehangir)
Auditor General of Pakistan

EXECUTIVE SUMMARY

The Directorate General Audit Power carries out audit of accounts of Power Division and its attached entities on behalf of the Auditor General of Pakistan as envisaged in Article 170 (2). Audit of 119 formations was conducted by utilizing 29,169 man-days incurring expenditure of Rs.85.80 million.

a. Scope of Audit

Total auditable expenditure and revenue budget for the financial year 2017-18, under the jurisdiction of Directorate General Audit Power was Rs.537,711.24 million and Rs.678,446.58 million respectively. The Directorate General Audit Power conducted audit of 91% expenditure amounting to Rs.491,118.95 and 96% of revenue amounting to Rs.650,794.97 million on test check basis in accordance with the audit methodology as given in Financial Audit Manual.

b. Recoveries at the instance of Audit

Recovery of Rs.476,432 million was pointed out at the instance of Audit and recovery of Rs.267,636 million was established during the audit year 2017-18. Recovery of Rs.12,336.27 million was effected from January to December, 2018.

c. Audit Methodology

Audit activity started with detailed planning, development of audit programmes keeping in view resources and time. Desk review of Permanent Files was done to understand the systems, procedures and environment. Field activity included review of record, site visits and discussion with management. High value and high risk items were selected on professional judgment basis for substantive testing.

d. Audit Impact

As a result of regular Audit exercise, improvements in the business processes of Power Sector have been observed. Significant issues of Contract Management such as non-obtaining of valid performance guarantees, non-completion of projects and non-recovery/levy of liquidated damages have been pointed out by the Audit. Management has taken cognizance of these findings and has shown improvement in various areas by automating the process of electricity connections, issuing notices for regularization of unauthorized extension of load, automation of inventory management system, complaint redressal system etc. Recovery of arrears from illegal consumers and running defaulters is being improved through a special campaign against electricity theft. Subsidies on account of irregular tube well connections are under active consideration of discontinuation. Adherences to PPRA Rules have increased particularly in appointments of consultants / advisors. The targets for line losses fixed by NEPRA for DISCOs are being rationalized through third party validation on the intervention of Audit to resolve the issue of abnormal line losses.

e. Comments on Internal Controls and Internal Audit Department

An effective internal control framework serves as a major 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. The report describes that internal control system was deteriorating day by day. Increase in cases of violation of PPRA Rules, excess / over payment to contractors, non-recovery of LD charges, abnormal delay in completion of projects, theft of electricity and non-recovery of arrears were indicating failure of controls.

Internal Audit has been set up as a part of internal control system in Power Division and its attached entities. It carries out the audit of the contractor / consultants' accounts, revenue receipts and test audit of expenditure of Power Division and its attached entities 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. Key Audit Findings:

i. 125 cases of unjustified / irregular payment / expenditure due to violation of companies' own rules / regulations amounting to Rs.504,213.48 million.[1]

ii. 43 cases pertaining to recoveries amounting to Rs.2,210,494.70 million.[2]

iii. 63 cases of irregularities / violation of PPRA, NEPRA, GFR and regulatory laws & regulations amounting to Rs.327,061.32 million.[3]

iv. 90 cases pertaining to weaknesses of internal control systems amounting to Rs.321,142.27 million.[4]

v. 47 cases pertaining to damages, accidents, negligence & others amounting to Rs.327,261.79 million.[5]

vi. 05 cases of embezzlement of public money, theft and misuse of public resources amounting to Rs.4,309.31 million.[6]

vii. 02 cases pertaining to over and understatement of account balances amounting to Rs.146,770.06 million.[7]

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[1] Para-2.1.3, 2.1.5, 2.1.7, 2.1.8, 2.1.15, 2.1.17, 2.1.21, 2.1.28, 2.1.33, 2.1.34, 2.1.36, 2.1.41, 2.1.46, 2.1.48, 2.1.51, 2.1.55, 4.4.3, 5.4.8, 5.4.11, 5.4.12, 8.4.3, 8.4.5, 8.4.6, 8.4.8, 8.4.10, 8.4.11, 8.4.14, 8.4.16, 8.4.18, 8.4.21, 8.4.22, 8.4.24, 8.4.29, 8.4.32, 8.4.36, 8.4.41, 8.4.43, 8.4.44, 8.4.45, 8.4.46, 8.4.47, 8.4.48, 8.4.49, 8.4.50, 8.4.51, 9.4.3, 9.4.5, 9.4.6, 9.4.9, 9.4.12, 9.4.13, 9.4.14, 9.4.19, 9.4.22, 9.4.26, 10.4.8, 10.4.9, 10.4.10, 10.4.11, 10.4.12, 10.4.15, 10.4.16, 10.4.17, 10.4.21, 10.4.23, 10.4.24, 11.4.8, 11.4.13, 11.4.14, 11.4.15, 12.4.8, 12.4.9, 12.4.11, 12.4.13, 12.4.14, 12.4.15, 13.4.4, 13.4.7, 13.4.8, 13.4.12, 13.4.14, 13.4.17, 13.4.19, 13.4.20, 14.4.2, 14.4.7, 14.4.9, 14.4.12, 14.4.13, 14.4.15, 14.4.16, 14.4.17, 14.4.18, 14.4.19, 14.4.21, 14.4.22, 14.4.23, 15.4.6, 15.4.10, 15.4.11, 16.4.1, 16.4.2, 16.4.4, 16.4.8, 16.4.9, 16.4.16, 16.4.17, 17.4.2, 17.4.4, 17.4.5, 17.4.10, 17.4.12, 17.4.13, 18.4.2, 19.3.3, 20.4.7, 20.4.9, 20.4.10, 20.4.13, 20.4.20, 20.4.25, 21.3.2, 22.3.3, 22.3.4, 23.3.2

[2] Para-2.1.1, 2.1.2, 2.1.6, 2.1.10, 2.1.16, 2.1.22, 2.1.40, 2.1.45, 2.1.54, 8.4.27, 8.4.37, 8.4.42, 9.4.10, 9.4.11, 9.4.16, 9.4.21, 9.4.24, 10.4.1, 10.4.18, 10.4.27, 11.4.5, 11.4.11, 12.4.2, 12.4.10, 12.4.12, 13.4.10, 13.4.15, 14.4.1, 14.4.6, 14.4.10, 14.4.20, 15.4.13, 16.4.3, 16.4.7, 16.4.20, 16.4.21, 16.4.24, 16.4.25, 18.4.5, 20.4.1, 20.4.3, 20.4.12, 22.3.7

[3] Para-2.1.4, 2.1.11, 2.1.12, 2.1.23, 2.1.24, 2.1.25, 2.1.27, 2.1.37, 2.1.44, 2.1.47, 2.1.49, 2.1.53, 5.4.6, 5.4.10, 5.4.15, 5.4.18, 6.4.2, 8.4.19, 8.4.26, 8.4.28, 8.4.33, 8.4.35, 9.4.1, 9.4.2, 9.4.18, 9.4.23, 9.4.25, 9.4.28, 10.4.2, 10.4.4, 11.4.9, 11.4.16, 12.4.3, 12.4.4, 12.4.5, 12.4.6, 13.4.2, 13.4.5, 13.4.11, 13.4.13, 13.4.16, 13.4.22, 13.4.23, 13.4.24, 14.4.8, 15.4.7, 16.4.14, 17.4.1, 17.4.9, 18.4.3, 19.3.1, 20.4.15, 20.4.16, 20.4.17, 20.4.21, 20.4.22, 20.4.23, 20.4.27, 20.4.31, 20.4.32, 22.3.1, 22.3.6, 23.3.1

[4] Para-1.4.1, 2.1.14, 2.1.19, 2.1.26, 2.1.29, 2.1.35, 2.1.38, 2.1.39, 2.1.42, 2.1.50, 2.1.52, 5.4.3, 5.4.4, 5.4.7, 5.4.9, 5.4.13, 8.4.1, 8.4.4, 8.4.7, 8.4.9, 8.4.12, 8.4.13, 8.4.15, 8.4.17, 8.4.20, 8.4.30, 8.4.31, 8.4.34, 8.4.39, 9.4.4, 9.4.7, 9.4.8, 9.4.15, 9.4.17, 9.4.20, 9.4.27, 9.4.29, 10.4.3, 10.4.6, 10.4.7, 10.4.14, 10.4.19, 10.4.20, 10.4.22, 10.4.25, 10.4.26, 11.4.1, 11.4.2, 11.4.3, 11.4.6, 11.4.7, 11.4.10, 12.4.1, 12.4.7, 13.4.1, 13.4.3, 13.4.6, 13.4.18, 14.4.3, 14.4.4, 14.4.5, 14.4.11, 14.4.14, 15.4.3, 15.4.5, 15.4.9, 15.4.12, 16.4.5, 16.4.6, 16.4.11, 16.4.12, 16.4.15, 16.4.18, 16.4.19, 16.4.22, 16.4.23, 17.4.3, 17.4.7, 17.4.8, 18.4.1, 18.4.4, 19.3.2, 20.4.4, 20.4.6, 20.4.14, 20.4.18, 20.4.19, 20.4.26, 21.3.1, 23.3.3

[5] Para-2.1.9, 2.1.13, 2.1.18, 2.1.30, 2.1.32, 4.4.2, 5.4.1, 5.4.2, 5.4.5, 5.4.14, 5.4.16, 5.4.17, 5.4.19, 6.4.1, 6.4.3, 7.3.1, 8.4.2, 8.4.23, 8.4.25, 8.4.40, 8.4.52, 8.4.53, 8.4.54, 10.4.5, 10.4.13, 11.4.4, 11.4.12, 13.4.9, 13.4.21, 15.4.1, 15.4.2, 15.4.4, 15.4.8, 16.4.10, 16.4.13, 17.4.6, 20.4.2, 20.4.5, 20.4.8, 20.4.11, 20.4.24, 20.4.28, 20.4.29, 20.4.30, 22.3.2, 22.3.5, 23.3.4

[6] Para-2.1.20, 2.1.31, 2.1.43, 8.4.38, 17.4.11

[7] Para-3.4.1, 4.4.1

Audit paras for the Audit Year 2018-19 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 liquidity position of the Power Sector. For this purpose, the management needs to prepare financial improvement / recovery plans to avoid the accumulation of Circular Debt.

ii. 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 adopting remedial measures for improving systems and internal controls within the organizations.

iii. For effective inventory management, it is suggested that material may be purchased in accordance with the inventory demand. The management needs to take appropriate measures to dispose off material, lying idle in different stores for years together as per disposal procedures.

iv. The managerial capabilities may be improved to avoid lapses pointed out in the process of operational and contract management.

v. The management needs to evaluate and strengthen financial management and internal controls.

vi. The management must place maximum emphasis upon recovery of outstanding amount at all stages of supply chain of power sector so that circular debt doesn't accumulate to an unmanageable level.

vii. The management needs to observe Public Procurement Rules in procurement of goods, works & services to ensure transparency, value for money and achieving competitive rates in award of contracts.

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*	25	537,711.24	678,446.58
2.	Total formations in audit jurisdiction.	154	537,711.24	678,446.58
3.	Total entities audited	19	491,118.95	650,794.97
4.	Total formations audited	119	491,118.95	650,794.97
5.	Audit & Inspection Reports	119	-	-
6.	Special Audit Reports	03	-	-

* *The Principal Accounting Officer of all the entities is Secretary, Ministry of Energy (Power Division).*

Table 2 Audit Observations regarding Financial Management

Sr. No.	Description	Amount placed under audit observation (Rs.in million)
1.	Unsound asset management	4,309.31
2.	Weak financial management	467,912.33
3.	Weak internal controls relating to financial management	3,041,769.50
4.	Others	327,261.79
	Total	***3,841,252.93**

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 2017-18 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	50,726.95	2,215.17	438,176.83	650,794.97	1,141,913.92	1,069,064.41
2.	Amount placed under audit observation/ irregularities of auditee	23,040.40	22,387.15	2,845,511.06	510,568.48	*3,401,507.10	1,440,471.08
3.	Recoveries pointed out at the instance of audit	243.88	7.50	153,711.10	322,469.62	476,432.10	1,065,577.31
4.	Recoveries accepted/ established at the instance of audit	1.35	0.21	71,309.05	196,324.99	267,635.60	31,536.53
5.	Recoveries realized at the instance of audit	0	0	32.43	12,303.84	12,336.27	4,938.57

* *Total observation amounting to Rs.3,401,507.10 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.	831,274.80
2.	Reported cases of fraud, embezzlement, thefts and misuse of public resources.	4,309.31
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.	146,770.06
4.	Weaknesses of internal control systems.	321,142.27
5.	Recoveries and overpayments, representing cases of establishment overpayment or misappropriations of public moneys.	2,210,494.70
6.	Non-production of record.	0
7.	Others, including cases of accidents, negligence etc.	327,261.79
	Total	**3,841,252.93**

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	2018-19	2017-18
1.	Outlays Audited (Item 1 of Table 3)	1,141,913.92	1,069,064.41
2.	Expenditure on Audit	85.80	137.33
3.	Recoveries realized at the instance of Audit	12,336.27	4,938.57
	Cost-Benefit Ratio	1:43.78	1:35.96

CHAPTER-1

PAKISTAN ELECTRIC POWER COMPANY (PEPCO)

1. PAKISTAN ELECTRIC POWER COMPANY (PEPCO)

1.1 Introduction

Pakistan Electric Power Company (Private) Limited (PEPCO) was incorporated in Pakistan as private limited company on May 13, 1998 under Companies Ordinance 1984 (now Companies Act 2017). The Company is engaged in the management of restructuring, corporatization, privatization and manpower transition program and tariff determination process of corporate entities.

PEPCO is responsible for the management of one (01) National Transmission and Despatch Company (NTDC), four (04) GENCOs, ten (10) Distribution Companies (DISCOs) and one (01) PITC. These companies are working under the independent Board of Directors.

1.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, "the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of financial year adopted by the company".

In PEPCO, the Profit & Loss account and Balance Sheet of the company for the Financial Year 2017-18 could not be finalized by the management up till December 31, 2018.

1.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
PEPCO	2016-17	01	-	-	01 (Para No. 3.4.1)

Position of compliance with PAC directives is not satisfactory.

1.4 AUDIT PARAS

1.4.1 Loss due to non-distribution of energy savers - Rs.33.22 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In PEPCO, out of 915,000 energy savers that were handed over to SEPCO in 2012 for improving energy efficiency, 237,303 energy savers were still not distributed to consumers. Due to non-distribution of the same, the company had sustained a loss of Rs.33.22 million.

Non-adherence to above instructions resulted in loss of Rs.33.22 million due to non-distribution of energy savers up to the Financial Year 2017-18.

The matter was taken up with the management in November, 2018 and reported to Ministry in December, 2018. The management replied that the matter related to SEPCO and they would provide the reply. The reply was not tenable as the PEPCO was the management company relating to all DISCOs.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite compliance to observation and get it verified from Audit 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 responsibility besides making good the loss.

(Draft Para No. 1417/2018-2019)

CHAPTER-2

COMMON ISSUES OF CPPA(G), DISCOs, GENCOs, NTDC, PEPCO, PHPL & PITC

2. COMMON ISSUES OF CPPA(G), DISCOs, GENCOs, NTDC, PEPCO, PHPL & PITC

2.1 AUDIT PARAS

2.1.1 Non-removal of electrical equipment and non-recovery of arrears - Rs.522,275.06 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, 1,089,253 consumers of all categories including Government Departments defaulted to pay energy charges of Rs.522,275.06 million. The equipment removal orders (EROs) were issued but partially executed as only meters were removed instead of whole electrical equipment. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of EROs	Amount (Rs. in million)
1.	GEPCO	160 & 1331/2018-19	407	52.33
2.	HESCO	818, 1133, 1294 & 1396/2018-19	379,949	74,123.81
3.	IESCO	1416/2018-19	20	10.67
4.	LESCO	173, 208, 236, 915, 973 & 1062/2018-19	6,713	2,468.17
5.	MEPCO	415, 441, 1032 & 1194/2018-19	4,760	60.59
6.	PESCO	767, 1009, 1012 & 1267/2018-19	101,444	66,403.02
7.	QESCO	445, 745, 749, 773 & 1250/2018-19	210,495	266,833.81
8.	SEPCO	628 & 1117/2018-19	333,629	75,358.43
9.	TESCO	534/2018-19	51,836	36,964.23
		TOTAL	**1,089,253**	**522,275.06**

Non-adherence to Authority's instructions resulted in non-removal of electrical equipment and non-recovery of energy charges amounting to Rs.522,275.06 million up to the Financial Year 2017-18.

The matter was taken up with the management during July to November, 2018 and reported to the Ministry during October to December, 2018. The management replied that in some cases amount had been recovered while efforts were being made either to recover the arrears or implement pending EROs. The reply was not tenable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions and expedite the pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.2 Non-recovery of receivables from energy defaulters - Rs.306,696.59 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 procedure".

In DISCOs, an amount of Rs.306,696.59 million was recoverable from running and permanent disconnected (P-Disc.) energy defaulters (Government and private) for the 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 increasing trend of receivables, PEPCO was facing financial difficulties in discharging its obligations towards Power Sector Companies (PSCs) and Independent Power Producers (IPPs). The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	FESCO	141, 303, 684 & 751/2018-19	6,868.99
2.	GEPCO	1454/2018-19	683.56
3.	HESCO	1112, 1130 & 1295/2018-19	5,767.42
4.	IESCO	453 & 902/2018-19	120.61
5.	LESCO	220 & 1388/2018-19	533.71
6.	MEPCO	791, 842 & 1081/2018-19	216.43
7.	PESCO	1010, 1014 & 1127/2018-19	123,269.97
8.	QESCO	391, 443, 703, 709 & 1089/2018-19	37,743.36
9.	SEPCO	496 & 1134/2018-19	92,206.17
10.	TESCO	186/2018-19	39,286.37
		TOTAL	**306,696.59**

Non-adherence to WAPDA Commercial Procedure resulted in non-recovery of Rs.306,696.59 million from energy defaulters up to the Financial Year 2017-18.

The matter was taken up with the management during August to October, 2018 and reported to the Ministry during October to December, 2018. The management replied that in some cases amount had been recovered and efforts were being made to recover the remaining amount. The reply was not tenable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions and expedite the pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.3 Non / less recovery of liquidated damages from Contractors / Suppliers & Power Producers – Rs.264,697.98 million

According to Clauses- of the Contracts / Purchase Orders / PPAs, "the rate of liquidated damages is 0.05% to 0.10% 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 CPPA(G), DISCOs, GENCOs & NTDC, 310 contracts / purchase orders / power purchase agreements were made with different contractors / suppliers & power producers for execution of works / supply of material & procurement of energy. The contractors / suppliers / IPPs & GENCO could not complete the works / make supplies within the stipulated period hence, they were liable to pay the liquidated damages of Rs.264,697.98 million but the same were either not recovered or less recovered. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of Contracts / POs/ PPAs	Amount (Rs. in million)
1.	CPPA(G)	109, 507, 511, 615, 617 & 733/2018-19	20	262,480.23
2.	FESCO	807/2018-19	05	141.09
3.	GENCO-I	597/2018-19	58	5.57
4.	GENCO-III	481, 483, 645 & 653/2018-19	4	256.08
5.	GEPCO	312, 316, 498 & 1043/2018-19	30	30.10
6.	HESCO	1077, 1363, 1410, 1435 & 1526/2018-19	22	32.71
7.	IESCO	1320 & 1450/2018-19	10	23.19
8.	LESCO	536 & 932/2018-19	08	79.74
9.	MEPCO	889 & 995/2018-19	02	14.40
10.	NTDC	40, 105, 240, 243, 247, 285, 385, 472, 550, 827, 895, 954 & 1349/2018-19	28	1,395.43
11.	PESCO	568 & 820/2018-19	40	155.74
12.	QESCO	575, 587 & 1208/2018-19	24	41.78
13.	SEPCO	432, 734, 1118 & 1123/2018-19	29	30.40
14.	TESCO	1333/2018-19	30	11.52
		TOTAL	**310**	**264,697.98**

Non-adherence to contract clauses resulted in non-recovery of liquidated damages amounting to Rs.264,697.98 million from the contractors / suppliers up to the Financial Year 2017-18.

The matter was taken up with the management during January to October, 2018 and reported to the Ministry during September & December, 2018. The management replied that in some cases amount had been recovered and in remaining cases recovery / extension of time was under process. The reply was not tenable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide the record relating to completed actions within 15 days and expedite the pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.4 Loss of revenue due to line losses beyond NEPRA's targets - Rs.157,007.45 million

NEPRA fixed targets of energy losses ranging from 10.2% to 31.95% for the financial year 2017-18 in respect of following DISCOs.

In DISCOs, the percentage of line losses was more than the targets of losses set by the NEPRA. Hence, 28,455.11 million units valuing Rs.157,007.45 million were lost beyond the NEPRA's target. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Units Lost in million	Amount (Rs. in million)
1.	FESCO	144, 686, 710 & 799/2018-19	436.82	3,204.70
2.	GEPCO	175, 274, 979 & 1328/2018-19	308.37	3,367.36
3.	HESCO	1113, 1287, 1395, 1425, 1430 & 1496/2018-19	3,331.97	49,517.12
4.	IESCO	866/2018-19	0.14	1.70
5.	LESCO	65, 221, 926 & 972/2018-19	641.65	7,629.40
6.	MEPCO	425, 787, 846, 862, 892, 962 & 1384/2018-19	1,171.91	7,197.85
7.	PESCO	772, 1008, 1016 & 1108/2018-19	17,727.62	29,018.07
8.	QESCO	705, 1088, 1174, 1248 & 1412/2018-19	1,607.95	19,221.36
9.	SEPCO	638, 1098, 1122, 1298 & 1301/2018-19	3,217.24	37,731.74
10.	TESCO	283/2018-19	11.44	118.15
		TOTAL	**28,455.11**	**157,007.45**

Non-adherence to NEPRA's target resulted in loss of revenue amounting to Rs.157,007.45 million during the Financial Year 2017-18.

The matter was taken up with the management during June & October, 2018 and reported to the Ministry during October & December, 2018. The management replied that high losses on feeders were due to lengthy feeders, poor substations, illegal connections, unrealistic targets and wrong feeder coding. However, efforts were being to reduce the line losses. The reply was not tenable as results of efforts were not shared with Audit.

The DAC in its meeting held on December 20-21, 2018 did not accept the stance of the management and directed to investigate the matter for fixing responsibility of losses beyond NEPRA's target. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides making the loss good.

2.1.5 Blockage of funds due to non-completion / non-capitalization of works - Rs.57,301.23 million

According Paras-4.1.3 to 4.1.6 of WAPDA Distribution Rehabilitation Guidelines September 2003, "total time for approval of work, execution and preparation of completion report will be restricted to 130 days". As per DISCOs Accounting Manual, A-90 Form (completion report) prepared by the Deputy Manager (Construction)/ Deputy Manager (GSC) is certified by the Consultants and forwarded to Project Director (Construction)/ Project Director (GSC) for capitalization.

In DISCOs & NTDC, 9804 deposit & augmentation / rehabilitation works amounting to Rs.57,301.23 million were either lying incomplete or completed but not capitalized since long. The said works were initiated to reduce distribution losses, improve the efficiency of transmission / operational system and extend the electricity facility to the people of respective areas. Due to non-completion / capitalization of the said works, desired benefits could not be achieved. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of works	Amount (Rs. in million)
1.	FESCO	713, 755, 1231, 1232, 1405, 1488 & 1492/2018-19	3,259	2,829.96
2.	GEPCO	197, 213, 226, 227, 276, 321, 324, 817, 942, 944, 1049, 1054, 1318 & 1387/2018-19	1,419	11,300.16

3.	HESCO	41, 44 & 1434/2018-19	411	515.92
4.	IESCO	893, 1378, 1393 & 1486/2018-19	135	7,182.81
5.	LESCO	126, 133, 138, 179, 254, 347, 918 & 1031/2018-19	1,634	2,919.32
6.	MEPCO	55, 57, 79, 237, 437, 567 & 611/2018-19	559	3,629.11
7.	NTDC	503 & 757/2018-19	02	949.83
8.	PESCO	569, 572, 1125, 1187 & 1269/2018-19	1,166	12,979.15
9.	QESCO	577, 585, 588, 676, 682, 701, 728, 747 & 1203/2018-19	425	12,760.72
10.	SEPCO	372, 378 & 411/2018-19	652	1,462.29
11.	TESCO	429 & 431/2018-19	350	810.99
		TOTAL	**9,804**	**57,301.23**

Non-adherence to WAPDA Distribution Rehabilitation Guidelines resulted in blockage of funds amounting to Rs.57,301.23 million due to non-completion / non-capitalization of works to the Financial Year 2017-18.

The matter was taken up with the management during July to October, 2018 and reported to the Ministry during September to December, 2018. The management replied that some works had been completed while remaining works were under process. The reply was not tenable as the works were not completed within stipulated period.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce record of completed works within 15 days and expedite completion of remaining works. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.6 Non-recovery of electricity charges from consumers under Tariff-K - Rs.56,181.27 million

According to NEPRA Tariff determination in respect of IESCO, "the rate of variable charges under Tariff-K (Azad Jammu & Kashmir) was Rs.10.50 / per kWh". As per NEPRA Targets 100% recovery should be made from the electricity consumers.

In DISCOs, ninety six (96) consumers of Tariff-K (Azad Jammu & Kashmir) were not paying electricity charges in the light of approved tariff of NEPRA. Resultantly, an amount of Rs.56,181.27 million was recoverable. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Consumers	Amount (Rs. in million)
1.	IESCO	910 & 921/2018-19	63	37,188.98
2.	PESCO	1104/2018-19	33	18992.29
		TOTAL	**96**	**56,181.27**

Non-adherence to NEPRA determination resulted in non-recovery of electricity charges of Rs.56,181.27 million from consumers under Tariff-K up to the financial year 2017-18.

The matter was taken up with the management during September & October, 2018 and reported to the Ministry in November, 2018. The management replied that the matter had already been taken at Ministry level. Outcome would be intimated accordingly.

The DAC in its meeting held on December 20-21, 2018 directed the management to pursue the matter vigorously. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

2.1.7 Undue generation of revenue through over billing - Rs.33,030.82 million

According to Commercial Procedure, "Revenue Officer is responsible for: i) Implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) Efficient application of billing and collection procedures".

In DISCOs, the percentages of energy losses of various feeders were in negative figures during the financial year 2017-18. The negative losses revealed that the units billed were in excess of units received which were an indication of overbilling of Rs.33,030.82 million to consumers. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	FESCO	1000 & 1218/2018-19	808.72
2.	GEPCO	1456/2018-19	16.37
3.	HESCO	1109 & 1423/2018-19	223.67
4.	IESCO	331/2018-19	9.90
5.	LESCO	172, 205, 224, 409, 913, 923, 1177 & 1179/2018-19	5436.01
6.	MEPCO	91, 191, 414, 440, 464, 467, 797, 848, 860, 960, 1035 & 1192/2018-19	354.23
7.	PESCO	762, 837, 1126 & 1272/2018-19	11462.95
8.	QESCO	413, 442, 726, 777, 825, 1209, 1255 & 1304/2018-19	885.07
9.	SEPCO	261, 490, 562, 890 & 1100/2018-19	13833.90
		TOTAL	**33,030.82**

Non-adherence to Commercial Procedure resulted in undue generation of revenue of Rs.33,030.82 million through over billing to consumers during the Financial Year 2017-18.

The matter was taken up with the management during August to October, 2018 and reported to the Ministry during October to December, 2018. The management replied that line losses were due to non / wrong coding of feeders, and billing cycle. The reply was not acceptable as no proper measures were adopted to avoid overbilling.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide feeder wise analysis of line losses duly supported with documents within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.8 Huge refund to consumers due to revision of reading and detection charges - Rs.32,533.34 million

According to instructions issued by the Managing Director PEPCO vide letter dated December 01, 2010, "strict disciplinary action, without any exception, shall be taken against the officers and staff found involved in the overbilling". As per Memorandum of understanding (MoU) signed between Ministry of Water & Power and DISCOs, "adjustment / bill corrections will be rationalized / minimized to less than 0.01% of total billing".

In DISCOs, an amount of Rs.32,533.34 million was refunded to various consumers as a result of revision of reading and detection charges through adjustment notes. This scenario indicated that over billing was made to consumers in one month and same was refunded in next month on account of wrong reading. Moreover, detection bills were not charged as per detection policy and had to be revised on consumers' complaints. This was done just to conceal the actual line losses and theft of energy. No action was taken against the officers / officials involved in credit adjustments. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	FESCO	1259/2018-19	17,925
2.	GEPCO	165 & 1462/2018-19	24.06
3.	HESCO	1285/2018-19	3582.40

4.	IESCO	1355/2018-19	4.48
5.	LESCO	136, 183, 185, 408, 486 & 1063/2018-19	95.91
6.	MEPCO	92, 436 & 792/2018-19	178.00
7.	PESCO	839/2018-19	9,787.26
8.	QESCO	1091/2018-19	20
9.	SEPCO	423, 506, 1121 & 1150/2018-19	916.23
		TOTAL	**32,533.34**

Non-adherence to procedures resulted in huge refund of Rs.32,533.34 million to consumers on account of wrong readings and detection revised during the Financial Year 2017-18.

The matter was taken up with the management during May to August, 2018 and reported to the Ministry during October to December, 2018. The management replied that bills were revised after fulfilling codal formalities and disciplinary actions had also been initiated against officials who were involved in wrong reading. The reply was not tenable as no documentary evidence was provided to substantiate reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get stances verified from Audit within 15 days. DAC also directed to take action against delinquents. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s directives besides fixing responsibility.

2.1.9 Non-payment of principal & markup on foreign relent loans - Rs.24,444.78 million

According to Loan Agreements, the Borrower shall repay the principal amount and interest of the loan withdrawn from the loan account in accordance with the provisions of the Loan Agreement.

In DISCOs, principal and markup amount of Rs.24,444.78 million against foreign relent loans was payable to Economic Affair Division (EAD) for onward payment to development partner i.e ADB. Non-payment of loans causing accumulation of markup & late fee charges would ultimately increase in overall financial burden of the companies. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	GEPCO	313 & 982/2018-19	5,569.09
2.	LESCO	1061/2018-19	2,449.09

3.	QESCO	1219/2018-19	16,426.60
		TOTAL	**24,444.78**

Non-adherence to loan agreements resulted in non-payment of principal & markup amounting to Rs.24,444.78 million on foreign relent loan up to the financial year 2018-19.

The matter was taken up with the management during September & October, 2018 and reported to the Ministry during November & December, 2018. The management replied that PEPCO had stopped all the DISCOs to make payment to EAD and loan would be adjusted against receivables.

The DAC in its meeting held on December 20-21, 2018 directed the management to take up the matter with Ministry of Energy (Power Division) and inform the final status to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

2.1.10 Non-recovery from consumers on account of pending court cases – Rs.12,078.94 million

According to Section 54(C) "Bar of Jurisdiction" of Electricity Act-1910, "disputed amounts are required to be deposited in court in favour of WAPDA before filling the cases against WAPDA in Courts".

In DISCOs, the disputed & deferred amount of Rs.12,078.94 million pertaining to subjudice cases was not got deposited in favour of companies. Hence, the huge revenue of companies was blocked due to pending court cases. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	HESCO	163, 639 & 1424/2018-19	269.94
2.	IESCO	909, 1414 & 1444/2018-19	634.69
3.	LESCO	1465/2018-19	10928.77
3.	MEPCO	796, 905 & 1085/2018-19	245.54
		TOTAL	**12,078.94**

Non-adherence to the Electricity Act resulted in non-recovery of Rs.12,078.94 million from consumers on account of pending court cases up to the Financial Year 2017-18.

The matter was taken up with the management during August to November, 2018 and reported to the Ministry during October to December, 2018.

The management replied that some of the amount had been recovered while efforts were being made to recover remaining amount and finalization of court cases. The reply was not tenable as Electricity Act-1910 was not implemented in true spirit.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions for verification within 15 days and complete the pending actions expeditiously besides pursuing the court cases vigorously. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

2.1.11 Loss on account of higher consumption of fuel due to excess heat rate than NEPRA's determination - Rs.9,571 million

NEPRA has determined the heat rates ranging from 6964.80 BTU/kWh to 12,093 BTU/kWh in respect of GENCO-I, II, III & Nandipur Power Plant.

In GENCOs, heat rate was excessive than the permissible limits fixed by NEPRA. As a result of excess heat rate, gas & furnace oil amounting to Rs.9,571 million was excess utilized in generation of electricity, which caused loss to Companies as detailed below:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1	GENCO-I	556/2018-19	1,761.49
2	GENCO-II	673/2018-19	843.07
3	GENCO-III	599 & 656/2018-19	6,966.44
		TOTAL	**9,571**

Non-adherence to the NEPRA's standards resulted in loss of Rs.9,571 million to GENCOs during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that units were operated on variable / partial load basis as per demand of NPCC. The NEPRA had allowed heat rate for operation of machine in combined cycle mode as well as simple cycle mode separately. Moreover, NEPRA did not allow the requested Tariff and Heat Rate to NPGCL. The reply was not convincing as NEPRA fixed the targets on basis of tariff petition submitted by the Company.

The DAC in its meeting held on December 20-21, 2018 directed the management of GENCO-I & III to make loss good within 15 days and GENCO-II to get the stance verified from Audit within one week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

2.1.12 Loss due to excess auxiliary electricity consumption - Rs.8,415.36 million

NEPRA determined auxiliary consumption as 8.90 % for Units 1-4 of GENCO-I, and 7.09% to 9.64% for Units 1-6 of GENCO-III and for Nandipur Power Plant as 3% for the year 2017-18.

In GENCOs, the auxiliary consumption i.e. electricity used to run the power plant, remained higher than the permissible limit allowed by NEPRA. Resultantly, 749.83 MKWh units valuing Rs.8,415.36 million were excess utilized as auxiliary consumption.

Sr. No.	Name of Company	Draft Para No.	Excess units utilized (MKWh)	Amount (Rs. in million)
1.	GENCO-I	783/2018-19	681.89	7,500.79
2.	GENCO-III	600 & 788/2018-19	67.94	914.57
TOTAL			**749.83**	**8,415.36**

Non-adherence to NEPRA approved limits for auxiliary consumption resulted in loss of Rs.8,415.36 million during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that a Licensee Proposed Modification fixing the auxiliary being consumed by different plants as per latest Tariff Determination / Dependable Capacity Tests and provision of % age Auxiliary Consumption for operation of the machines on part load. Moreover, the Nandipur Power Plant was mostly operated on partial load as per demand of NPCC, which resulted in less generation. The reply was not convincing as NEPRA's targets regarding auxiliary consumption were not adhered to.

The DAC in its meeting held on December 20-21, 2018 did not agree with the view point of management and directed to make the loss good within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

2.1.13 Investment at risk due to overloading of Power / Distribution Transformers - Rs.6,329.50 million

According to Para-3(vi) of Minutes of CEOs DISCOs Conference November 26, 2007 issued by General Manager (C&M) Power vide No.870-95/GM(C&M)//P/CE/(O)/Stat-10 dated December 01, 2007, loading position of power transformers above 90% should be augmented / added.

In DISCOs & NTDC, 133 power transformers and 2,894 distribution transformers of different capacities valuing Rs.6,329.50 million remained consistently overloaded, which may expose these to damage the transformers. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of Transformers	Amount (Rs. in million)
1.	FESCO	1503/2018-19	20 Power T/Fs	315
2.	GEPCO	233/2018-19	20 Power T/Fs	3627
3.	HESCO	370 & 1131/2018-19	25 P.T/Fs & 1243 Distt T/Fs	955.65
4.	IESCO	1371/2018-19	27 PTs	540
5.	MEPCO	450, 460, 669 & 795/2018-19	27 P.T/Fs & 1651 Distt T/Fs	611.85
6.	NTDC	489/2018-19	14 PTs	280
		TOTAL	**133 P.T/Fs & 2894 D. T/Fs**	**6,329.50**

Operational Asset mismanagement resulted in investment at risk due to overloading of transformers valuing Rs.6,329.50 million up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry during October to December, 2018. The management replied that in some cases loading position had been balanced whereas in remaining cases efforts were being made to control the overloading. The reply was not convincing as no serious efforts were made to safeguard the costly equipment.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.14 Loss due to shortage of electrical material and non-accountal of surplus material - Rs.6,105.13 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In DISCOs, GENCOs & NTDC, electrical material and transformers' parts / oil valuing Rs.117.77 million were found missing / short during physical / stock verification. Moreover, material valuing Rs.5,987.37 million was found surplus / not accounted for in the books. Neither any departmental inquiry was conducted nor any action taken against the responsible persons. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	FESCO	403/2018-19	0.42
2.	GENCO-I	557/2018-19	4,813.83
3.	GENCO-II	674/2018-19	1,075.56
4.	GEPCO	193 & 323/2018-19	56.06
5.	IESCO	281/2018-19	1.37
6.	LESCO	60, 101 & 204/2018-19	131.43
7.	MEPCO	448 & 963/2018-19	5.03
8.	NTDC	488, 549 & 811/2018-19	14.57
9.	PESCO	1166/2018-19	1.65
10.	QESCO	667/2018-19	3.83
11.	SEPCO	1157/2018-19	1.38
		TOTAL	**6,105.13**

Non-adherence to Authority's instructions resulted in loss of Rs.6,105.13 million due to missing / shortage of electrical material and non-accountal of surplus material up to the Financial Year 2017-18.

The matter was taken up with the management during August to October, 2018 and reported to the Ministry during October to December, 2018. The management replied that in some cases either amount had been recovered or material returned to store while in other cases inquiry proceedings were under process. The reply was not acceptable as reasons for delay in finalization of inquiry were not provided.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.15 Energy losses on independent feeders beyond permissible limit - Rs.5,427.79 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 percentage of energy losses of 533 independent feeders remained in excess of the permissible limit of 3%, which entailed energy loss of Rs.5,427.79 million. The losses above the permissible limit were either due to illegal extension of load or the conductor was incapacitated to withstand running load. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of cases	Amount (Rs. in million)
1.	FESCO	143, 687, 750, 1017 & 1217/2018-19	129	949.32
2.	HESCO	83, 97 & 1289/2018-19	51	114.93
3.	IESCO	869, 873 & 1354/2018-19	44	129.26
4.	LESCO	171, 182, 219, 344, 900 & 1176/2018-19	114	1,419.11
5.	MEPCO	192, 438, 465, 847 & 858/2018-19	27	282.80
6.	PESCO	1006, 1028 & 1271/2018-19	80	1,765.50
7.	QESCO	392, 704 & 1254/2018-19	26	34.77
8.	SEPCO	119, 492, 627, 1120 & 1302/2018-19	38	507.94
9.	TESCO	310 & 1442/2018-19	24	224.16
		TOTAL	**533**	**5,427.79**

Non-adherence to Distribution Rehabilitation Guidelines resulted in energy losses of Rs.5,427.79 million on independent feeders beyond permissible limit during the Financial Year 2017-18.

The matter was taken up with the management during May to August, 2018 and reported to the Ministry during October to December, 2018. The management replied that line losses were due to non/wrong coding of feeders, billing cycle and shifting / bifurcation of load. The reply was not tenable as results of efforts were not shared with Audit.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide feeder wise analysis duly supported with documents within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.16 Non-recovery of GST / Income Tax / Excise duty claims from FBR – Rs.4,993.24 million

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

In DISCOs & NTDC, an amount of Rs.4,993.24 million was recoverable from Federal Board of Revenue (FBR) on account of GST, Income Tax & Excise duty re-imbursement up to June, 2018. Resultantly, the companies' funds were blocked to the stated extent. No efforts were being made to recover the huge outstanding amount from FBR as detailed below:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	FESCO	295/2018-19	2,420.76
2.	MEPCO	94 & 417/2018-19	24.67
3.	NTDC	524 & 552/2018-19	2,547.81
		TOTAL	**4,993.24**

Non-pursuance of reimbursement claims resulted in non-recovery of GST / Income Tax / Excise duty claims amounting to Rs.4,993.24 million from FBR up to the Financial Year 2017-18.

The matter was taken up with the management during June to August, 2018 and reported to the Ministry during October & November, 2018. The management replied that the receivables would be cleared / recovered in due course of time. Moreover, all the components as well as GST were adjusted during revision of detection bills. The reply was not tenable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide the record related to completed action and expedite the pending action within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.17 Blockage of funds due to unnecessary purchase of stores / electrical material - Rs.4,751.12 million

According to Para-5 of WAPDA office 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 DISCOs, GHCL & NTDC, electrical material worth Rs.4,751.12 million, lying in Regional and Field stores remained slow-moving / inactive. This scenario indicated that the material, in question, was procured without forecasting/assessing the actual demand. Had the material been procured as per actual demand with due care, the blockage of funds could have been avoided. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	FESCO	298/2018-19	24.33
2.	GEPCO	1052/2018-19	14.84
3.	GHCL	1505/2018-19	26.49
4.	HESCO	369 & 1075/2018-19	169.19
5.	LESCO	78 & 935/2018-19	113.14
6.	NTDC	810/2018-19	4,342.04
6.	QESCO	363 & 1256/2018-19	15.57
7.	SEPCO	739/2018-19	45.52
		TOTAL	**4,751.12**

Non-adherence to Authority's instructions resulted in blockage of funds due to un-necessary purchase of stores / electrical material amounting to Rs.4,751.12 million up to the Financial Year 2017-18.

The matter was taken up with the management during February to December, 2018 and reported to the Ministry during October to December, 2018. The management replied that some of the material had been utilized while the other would be utilized in due course to time. Moreover, in some cases reports of technical committee were under process. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide the record relating to completed actions within 15 days and expedite the pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.18 Loss due to damage of electrical material – Rs.4,185.48 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In DISCOs, GENCOs & NTDC, electrical material comprising distribution transformers and other electrical items valuing Rs.4,185.48 million were damaged due to fire and other reasons. In most of the cases, the administrative action was neither initiated nor finalized. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	FESCO	148, 711, 999 & 1234/2018-19	91.25
2.	GENCO-I	903/2018-19	32.19
3.	GENCO-II	911/2018-19	14.99
4.	GENCO-IV	334/2018-19	42.22
5.	GEPCO	120, 169 & 1316/2018-19	457.74
6.	HESCO	69, 82, 358, 1132 & 1290/2018-19	299.42
7.	IESCO	255, 306, 338, 350, 352 & 878/2018-19	61.78
8.	LESCO	170, 180, 346, 933 & 1180/2018-19	589.04
9.	MEPCO	439, 466, 671, 793, 852, 906, 1084 & 1190/2018-19	500.42
10.	NTDC	1348/2018-19	1.70
11.	PESCO	819, 912, 1005, 1013, 1107, 1165 & 1313/2018-19	1,968.31
12.	QESCO	368, 664, 708, 725, 1057 & 1204/2018-19	37.27
13.	SEPCO	258, 495 & 1103/2018-19	19.89
14.	TESCO	282, 661 & 662/2018-19	69.26
		TOTAL	**4,185.48**

Non-adherence to Authority's instructions resulted in loss of Rs.4,185.48 million due to damage of electrical material up to the Financial Year 2017-18.

The matter was taken up with the management during April to August, 2018 and reported to the Ministry during October to December, 2018. The management replied that transformers were damaged due to overloading, climatic effect and completion of useful life. However, departmental inquiries were under process and action would be taken in the light of inquiry report. In some cases recovery had been made and claims lodged with WEPS. The reply was not convincing as delay in finalization of inquiry was unjustified.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions for verification within 15 days and complete the pending actions expeditiously. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides making the loss good.

2.1.19 Non-return of dismantled / useable material to store – Rs.3,403.45 million

According to Para-3.1 (Section-12) of WAPDA Distribution Stores Manual, it is the responsibility of the SDO to ensure that damaged or otherwise unserviceable material is returned to the stores as soon as possible. As per 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, dismantled or left over electrical material of various types and defective mobile phones worth Rs.3,403.45 million was lying at various locations unused and was not returned to stores. No action was taken against the concerned line staff for non-return of dismantled / excess material. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	FESCO	800, 805, 940, 1240, 1242, 1258 & 1406/2018-19	91.41
2.	GEPCO	231, 327, 980, 1020 & 1055/2018-19	321.96
3.	HESCO	359/2018-19	345.95
4.	IESCO	339, 891, 1375, 1390 & 1391/2018-19	996.25
5.	LESCO	61, 75, 131, 137, 158, 177, 304, 342, 537, 974, 1064, 1116 & 1145/2018-19	866.23
6.	MEPCO	52, 53, 238 & 670/2018-19	5.24
7.	NTDC	244 & 245/2018-19	615.77
8.	PESCO	765, 1030, 1188 & 1263/2018-19	35.46
9.	QESCO	362, 365, 582, 677, 776, 1090, 1201 & 1213/2018-19	76.91

10.	SEPCO	135, 263, 269, 380, 384, 625 & 741/2018-19	23.93
11.	TESCO	660/2018-19	24.34
		TOTAL	**3,403.45**

Non-adherence to WAPDA Distribution Stores Manual resulted in non-return of dismantled / useable material to store amounting to Rs.3,403.45 million up to the Financial Year 2017-18.

The matter was taken up with the management during May to August, 2018 and reported to the Ministry during October to December, 2018. The management replied that some of the material had been returned to store and remaining material would be returned in due course of time. The reply was not tenable as no action was taken against them who could not return the material well in time.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide the record relating to completed actions within 15 days and expedite the pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.20 Loss due to theft of electricity through illegal direct (kunda) connections - Rs.3,092.58 million

According to Guidelines for Policy and Procedure on Detection Bills circulated vide letter dated October 26, 1999, "whoever found to connect his installation appliances and apparatus for the purpose of supply of energy without its (with the work of license) written consent commits an offence to be prosecuted under Section 39 & 39A of Electricity Act, 1910 which requires FIR to be lodged with police. Further to compensate the loss sustained on account of theft, assessment bills were to be served as per laid down procedures to such illegal and unregistered consumers".

In DISCOs, an amount of Rs.3,092.58 million on account of energy charges was recoverable from 199161 consumers involved in theft of electricity through illegal direct connections. No departmental and legal action was taken for fixing responsibility and recovery of the energy charges. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of Cases	Amount (Rs. in million)
1.	FESCO	406/2018-19	295	13.16
2.	GEPCO	114, 124, 1319 & 1455/2018-19	522	29.35
3.	HESCO	59 & 1292/2018-19	11643	50.40

4.	IESCO	401/2018-19	31	1.97
5.	LESCO	108 & 1183/2018-19	3770	1,427.35
6.	MEPCO	904, 1037 & 1083/2018-19	422	15.13
7.	PESCO	1266/2018-19	1485	75.26
8.	QESCO	1253/2018-19	417	0.00
9.	SEPCO	267 & 1300/2018-19	180576	1,479.96
		TOTAL	**199161**	**3,092.58**

Non-adherence to Authority's instructions resulted in loss of Rs.3,092.58 million due to theft of electricity through illegal direct (kunda) connections up to the Financial Year 2017-18.

The matter was taken up with the management during July to October, 2018 and reported to Ministry during October to December, 2018. The management replied that in some cases amount had been recovered while in remaining cases the legal as well as departmental action was under way. The reply was not tenable as action to be taken was not finalized up till now.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions and expedite the pending cases. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides making the loss good.

2.1.21 Undue favour to the consumers by non-regularizing unauthorized extension of load – Rs.2,530.09 million

According to Condition-6 of WAPDA Abridged Conditions of Supply (CP-02), "in case of non-removal / non-regularization of un-authorized extended load, the supply to the consumer shall be disconnected".

In DISCOs, 6751 consumers of different categories extended the load of energy connections illegally without approval of competent authority. In violation of the above condition, the field formations neither disconnected the energy connections nor regularized the un-authorized extended load. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of Cases	Amount (Rs. in million)
1.	FESCO	145, 399, 688, 754, 937, 1278 & 1324/2018-19	274	95.93
2.	GEPCO	118, 166, 275, 1044, 1136, 1386 & 1458/2018-19	341	134.53
3.	HESCO	81, 85, 87, 1129, 1382 & 1484/2018-19	120	266.16
4.	IESCO	287, 451, 855, 872, 876, 882, 883, 1352 & 1449/2018-19	3004	1,033.39
5.	LESCO	48, 174, 184, 218, 309, 345, 898, 922, 967, 1143 &	887	550.37

		1144/2018-19		
6.	MEPCO	70, 239, 416, 435, 463, 532, 794, 844, 859 & 1078/2018-19	467	157.19
7.	PESCO	763, 1215 & 1270/2018-19	502	121.69
8.	QESCO	395, 446, 706, 746, 775 & 1087/2018-19	138	70.98
9.	SEPCO	129, 271, 493, 565 & 626/2018-19	975	79.40
10.	TESCO	337/2018-19	43	20.45
		TOTAL	**6751**	**2,530.09**

Non-adherence to Abridged Condition of Supply resulted in non-recovery of Rs.2,530.09 million from consumers on account of additional security deposit, feeder rehabilitation charges and substation cost due to unauthorized extension of load up to the Financial Year 2017-18.

The matter was taken up with the management during July to October, 2018 and reported to the Ministry during September to December, 2018. The management replied that in some cases, illegal extension of load had been reduced / regularized after recovery of dues, while in remaining cases notices had been issued to the consumers. The reply was not tenable as no proper action was taken as per SOP.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.22 Non-recovery of detection charges / pending units from consumers - Rs.2,268.02 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 procedure".

In DISCOs, energy meters of consumers of various categories were physically checked by the surveillance teams / metering & testing (M&T) department and detection charges of Rs.2,268.02 million on account of slowness, tempering in meters and pending units etc. were approved for recovery from the consumers which was not recovered. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	FESCO	400 & 404/2018-19	164.02
2.	GEPCO	117, 153, 194, 277, 624 & 943/2018-19	339.84
3.	HESCO	58/2018-19	117.92
4.	IESCO	364, 374 & 857/2018-19	292.10
5.	LESCO	49, 74, 176, 207, 223, 291, 924, 1161, 1244 & 1422/2018-19	919.59
6.	MEPCO	329, 1034 & 1036/2018-19	12.67
7.	PESCO	766, 874, 1015, 1106, 1164 & 1264/2018-19	398.63
8.	QESCO	389, 744, 780 & 1092/2018-19	15.47
9.	SEPCO	268 & 270/2018-19	7.78
		TOTAL	**2,268.02**

Non-adherence to Commercial Procedures resulted in non-recovery of detection charges amounting to Rs.2,268.02 million from the consumers up to the Financial Year 2017-18.

The matter was taken up with the management during July to October, 2018 and reported to the Ministry during September to December, 2018. The management replied that in some cases detection charges had been recovered while efforts were being made to recover the remaining amount from consumers. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.23 Mis-procurement of goods, works and services in violation of Public Procurement Rules – Rs.2,138.65 million

According to Rules - 04, 09, 12(1,2,3), 20, 21, 26 (3), 30 (1), 31 (1), 36 (b) (viii, ix), 38, 40, 42 (b-iii) & (c-iv) of Public Procurement Rules, 2004, procurements should be fair, transparent, brings value for money, efficient economical and announced for each financial year and proceeded without any splitting or re-grouping. Procurements over Rs.100,000 to two million rupees be advertised on the Authority's website and over two million rupees be advertised in other print media besides on procuring agency's web site. Open competitive bidding be carried out and bid should be evaluated within the stipulated bid validity period according to the evaluation criteria as set forth in bidding documents. No bidder shall be allowed to alter or modify his bid after opening. Financial proposals would be opened of the technically accepted bids only and contract be awarded to the bidder of lowest evaluated bid. No negotiations with the bidder having submitted the lowest evaluated bid was allowed. Procurement below Rs.100,000/- might be made by taking three quotations. The repeat orders should not be exceeded 15% of the original procurement. According to clarification of question No. 12 by PPRA, in case of abnormal increase in price, re-advertisement of the procuring opportunity might be made, if time permits.

In DISCOs, CPPA(G) & NTDC, fifty five (55) purchase / repeat / work orders and contracts valuing Rs.2,138.65 million for procurement electrical material / equipment, furniture, laptops, construction of grid station, civil & electrical works, recycling of copper and hiring the services of consultants, external auditors and transportation facilities were awarded to different manufacturers / suppliers / contractors / consultants and external auditor. The following violation of PPRA rules were observed:-

- i) The procurement was made without competitive bidding,
- ii) Lowest bidders were ignored,
- iii) Procurement was made at higher rates compromising economy principle,
- iv) Procurement was made on quotation basis instead of tendering,
- v) Post bid negotiation were held
- vi) Requirements of certain conditions mentioned in the bidding document were waived off after opening the bids,
- vii) Repeat order in excess of 15% of cost of original PO.

The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Violation of PPRA Rule No.	No. of POs, Repeat orders, Work orders & Contracts	Amount (Rs. in million)
1.	CPPA(G)	515/2018-19	Rule No. 36 (b) (viii, ix) & 42 (c) (iv)	07	15.12
2.	FESCO	422/2018-19	Rule No. 12 (2&3)	03	53.22
3.	IESCO	1370/2018-19	Rule No. 42(b)	01	5.98
4.	LESCO	1482/2018-19	Query No. 12	02	12.95
5.	MEPCO	608, 742, 964, 996 & 1059/2018-19	Rule No. 9, 38, 31 (1) Query No. 12	10	144.63
6.	NTDC	35, 36, 38, 641,	Rule No. 4, 12 Rule No. (2), 20, 21,	12	551.31

		834, 886, 946, 951, 1336 & 1341/2018-19	31 (1) & 38		
7.	PEPCO	1419/2018-19	Rule No. 04	01	33.02
8.	PESCO	574, 1024 & 1327/2018-19	Rule No. 04, (9) and 42 (B)- III, (C), 38 & 40	11	145.31
9.	QESCO	589 & 1214/2018-19	Rule No. 26 (3) & 38	03	23.46
10.	SEPCO	433, 758 & 1167/2018-19	Rule No. 20, 30 (1) & 38	04	1,152.29
11.	TESCO	1515/2018-19	Rule No. 12	01	1.36
		TOTAL		**55**	**2,138.65**

Violation of Public Procurement Rules resulted in mis-procurement of goods, works and services valuing Rs.2,138.65 million in violation of Public Procurement Rules up to the financial year 2017-18.

The matter was taken up with the management during January to November, 2018 and reported to the Ministry during September to December, 2018. The management replied that procurement was made as per PPRA Rules with the approval of competent authority / BoD and recommendation of bid evaluation committee. Moreover, procurements were made through open bidding at competitive rates, at voluntarily reduced rates, discount at bid opening and as per annual procurement plan. However, some of the procurements were made in emergency. The reply was not tenable as PPRA's rules were not being followed in true spirit.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit by producing the record comprising annual procurement plan, analysis of rates, bid evaluation report, bidding documents, original design, revised design of works, invoking emergency clause in addition to rate assessment of the additional work through variation order etc within 15 days and directed to inquire the matter highlighted in DP No. 422, 574, 964 & 758 at management, PEPCO & Ministry level respectively and submit its report within a month. DAC further directed to refer the matter highlighted in DP No. 1167 to Ministry for seeking advice from Law & Finance Division within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

2.1.24 Non-mutation of land - Rs.1,936.44 million

According to Section-42 of Land Revenue Act, “any person acquiring by inheritance, purchase, mortgage, gift, or otherwise, any right in an estate as a land-owner, or a tenant for a fixed term exceeding one year, shall, within three months from the date of such acquisition, reports his acquisition of right to the Patwari of the estate, who shall enter in his register of mutations every report made to him”.

In DISCOs & NTDC, the land / property valuing Rs.1,936.44 million was not yet transferred / mutated in the name of the Companies. Non-mutation of land would create dispute between land owners and companies. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	FESCO	1241/2018-19	971.66
2.	GEPCO	1040/2018-19	770.36
3.	NTDC	521/2018-19	179
4.	QESCO	578/2018-19	15.42
		TOTAL	**1,936.44**

Poor asset management resulted in non-mutation of the land valuing Rs.1,936.44 million up to the financial year 2017-18.

The matter was taken up with management in September, 2018 and reported to the Ministry during November & December, 2018. The management replied that mutation was under process and in one case land had been transferred while litigation was involved in other cases. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s directives besides fixing responsibility.

2.1.25 Unjustified payment on account of bonus to employees - Rs.1,747.64 million

According to bonus policy circulated by Ministry of Finance (GoP) vide No.F.3(5)R-12/80(R14)/2002-154 dated March 18, 2002, the bonus would be paid to the employees of the autonomous / semi-autonomous / public sector corporations / organizations on the operational profit only excluding income from other sources. Moreover, no commitment of payment of bonus may be made during negotiation with the CBA. According to PEPCO's circular dated December 18, 2015, bonus be paid to the employees who have not already received honoraria during 2015-16.

In DISCOs, GENCOs, GHCL, PEPCO & PHPL an amount of Rs.1,747.64 million was paid to the employees as bonus, which was unjustified as the Companies did not earn operational profit during the Financial Year 2017-18.

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	GENCO-IV	1067/2018-19	12.29
2.	GEPCO	196 & 945/2018-19	86.62
3.	GHCL	1509/2018-19	3.64
4.	HESCO	1296/2018-19	422.42
5.	IESCO	1394/2018-19	589.11
6.	LESCO	104/2018-19	37.39
7.	MEPCO	620 & 672/2018-19	35.06
8.	PEPCO	1420/2018-19	9.04
9.	PHPL	949/2018-19	0.75
10.	QESCO	1247/2018-19	310.55
11.	SEPCO	134, 373, 474, 494, 738 & 1099/2018-19	240.77
		TOTAL	**1,747.64**

Violation of bonus policy of Government of Pakistan resulted in unjustified payment on account of bonus to employees amounting to Rs.1,747.64 million up to the Financial Year 2017-18.

The matter was taken up with the management during June to December, 2018 and reported to the Ministry during October to December, 2018. The management replied that the bonus was paid to the employees after approval of BoD. The reply was not tenable as Government rules were violated while making the payment of bonus.

The DAC in its meeting held on December 20-21, 2018 directed the management to effect recovery of payment of unjustified bonus within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.26 Non-disposal of off-road vehicles and unserviceable material - Rs.1,615.60 million

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

In DISCOs, GENCOs, GHCL & NTDC, off-road vehicles and unserviceable material / equipments worth Rs.1,615.60 million were not auctioned up to June, 2018. The vehicles and material were kept in the open yard and exposed to the adverse environmental conditions causing deterioration and decrease in value. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	FESCO	297, 1227, 1235, 1413, 1439 & 1502/2018-19	314.74
2.	GENCO-I	558 & 595/2018-19	22.98
3.	GENCO-II	633/2018-19	40.19
4.	GENCO-III	601, 602 & 655/2018-19	17.37
5.	GEPCO	159, 987, 1018 & 1051/2018-19	216.69
6.	GHCL	1497/2018-19	0.08
7.	HESCO	43, 1003 & 1485/2018-19	54.97
8.	IESCO	1372, 1451 & 1514/2018-19	475.09
9.	LESCO	63/2018-19	13.96
10.	MEPCO	786, 961& 1086/2018-19	54.84
11.	NTDC	354, 487 & 1199/2018-19	329.66
12.	PESCO	1149/2018-19	1.53
13.	QESCO	1170/2018-19	39.85
14.	SEPCO	266, 1101 & 1159/2018-19	13.22
15.	TESCO	1273/2018-19	20.43
		TOTAL	**1,615.60**

Non-adherence to WAPDA Disposal Procedure resulted in non-disposal of off-road vehicles and unserviceable material etc. worth Rs.1,615.60 million up to the Financial Year 2017-18.

The matter was taken up with the management during July to December, 2018 and reported to Ministry during September to December, 2018. The management replied that in some cases material had been auctioned while in others the disposal process was under way. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.27 Undue financial benefit to contractors by not obtaining insurance cover - Rs.1,541.68 million

According to Section-166.3 of Insurance Ordinance 2000, subject to provision of Subsection (4) and (5), "all insurance business relating to any public property, or to any risk or liability pertaining to any public property shall be placed with the National Insurance Company only and shall not be placed with any other insurer". As per Contract Clause-14.1, Particular Conditions of Contract Clause-43.11, "the contractor shall procure and submit the insurance cover to Employer". As per General Condition of Contract Clause-9.3, "the employer may effect the insurance which the contractor should have provided and recover the premiums the Employer has paid from payments otherwise due to the contractor or if no payment is due, the payment of the premiums shall be a debt due".

In DISCOs & NTDC, 137 contracts for civil works, construction of transmission lines and grid station was awarded to different contractors. However, the contractors could not provide necessary insurance coverage from NICL. The cost of such insurance was to be borne by the contractors as it was already included in the price schedule. Hence, undue favour was extended to the contractors in shape of cost of premium and public money amounting to Rs.1,541.68 million put on risk by non-obtaining of insurance coverage. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of Contracts	Amount (Rs. in million)
1.	FESCO	421/2018-19	95	159.94
2.	HESCO	1438/2018-19	37	548.97
3.	NTDC	412, 525 & 689/2018-19	5	832.77
		TOTAL	**137**	**1,541.68**

Non-adherence to the insurance ordinance and contract clauses resulted in undue financial benefit to contractors by not obtaining insurance cover - Rs.1,541.68 million up to the financial year 2017-18.

The matter was taken up with the management during May to September, 2018 and reported to the Ministry during November & December, 2018. The management of HESCO replied that there was no notification of PPRA for insurance with NICL and on the other hand no accident occurred. The management of NTDC responded that insurance coverage of insurance companies other than NICL was provided by the contractors. The reply was not acceptable as the insurance coverage of NICL should have been got obtained from Contractors.

The DAC in its meeting held on December 20-21, 2018 directed the management of HESCO to get the stance verified from Audit on case to case basis within 15 days. The DAC did not agree with the stance of the NTDC management and directed to fix the responsibility for not getting the insurance coverage from NICL within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

2.1.28 Loss due to non-billing of energy units - Rs.1,321.03 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 procedure".

In DISCOs, 90.14 million units amounting to Rs.1,321.03 million were received on seventy six (76) 11 KV feeders but the same were not billed. Due to non billing of energy units, the companies sustained loss of Rs.1,321.03 million. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Units Lost in million	Amount (Rs. in million)
1.	FESCO	753/2018-19	0.31	3.07
2.	HESCO	1291 & 1364/2018-19	50.03	759.91
3.	LESCO	1173/2018-19	29.33	423.43
4.	QESCO	390 & 1246/2018-19	3.27	40.25
5.	SEPCO	1119/2018-19	7.20	94.37
		TOTAL	**90.14**	**1,321.03**

Non-adherence to Commercial Procedure resulted in loss of Rs.1,321.03 million due to non-billing of energy units during the financial year 2017-18.

The matter was taken up with the management during July to November, 2018 and reported to the Ministry during November & December, 2018. The management replied that in some cases compliance had been made and in remaining cases either the feeders were newly energized / not in use or the consumer went on self-generation. The reply was not acceptable as nothing about non billing of electricity received on these feeders was described.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit by providing feeder wise analysis duly supported with documents within 15 days. DAC directed the management of SEPCO to get the matter investigated at PEPCO level within one month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.29 Non-adjustment of advances given to suppliers / contractors / consultants - Rs.1,289.35 million

According to Para-73 of WAPDA Accounting Manual, "the advances shall be adjusted at the closing of each calendar month in shape of vouchers or cash under financial rules".

In DISCOs, GHCL & NTDC, an amount of Rs.1,289.35 million was paid to different suppliers / contractors / consultants as advances. This amount was required to be adjusted from the claims of the suppliers / contractors but neither the amount was adjusted nor recovered from them. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	GHCL	1506/2018-19	169.94
2.	HESCO	1076/2018-19	415.47
3.	IESCO	1446/2018-19	59.98
4.	NTDC	756 & 950/2018-19	564.92
5.	PESCO	824/2018-19	79.04
		TOTAL	**1,289.35**

Non-compliance to the rules resulted in non-adjustment of advances of Rs.1,289.35 million given to suppliers / contractors / consultants up to the financial year 2017-18.

The matter was taken up with the management during March to December, 2018 and reported to the Ministry during November & December, 2018. The management replied that some of the amount had been adjusted and remaining amount would be adjusted shortly. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide record relating to completed actions and expedite the pending actions within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.30 Loss due to non-dismantlement of idle feeders / transmission line – Rs.1,156.57 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In DISCOs, twenty four (24) 11 KV feeders were in receipt of zero units, which reflected either there was no running consumer or the consumers were permanently disconnected. Moreover, a 66 KV Transmission line became idle. The idle feeders / transmission line might provide a chance of theft of energy and the electrical material valuing Rs.1,156.57 million. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of Feeders / T. Line	Amount (Rs. in million)
1.	FESCO	140 & 784/2018-19	8 Feeders	32.00
2.	HESCO	424/2018-19	66 KV Transmission Line	264.07
3.	IESCO	1368/2018-19	3 Feeders	720.50
4.	MEPCO	418/2018-19	13 Feeder	140.00
		TOTAL	**24 Feeders 01 T. Line**	**1,156.57**

Non-adherence to Authority's instructions resulted in loss of Rs.1,156.57 million due to non-dismantlement of idle feeders / transmission line up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry during October to December, 2018. The management replied that in some cases idle material was not dismantled due to departmental procedure whereas in remaining cases there was either no redundant / spare feeders existed or the old code of feeders wrongly printed in CP-22A. The reply was not tenable as valuable material remained idle since long which required justification.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the dismantlement of idle feeders within 30 days and further directed to submit revised reply in the light of policy of redundant feeders within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.31 Loss due to embezzlement / misappropriation of funds, electrical material and oil - Rs.1,061.42 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GENCO & DISCOs, funds, electrical material and furnace oil / POL amounting to Rs.1,061.42 million were embezzled / misappropriated. In most of the cases, legal / administrative action was taken but not finalized. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	GENCO-III	644 & 646/2018-19	873.63
2.	GEPCO	195, 325, 1041 & 1045/2018-19	7.80
3.	IESCO	307, 308 & 388/2018-19	106.79
4.	MEPCO	50, 292, 330 & 459/2018-19	44.41
5.	PESCO	573/2018-19	2.25
6.	QESCO	759/2018-19	11.34
7.	SEPCO	631/2018-19	8.06
8.	TESCO	250 & 253/2018-19	7.14
		TOTAL	**1,061.42**

Weak internal controls resulted in loss of Rs.1,061.42 million due to embezzlement / misappropriation of funds, electrical material and oil up to the Financial Year 2017-18.

The matter was taken up with the management during July to October, 2018 and reported to Ministry during October to November, 2018. The management replied that in some cases recovery had been made while in others disciplinary / legal proceedings were under process. The reply was not agreed to as justification for slow pace of proceeding of inquiry was not provided.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions and expedite the pending legal and administrative actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

2.1.32 Wasteful expenditure on bifurcation / rehabilitation of distribution feeders – Rs.954.74 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In DISCOs, an expenditure of Rs.954.74 million was incurred on bifurcation and rehabilitation of seventy one (71) 11 KV feeders in order to reduce line losses under SAP-ELR program. However, line losses of bifurcated and rehabilitated feeders were increased instead of decreasing. This scenario indicated that the feeders, in question, were bifurcated and rehabilitated without forecasting / assessing the actual requirement. Had the work been done as per actual requirement with due care, the wasteful expenditure could have been avoided. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of Feeders	Amount (Rs. in million)
1.	LESCO	917/2018-19	1	9.31
2.	MEPCO	605/2018-19	18	356.84
3.	PESCO	1312/2018-19	30	418.63
4.	SEPCO	130, 491, 564, 1288 & 1512/2018-19	22	169.96
		TOTAL	**71**	**954.74**

Non-adherence to the rules/ regulations of Authority resulted in wasteful expenditure of Rs.954.74 million on bifurcation and rehabilitation of distribution feeders up to the Financial Year 2017-18.

The matter was taken up with the management during August to October, 2018 and reported to the Ministry during October to December, 2018. The management replied that the bifurcation of the feeders were completed in the best interest of the company as per SOP. The reply was not acceptable as envisaged benefits could not be achieved despite incurrence of heavy expenditure.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.33 Non-accountal / non-consumption of electrical material – Rs.665.37 million

According to Para-4.5 (Section-8) of Distribution Stores Manual," the Line Superintendent will use the materials on the job for which he drew and will record the consumption in his Electrical Measurement Book (EMB) / Material at Site Register (MSR) showing any materials left after the work has been completed".

In DISCOs, GENCO-III & PITC, electrical material valuing Rs.665.37 million was drawn by field staff from stores for installation at different sites but the accountal / consumption of material was not forthcoming from the record. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	GENCO-III	643/2018-19	140.73
2.	LESCO	164, 212, 535 & 1001/2018-19	415.39
3.	PESCO	1011 & 1265/2018-19	75.74
4.	PITC	229/2018-19	11.62
5.	QESCO	444, 700 & 779/2018-19	10.56
6.	SEPCO	382/2018-19	11.33
		TOTAL	**665.37**

Non-adherence to Distribution Stores Manual resulted in non-accountal / non-consumption of electrical material valuing Rs.665.37 million up to the Financial Year 2017-18.

The matter was taken up with the management during July to September, 2018 and reported to Ministry during October to December, 2018. The management replied that the record was ready for verification. No record was produced up till now.

The DAC in its meeting held on December 20-21, 2018 directed the management to ensure production of record to Audit for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.34 Non-recovery of cost of independent grid stations from the consumers - Rs.532.05 million

According to NEPRA instructions, "every consumer having load 5000 KW is required to provide independent grid station of his own including land, building, transformers, circuit barkers and other necessary equipment and apparatus". As per Tariff Determination, "B-4 tariff is applicable for supply for all loads of more than 5,000 KW supply at 66 KV, 132 KV".

In DISCOs, three (03) bulk and five (05) industrial consumers had qualified for provision of independent grid stations owing to extension of cumulative load of more than 5,000 KW. So far no action has been taken for installation of independent grid station. Hence, undue favour of Rs.532.05 million was extended to the consumers by non-recovery of the cost of independent grid stations. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Number of cases	Amount (Rs. in million)
1.	GEPCO	113/2018-19	02	160
2.	IESCO	1376/2018-19	01	51.52
3.	LESCO	225, 341 & 1171/2018-19	05	320.53
		TOTAL	**08**	**532.05**

Non-adherence to NEPRA's instructions resulted in non-recovery of cost of independent gird stations amounting to Rs.532.05 million from consumers up to the Financial Year 2017-18.

The matter was taken up with the management during July to October, 2018 and reported to the Ministry during October to December, 2018. The management replied that in some cases load had been regularized whereas notices had been issued to other consumers for regularizing the load. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.35 Non-clearance of unidentified cash - Rs.531.72 million

According to Financial & Accounting Policies and Procedures Manual, i) Finance director is responsible to oversee the overall accounting and financial aspects of the DISCO. ii) Assistant Manager (Customer Services) will oversee the activities carried out at the Revenue Office and to act as a liaison between the Revenue Office, MIS Department and the Finance Directorate. iii) Accounts Officer (Revenue Office) is responsible for review and verifies the daily scrolls collected from the banks, reconciliation of banks through CP-48 and CP-49, preparation of different CP forms for submission to the MIS Department and maintenance of cash book.

In DISCOs, an amount of Rs.531.72 million was appearing under the suspense head of revenue offices as "unidentified Cash". The unidentified amount needed to be cleared, which was not done. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	GEPCO	430 & 1317/2018-19	15.70
2.	IESCO	1445/2018-19	64.42
3.	LESCO	1181/2018-19	391.35
4.	MEPCO	790 & 1080/2018-19	10.76
5.	SEPCO	162/2018-19	17.99
6.	TESCO	1335/2018-19	31.50
		TOTAL	**531.72**

Non-adherence to Financial & Accounting Policies and Procedures Manual resulted in non-clearance of unidentified cash of Rs.531.72 million up to the Financial Year 2017-18.

The matter was taken up with the management during August to October, 2018 and reported to the Ministry during October to December, 2018. The management replied that some of the un-identified cash amount had been adjusted / cleared while remaining would be adjusted in due course of time. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to take up the matter at an appropriate level so that commercial procedures can be revised for appropriate utilization of un-identified cash. DAC also directed the management to submit revised reply to Audit for examination within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

2.1.36 Undue favour to the contractors due to non-renewal of performance / advance payment bank guarantees - Rs.524.94 million

According Section-8 Clause 13.3.1 & 13.3.2 of Special Condition of Contract, Section-7 General Condition of Contract, the contractor shall within 28 days of the Notification of the contract award provide as security for the performance of the contract in the amount specified in SCC. Pursuant to GCC sub clause contractor is liable for an extended defect liability/obligations, the Performance Security shall be extended for the period up to an amount specified in SCC. According to GCC 10.2 'Period of Validity of Performance Security', "the performance security shall be valid until the Contractor has executed and completed the Works and remedied any defects therein accordance with the Contract".

In DISCOs & NTDC, performance / advance payment bank guarantees amounting to Rs.524.94 million were required to be obtained up to defect liability period as per conditions of Contracts / Purchase Orders. But the Contractors / Suppliers provided performance guarantees for lesser period. No efforts were made for obtaining renewed performance guarantees for extended period from the Contractors. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	FESCO	806/2018-19	118.50
2.	GEPCO	317 & 318/2018-19	99.49
3.	IESCO	1447/2018-19	6.36
4.	LESCO	929/2018-19	79.15
5.	NTDC	1345/2018-19	210.09
6.	QESCO	579/2018-19	11.35
		TOTAL	**524.94**

Non-adherence to the conditions of contracts resulted in undue favour to the Contractors due to non-renewal of performance / advance payment guarantees amounting to Rs.524.94 million for entire period of contracts up to the Financial Year 2017-18.

The matter was taken up with the management during April to October, 2018 and reported to the Ministry during November & December, 2018. The management replied that some of the guarantees had been got extended while remaining guarantees were under process for extension in period. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.37 Misuse of government funds provided for village electrification schemes - Rs.468.65 million

According to the decision of the meeting of MD (PEPCO) on 08.01.2010 regarding village electrification on Prime Minister's directives and Parliamentarian's funds "10 kVA transformer be installed up to 05-houses and 15 kVA beyond 05 up to 10-houses in view of the estimated rural load of 1-1.5 KW/House. In no case any transformer of bigger capacity be provided". As per Cabinet Division's instructions regarding Pak MDGs & PMSDG's Programs dated January 15, 2015 & October 10, 2016, expenditure shall not be incurred on purchase of equipment, vehicles, fixtures, salaries, printing of diaries / calendars / banners, holding of official meetings and dinners / parties etc. Moreover, there is no provision for consumer connection charges to be included in the estimates of new village electrifications under MDGs, PMSDG's & CMD's programs.

In FESCO & SEPCO, 2801 village electrification schemes under government sponsored Prime Minister's Global Sustainable Development Goals (PMSDGs), Pak Millennium Development Goals (Pak-MDGs), Chief Minister Development (CMD) & Peoples Works Program (PWP-II) programs were approved. However, higher capacity transformers' cost, publicity board charges, meters' cost, grid station charges and excessive material cost were included in the estimates. Moreover, deras were electrified from the village electrification funds. Hence, funds of Rs.468.65 million were misused due to unjustified charges and electrification of deras. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of Schemes	Amount (Rs. in million)
1.	FESCO	1359, 1407 & 1504/2018-19	2,475	427.87
2.	SEPCO	375, 379, 383 & 387/2018-19	326	40.78
		TOTAL	**2,801**	**468.65**

Non-adherence to Cabinet Divisions' instructions resulted in misuse of government funds amounting to Rs.468.65 million provided for village electrification schemes up to the Financial Year 2017-18.

The matter was taken up with the management during July, 2018 and reported to the Ministry during November & December, 2018. The management replied that transformers & publicity boards were installed as per approved estimates from competent authority / Ministry / Provincial Government. The Grid Station / Grid Sharing charges were included in the estimates as per directions of NEPRA and cost of energy meter was being charged to Federal / Provincial Government in order to facilitate the public. The management further replied that cost of material was evaluated at the time of preparation of survey reports but rates of proposed material fluctuated which was an ordinary matter. The reply was not acceptable as Prime Minister's directives were not adhered to.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance adopted in 383 verified within 15 days and directed to conduct facts finding inquiry and submit its report to Audit within 15 days regarding DP 1359. DAC pended the issue highlighted in DP 1407 for discussion in PAC and directed to regularize the matte pointed out in DP 379 within 15 days. DAC further directed to effect recovery in DP 375 & 387 and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

2.1.38 Non-clearance / un-credited revenue with Banks / Post offices - Rs.381.25 million

According to Section 9.12 of Commercial Procedure for collection-Demand Notices for Security Deposits, "Revenue officer is responsible for ensuring correct Bank Reconciliation. He will therefore, take action to correct the errors which give rise to the difference on CP-48-B before the next statement is due". Under Section 19.9, Divisional Accounts Officer will receive weekly bank statements from the Bank Branches, check it with the Billing Cash Book for Demand Notices and also ensure that collection received each week is remitted promptly. In case of any delay, take up with the Bank and pursue till the remittance is made".

In DISCOs, an amount of Rs.246.04 million on account of revenue collection remained un-reconciled / un-credited by the different banks / Post offices despite the lapse of a considerable time period of more than one year. Moreover, there was a difference of Rs.114.69 million between bank account & cash book. A sum of Rs.20.52 million, appearing as balance against banks and post offices, was not transferred to the company's accounts. The matter was not taken up with the respective banks / post offices for clearance / reconciliation, which reflected weak financial controls. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	HESCO	1400/2018-19	227.02
2.	SEPCO	637/2018-19	19.02
3.	TESCO	1282 & 1283/2018-19	135.21
		TOTAL	**381.25**

Non-adherence to the commercial procedures resulted in non-clearance / un-credited revenue of Rs.381.25 million with Banks / Post offices during the financial year.

The matter was taken up with the management in August, 2018 and reported to the Ministry during October to December, 2018. The management replied that the amount was under reconciliation and would be cleared shortly.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the clearance of amount and get it verified from Audit within one month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.39 Loss due to non-replacement of electrical material damaged during warranty period – Rs.308.10 million

According to Clause-7 & 9 (warranty clause) of purchase orders, "the suppliers will be held responsible for all losses and that the un-acceptable goods will be substituted with acceptable goods at their own expense and cost".

In DISCOs, transformers, energy meters and other equipments of different types worth Rs.308.10 million were damaged under warranty period, which were not got replaced from the manufacturers as required under the clauses of purchase orders. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	FESCO	299, 1229 & 1257/2018-19	27.09
2.	GEPCO	206 & 1048/2018-19	24.30
3.	HESCO	214 & 1437/2018-19	9.51
4.	IESCO	907 & 1448/2018-19	10.21
5.	LESCO	216, 332, 333, 970 & 1175/2018-19	47.70
6.	MEPCO	449, 462, 610, 864 & 1060/2018-19	27.03
7.	PESCO	821/2018-19	135
8.	QESCO	782 & 1206/2018-19	21.92
9.	SEPCO	265 & 1156/2018-19	5.34
		TOTAL	**308.10**

Non-adherence to clauses of purchase orders resulted in non-replacement of under warranty damaged electrical material amounting to Rs.308.10 million from manufacturers / suppliers up to the Financial Year 2017-18.

The matter was taken up with the management during September & October, 2018 and reported to the Ministry during November & December, 2018. The management replied that in some cases replaced material had been received from suppliers whereas replacement of balance material was under process. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.40 Non-recovery from consumers after court decisions in favour of DISCOs - Rs.254.65 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 procedure".

In DISCOs, 640 court cases involving an amount of Rs.254.65 million were decided in favour of the companies up to June, 2018. The amount of decided court cases was required to be recovered from the consumers but no recovery was made. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of Cases	Amount (Rs. in million)
1.	FESCO	147 & 681/2018-19	53	7.58
2.	GEPCO	1140/2018-19	24	80.62
3.	HESCO	95 & 1111/2018-19	95	20.34
4.	LESCO	188, 201 & 919/2018-19	387	135.23
5.	MEPCO	90 & 853/2018-19	51	4.99
6.	PESCO	1268/2018-19	06	1.14
7.	SEPCO	154/2018-19	24	4.75
		TOTAL	**640**	**254.65**

Non-adherence to commercial procedure manual resulted in non-recovery of energy charges of Rs.254.65 million from consumers up to the Financial Year 2017-18.

The matter was taken up with the management during August & September, 2018 and reported to the Ministry during October to December, 2018. The management replied that in some cases amount was recovered whereas in remaining cases amount would be recovered. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.41 Non-recovery of cost of independent feeders from consumers – Rs.152.15 million

As per Authority's instructions dated August 09, 2003, "the connections having load up to 1,000 KW are permissible from a mixed load feeder after recovery of feeder rehabilitation charges".

In DISCOs, twenty (20) industrial consumers running on mixed load feeders had extended the load illegally above 1000 KW and were required to be provided with independent feeders, which was not done. Hence, undue favour of

Rs.152.15 million was extended to the consumers by non-provision of independent feeders as detailed below:-

Sr. No.	Name of Company	Draft Para No.	No. of cases	Amount (Rs. in million)
1.	FESCO	752, 1216 & 1276/2018-19	04	19.46
2.	GEPCO	115 & 167/2018-19	03	3.60
3.	IESCO	1494/2018-19	01	10.69
4.	LESCO	222, 348 & 914/2018-19	12	118.40
		TOTAL	**20**	**152.15**

Non-adherence to Authority's instructions resulted in non-recovery of Rs.152.15 million from consumers on account of cost of independent feeders up to the Financial Year 2017-18.

The matter was taken up with the management during July to October, 2018 and reported to the Ministry during October to December, 2018**.** The management replied that in some cases amount had been recovered while in remaining cases notices were issued to the consumers. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.42 Non-installation of capacitors at the 11 KV Feeders - Rs.149.56 million

As per Chapter-3 (capacitor application) of Distribution Rehabilitation Guidelines, Power factor improvement is an important distribution rehabilitation measure, which gives a high rate of return on investments. The losses in a distribution system can be reduced by installation of capacitors.

In DISCOs, 11 KV capacitors / capacitor banks were either not installed at 11 KV feeders / grid stations or were out of order. This resulted in low power factor which indicated the wastage of power worth Rs.149.56 million due to non-installation and operation of capacitors. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	HESCO	357/2018-19	16.43

2.	IESCO	396/2018-19	57.01
3.	LESCO	916 & 1065/2018-19	45.36
4.	MEPCO	397/2018-19	27.01
5.	SEPCO	257 & 630/2018-19	3.75
		TOTAL	**149.56**

Non-adherence to the Distribution Rehabilitation Guidelines resulted in non-installation of capacitors at the 11 KV Feeders Rs.149.56 million during the financial year 2017-18.

The matter was taken up with the management during August & September, 2018 and reported to the Ministry during November, 2018. The management replied that some of the capacitors had been installed while remaining would be installed in due course of time. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide record relating to completed actions and expedite the pending actions within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.43 Loss due to theft of electrical material and vehicles - Rs.144.86 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In DISCOs, NTDC & PEPCO, in 431 cases electrical material and vehicles valuing Rs.144.86 million were stolen by unknown culprits. Though FIRs were lodged with the concerned police station(s) but no administrative inquiry / action was carried out for fixing responsibility. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of Cases	Amount (Rs. in million)
1.	FESCO	302, 685, 722, 938, 1226 & 1489/2018-19	60	9.48
2.	GEPCO	161, 199, 1022, 1135 & 1330/2018-19	63	12.33
3.	HESCO	84, 361, 1293, 1426 & 1513/2018-19	21	2.74
4.	IESCO	868, 1353/2018-19	29	3.92
5.	LESCO	80, 181, 187, 217, 343, 899, 936 & 1056/2018-19	83	29.27
6.	MEPCO	200, 419, 468, 501, 840, 850, 997 & 1082/2018-19	94	21.36

7.	NTDC	386/2018-19	02	7.57
8.	PEPCO	1418/2018-19	01	1.60
9.	PESCO	764, 838, 1004, 1128 & 1315/2018-19	59	12.51
10.	QESCO	367 & 1211/2018-19	16	3.75
11.	TESCO	252 & 640/2018-19	03	40.33
		TOTAL	**431**	**144.86**

Non-implementation of rules for safeguarding the companies' assets resulted in loss of Rs.144.86 million due to theft of electrical material and vehicles up to the Financial Year 2017-18.

The matter was taken up with management during June to October, 2018 and reported to the Ministry during October to December, 2018. The management replied that in some cases departmental actions were finalized while in remaining cases administrative and legal action were under process. The reply was not tenable as proper measures for safeguard of valuable assets were not adopted.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions and expedite the pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides making the loss good.

2.1.44 Non-deduction of income tax on payments made to the employees - Rs.137.66 million

According to Section-153 of Income Tax Ordinance 2001, "every prescribed person making a payment in full or part including a payment by way of advance to a resident person or (a) For the sale of goods, (b) For the rendering of or providing of services, (c) On the execution of a contract, including contract singed by a sportsperson, but not including contract for the sale of goods, or the rendering of or providing of services, shall at the time of making payment, deduct tax from the gross amount payable (including sales tax, if any) at rates specified in Division-III of part-III of the first schedule".

In DISCOs, salary, bonuses, honorarium and house acquisition were granted to the employees, however, income tax of Rs.137.66 million was not deducted and remitted to FBR. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	FESCO	150, 680 & 1351/2018-19	33.16
2.	IESCO	1453/2018-19	0.26

3.	LESCO	77, 139, 1151 & 1160/2018-19	101.74
4.	PESCO	1162/2018-19	2.50
		TOTAL	**137.66**

Non-adherence to Income Tax Ordinance resulted in non-deduction of income tax of Rs.137.66 million on payments made to employees during the Financial Year 2017-18.

The matter was taken up with the management during June to October, 2018 and reported to the Ministry during October to December, 2018. The management replied that income tax was deducted as per FBR guidelines however, in some cases, income tax would be deducted in due course of time. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.45 Loss due to non-recovery of supply charges against temporary connections - Rs.125.75 million

According to special condition of supply under Tariff-E of NEPRA schedule of electricity tariff, "the supply shall not be given by the Company without obtaining security equal to the anticipated supply and other miscellaneous charges for the period of temporary supply".

In DISCOs, an amount of Rs.125.75 million was outstanding against the temporary connections. In contravention of special condition, the companies 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. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	GEPCO	234, 248 & 1332/2018-19	1.23
2.	HESCO	86, 89 & 1427/2018-19	6.21
3.	IESCO	816, 879, 888 & 1356/2018-19	18.40

4.	LESCO	211, 215 & 1148/2018-19	99.28
5.	SEPCO	505/2018-19	0.63
		TOTAL	**125.75**

Non-observance of tariff conditions resulted in loss of Rs.125.75 million due to non-recovery of supply charges from temporary consumers up to the Financial Year 2017-18.

The matter was taken up with the management during August to November, 2018 and reported to the Ministry during October to December, 2018. The management replied that some of the amount had been recovered from consumers while efforts were being made to recover the balance amount. The reply was not agreed to as results of efforts were not shared.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.46 Non-forfeiture of performance securities / bonds - Rs.121.26 million

According to Clause-15-A (i) of the Purchase Orders, "the contracting officer will have the right to forfeit the security bond/guarantee (performance bond) if the supplier fails to supply the goods within time specified in the Purchase Order". According to Standard Contract Clause, the Employer had the right to forfeit the performance guarantee submitted by the contractor in case of failure to fulfill the contractual obligations".

In DISCOs & NTDC fourteen (14) purchase orders / contracts for procurement of material / works were awarded to different suppliers / contractors. The suppliers / contractors failed to deliver the material / fulfill contractual obligations within the stipulated period. Hence, performance securities / bonds worth Rs.121.26 million were required to be forfeited, which was not done. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	P.Os / Contracts	Amount (Rs. in million)
1.	FESCO	300/2018-19	06	25.08
2.	MEPCO	606/2018-19	01	4.59
3.	NTDC	1342/2018-19	01	78.64

4.	QESCO	1169/2018-19	05	11.79
5.	SEPCO	1102/2018	01	1.16
		TOTAL	**14**	**121.26**

Non-adherence to the Purchase Orders Clause resulted in non-forfeiture of performance securities / bonds amounting to Rs.121.26 million up to the Financial Year 2017-18.

The matter was taken up with the management during April to October, 2018 and reported to the Ministry during November & December, 2018. The management replied that in some cases, the firms had completed the supply of material whereas in other cases, material would be delivered shortly. However, in one case performance bond would be forfeited. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.47 Irregular payment on account of crops compensation - Rs.86.89 million

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

In HESCO & NTDC, an amount of Rs.86.89 million was paid to the owners / cultivators of land on account of crops compensation. However, survey reports / route of works, kharaba, gardawary & jamahbandee registers, fard, khasra, copy of approved rates of District Government / DCO and proof of ownership of land were not forthcoming from the record. In absence of the said documents, the payment on account of crops compensation could not be held regular. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	HESCO	941/2018-19	33.64

2.	NTDC	553, 1138 & 1346/2018-19	53.25
		TOTAL	**86.89**

Non-adherence to General Financial Rules resulted in irregular payment of Rs.86.89 million on account of crops compensation up to the financial year 2018-19.

The matter was taken up with the management during April to September, 2018 and reported to the Ministry during November & December, 2018. The management replied that payment of crops compensation was made after fulfilling all the codal requirements. The reply was not agreed to as the supporting documents substantiating the payments were not available.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide all the relevant record on the basis of which crops compensation was made to the affectees to Audit for verification within a week. No progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

2.1.48 Loss of revenue due to application of wrong tariff – Rs.52.29 million

According to NEPRA's Tariff Conditions, Tariff B-I was applicable to the industrial consumers having load up to 25 KW and Commercial Supply (A-2) means the supply for commercial offices and commercial establishments. According to NEPRA Schedule of Tariffs, industrial supply means a supply for bona fide industrial purpose in factories including offices and normal working of the industry.

In DISCOs, 162 consumers engaged in the commercial / industrial activities were running under domestic / inappropriate industrial tariff instead of appropriate tariff in violation of rules. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of Cases	Amount (Rs. in million)
1.	GEPCO	123, 510 & 1329/2018-19	77	38.60
2.	IESCO	881/2018-19	10	2.72
3.	MEPCO	420/2018-19	03	1.23
4.	SEPCO	128 & 566/2018-19	72	9.74
		TOTAL	**162**	**52.29**

Non-adherence to tariff conditions resulted in loss of revenue amounting to Rs.52.29 million due to application of wrong tariff up to the Financial Year 2017-18.

The matter was taken up with the management during August, 2018 and reported to Ministry during October to December, 2018. The management replied that in some cases tariff had been changed after making recovery, some of the connections were running under correct tariff while in remaining cases efforts were being made for change of tariff. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.49 Irregular payment of allowances without concurrence of Finance Division (GoP) - Rs.51.34 million

According to office memorandum of Finance Division dated June 26, 1999, revision of Pay Scales / Salaries / Allowances in Corporations, Autonomous / Semi Autonomous bodies will require clearance from the Finance Division to ensure a rational basis and a degree of uniformity in such revision.

In the DISCOs, GENCO-III & GHCL, an amount of Rs.51.34 million was paid to the officers / officials on account of dislocation allowance, corporate planning and control cell allowance, construction allowance, displacement allowance and hard area & head quarter allowance without concurrence of Finance Division, Government of Pakistan. Hence, in absence of Finance Division's concurrence, the payment of the said allowances was irregular. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	GENCO-III	355/2018-19	1.19
2.	GHCL	1510/2018-19	0.85
3.	FESCO	695/2018-19	0.49
4.	LESCO	47/2018-19	0.57
5.	PESCO	1025, 1184 & 1474/2018-19	41.91
6.	QESCO	590, 724 & 1252/2018-19	6.33
		TOTAL	**51.34**

Violation of the Government Rules resulted in irregular payment of allowances of Rs.51.34 million without the concurrence of Finance Division (GoP) during the Financial Year 2017-18.

The matter was taken up with the management during May to December, 2018 and reported to the Ministry during September to December, 2018. The management replied that dislocation / CPC allowance was allowed after the approval of BoD / PEPCO. Moreover, the displacement allowance was given only for six months with the approval of BoD. The reply was not acceptable as Government rules was not violated.

The DAC in its meeting held on December 20-21, 2018 directed the management to obtain the concurrence of dislocation / CPC allowance from Finance Division, GoP and provide it to Audit within 15 days and get the stance verified with reference to displacement allowance within one week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

2.1.50 Loss due to non-finalization of pending inquires / disciplinary cases - Rs.45.22 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In DISCOs, 1,471 inquiries / disciplinary cases involving an amount of Rs.45.22 million against officers / officials / contractors were pending for finalization. Due to non-finalization of inquiries / disciplinary cases, neither the responsibility was fixed nor the fate of loss decided as detailed below:-

Sr. No.	Name of Company	Draft Para No.	No. of cases	Amount (Rs. in million)
1.	FESCO	149, 675 & 723/2018-19	518	0.00
2.	GEPCO	209 & 499/2018-19	390	0.00
3.	LESCO	975/2018-19	561	44.02
4.	QESCO	366/2018-19	1	0.32
5.	SEPCO	1155/2018-19	1	0.88
		TOTAL	**1471**	**45.22**

Non-adherence to Authority's instructions resulted in non-finalization of inquires / disciplinary cases involving an amount of Rs.45.22 million up to the Financial Year 2017-18.

The matter was taken up with the management during August to October, 2018 and reported to the Ministry during October to December, 2018**.** The management replied that some of the inquiries / disciplinary cases had been finalized and remaining were under process. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.51 Non-replacement of defective meters - Rs.40.32 million

According to SoP regarding meter replacement, i) if the meter at the premises of consumer is to be replaced whatever reasons, the change will be authorized after checking of record, status of meter and confirmation whatever cost of meter is recoverable or not. The concerned authority will endorse decision about recovery of cost of defective/damage meter on the original application of consumer/ letter issued by the AMO, ii) The relevant authority will maintain register for MCO having details of meter, reason for replacement and recovery of cost of meter if due.

In DISCOs, 10207 Single/Three Phase & MDI meters valuing Rs.40.32 million were declared defective by M&T. However, neither defective meters were replaced nor detection bills charged to the consumers. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of Meters	Amount (Rs. in million)
1.	IESCO	280/2018-19	270	8.10
2.	LESCO	157, 289 & 897/2018-19	1404	9.10
3.	MEPCO	328 & 785/2018-19	8297	19.47
4.	SEPCO	272/2018-19	236	3.65
		TOTAL	**10207**	**40.32**

Non-adherence to Authority's instructions resulted in non-replacement of defective meters valuing Rs.40.32 million during the financial year 2017-18.

The matter was taken up with the management during July to September, 2018 and reported to the Ministry during October & November, 2018. The management replied that some of the meters were replaced and remaining would be replaced. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.52 Loss due to non-finalization of insurance claims - Rs.38.92 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In DISCOs, electrical equipments valuing Rs.38.92 million were damaged at different locations. Insurance claims of damaged material were lodged with General Manager (Insurance & Pension) WAPDA but were not finalized and kept pending since long due to non-pursuance / non-provision of complete information by the field formations. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Cases	Amount (Rs. in million)
1.	IESCO	1374/2018-19		2.47
2.	LESCO	62/2018-19		7.50
3.	MEPCO	623/2018-19		19.74
4.	SEPCO	260/2018-19		9.21
		TOTAL		**38.92**

Non-adherence to Authority's instructions resulted in loss due to non-finalization of insurance claims amounting to Rs.38.92 million up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry during October to December, 2018. The management replied that some of the claims had been indemnified while others were under process. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.53 Unjustified expenditure on account of pay & allowances, TA / DA, honorarium & vehicles pertaining to Ministry of Energy (Power Division) - Rs.17.53 million

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

In DISCOs & GENCOs, an expenditure of Rs.17.53 million was incurred on account of pay & allowances, TA / DA, honorarium and vehicles in respect of Ministry of Energy (Power Division). The expenditure was not justified as Ministry had its own budget, hence, the said amount was required to be recovered from the Ministry. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Nature of Expense	Amount (Rs. in million)
1.	GENCO-III	603/2018-19	Cost and R&M of vehicle	2.33
2.	GENCO-IV	1069/2018-19	TA /DA for Foreign visit	5.48
3.	IESCO	1522 & 1524/2018-19	Pay & Allowances & Honorarium	5.20
4.	LESCO	100/2018-19	R&M of vehicles	1.97
5.	PESCO	836/2018-19	Cost and R&M of vehicles	2.55
		TOTAL		**17.53**

Non-adherence to General Financial Rules resulted in unjustified expenditure of Rs.17.53 million on account of pay & allowances, TA / DA, honorarium & vehicles pertaining to Ministry of Energy (Power Division) up to the Financial Year 2017-18.

The matter was taken up with the management during May to October, 2018 and reported to the Ministry during October to December, 2018.

The management replied that the job done by the IESCO employees attached with Ministry was part of the Company and honorarium was given to Ministry staff after getting legal opinion. The matter of recovery of TA/DA on foreign visits had been taken up with the Ministry. The fuel expenditure of temporarily attached vehicle was being born by the Ministry as replied by GENCO-III. Moreover, the vehicles had been returned to LESCO after completion of assignment. The reply was not agreed to being inconsistent with the provisions of GFR and without any documentary evidences.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit detailed reply along with provision of proper SOP within 15 days regarding pay & allowances and honorarium and effect the recovery of TA / DA from concerned quarters within one month and get it verified from Audit. The DAC further directed the management to produce the record of vehicles with history within 15 days and to take up the matter of recovery with Ministry.

Audit recommends that the management needs to implement DAC's directives besides ensuring recovery.

2.1.54 Loss due to non-recovery of penalty imposed on employees - Rs.4.44 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In DISCOs, an amount of Rs.4.44 million was recoverable from employees on account of shortage of electrical material etc. However, recovery was not made from the officers / officials held responsible by the competent authority. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	Amount (Rs. in million)
1.	GEPCO	228/2018-19	0.40
2.	IESCO	351/2018-19	1.99
3.	LESCO	190 & 235/2018-19	2.05
		TOTAL	**4.44**

Non-adherence to Authority's instructions resulted in loss of Rs.4.44 million due to non-recovery of penalty from employees up to the Financial Year 2017-18.

The matter was taken up with management during August to October, 2018 and reported to the Ministry in November, 2018. The management replied that some amount had been recovered and balance amount would be recovered in due course of time. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions within 15 days and expedite completion of pending actions. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

2.1.55 Loss due to provision of free supply in excess of permissible limit - Rs.3.71 million

According to Finance Division (Admn. & Regulations) of WAPDA office order No.FO (B&F)/10-126/Vol-46/1966-2065 dated February 16, 2017 for up-gradation of the posts of Ministerial, Accounts, Audit and Technical Staff, the existing incumbents are allowed BPS-16 but will receive allowance / benefits associated to BPS-15.

In DISCOs, 258 officers / officials of BPS-14/15 were upgraded into BPS-16. However, they were availing free electricity supply facility of BPS-16 instead of BPS-14/15 in contravention to the said orders. Hence, excess free electricity supply amounting to Rs.3.71 million was provided to the said employees, which was loss to the Companies. The detail is as under:-

Sr. No.	Name of Company	Draft Para No.	No. of Employees	Amount (Rs. in million)
1.	LESCO	210/2018-19	160	2.30
2.	PESCO	1468/2018-19	98	1.41
		TOTAL	**258**	**3.71**

Non-adherence to rules resulted into loss due to provision of free supply in excess of permissible limit to the employees amounting to Rs.3.71 million during the financial year 2017-18.

The matter was taken up with the management during August & September, 2018 and reported to the Ministry during November & December, 2018. The management replied that free supply units were being allowed according to the entitlement. However, in case of any discrepancy recovery would also be made. The reply was not tenable as Authority's instructions were violated.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit on case to case basis within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

CHAPTER-3

JAMSHORO POWER GENERATION COMPANY (GENCO-I)

3. JAMSHORO POWER GENERATION COMPANY (GENCO-I)

3.1 Introduction

The Jamshoro Power Generation Company Limited, (JPGCL) is a subsidiary of PEPCO. It was incorporated in August, 1998, under Companies Ordinance 1984 (now Companies Act 2017) and started its business from 1st March, 1999. The Company took over properties, rights, assets, obligations and liabilities of thermal power generation at Jamshoro and Kotri, owned by WAPDA through Business Transfer Agreement.

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.

3.2 Comments on Financial Statements

The financial statements of the Company for the year were audited but Independent Auditor's opinion was not made available. However, comments on audited financial statements are as under.

3.2.1 Objective of Financial Analysis

The objective of analysis of GENCO-I's financial statements is basically to assess the financial health of the Company to bear its operational costs. For this purpose the horizontal and vertical trend analysis of Company's financial statements for the year 2017-18 have been conducted. Critical factors affecting the financial statements have also been highlighted.

3.2.2 Horizontal Analysis of Financial Statement

Horizontal analysis (also known as trend analysis) is an analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time. The statements for two or more periods are used in horizontal analysis.

3.2.3 Profit and Loss Account
For the year ended June 30, 2018

(Rs. in billions)

	2017	%age Inc/(Dec)	2018
Sale of electricity – net	39.229	(35.645)	25.246
Cost of electricity	(38.043)	(35.591)	(24.503)

Gross profit / (loss)	**1.186**	**(37.352)**	**0.743**
Administrative and General expenses	(0.852)	9.624	(0.934)
	0.334	(157.186)	(0.191)
Finance Costs	(0.026)	(7.692)	(0.024)
	0.308	(169.805)	(0.215)
Other Income	0.390	29.744	0.506
Profit before tax	**0.698**	(58.309)	**0.291**
Taxation	(0.392)	19.643	(0.469)
Reimbursements of income Tax	0.392	19.643	0.469
Net Profit for the Year	**0.698**	(58.309)	**0.291**

Source: Audited Financial Statements as at 30 June 2018.

3.2.4 Balance Sheet as at June 30, 2018

(Rs. in billions)

	2017	%age Inc/(Dec)	2018
ASSETS			
Non-current assets			
Property, plant and equipment	3.107	181.365	8.742
Long-term loans	0.047	10.638	0.052
	3.154	178.821	**8.794**
Current assets			
Stores, spares and loose tools	0.560	40.714	0.788
Fuel Stock	1.190	233.613	3.970
Trade debts	23.086	(33.068)	15.452
Loans and advances	0.184	(69.022)	0.057
Other receivables	3.549	56.664	5.560
Taxation – net	0.222	4.505	0.232
Bank balances	0.512	(12.109)	0.450
	29.303	(9.535)	26.509
TOTAL ASSETS	**32.457**	8.769	**35.303**
EQUITY AND LIABILITIES			
Share capital and Reserves			
Authorized capital			
5,000,000,000 (2017: 5,000,000,000) ordinary shares of Rupees 10/- each	50.000	0.000	50.000
Share Capital			
Issued, subscribed and paid-up capital	8.128	0.000	8.128
Revenue reserve			
Accumulated losses	(13.716)	5.709	(14.499)
	(5.588)	14.012	**(6.371)**
Non-current liabilities			
Long-term Loans	1.050	590.667	7.252
Deferred income – government grants	0.610	(41.639)	0.356
Deferred liabilities - employees' benefits	10.412	27.363	13.261

	12.072	72.871	**20.869**
Current liabilities			
Trade and other payables	25.816	(20.437)	20.540
Accrued mark-up	0.144	73.611	0.250
Current portion of long-term loans	0.013	15.385	0.015
	25.973	(19.898)	**20.805**
TOTAL EQUITY AND LIABILITIES	**32.457**	8.769	**35.303**

Source: Audited Financial Statements as at 30 June 2018.

3.2.5 Huge accumulated loss sustained by Company

The financial statements of the company as on June 30, 2018 shows that the Company has suffered accumulated loss of Rs.14.500 billion up to June 30, 2018 due to which equity of the Company turned into negative.

3.2.6 Gap between Cost of generation and Sales Revenues

(Rs. in billions)

	2017	**%age Inc. / (Dec)**	**2018**
Sale of Electricity (Net)	39.230	(35.64)	25.247
Cost of Electricity	38.043	(35.59)	24.503
Gross profit / (loss)	**1.186**	**(37.35)**	**0.743**

Source: Notes 20 & 21 of Audited Financial Statements as at 30 June 2018.

Sales Revenue decreased by 35.64% in 2018 as compared to last year. Cost of generation also decreased at a rate of 35.59%. The Company earned gross profit of Rs.1.186 billion in 2017 but due to decrease in sale of electricity, gross profit in 2018 reduced by 37.35%.

3.2.7 Heavy Salaries, Wages and Other Benefits

	2017 (Rs. in billion)	**%age of Total Op. Exp. 2017**	**2018 (Rs. in billion)**	**%age of Total Op. Exp. 2018**
Salaries, wages and other benefits	0.599	70	0.643	69
Other Operating Cost	0.253	30	0.292	31
Total Operating Cost excluding Depreciation	**0.852**	**100**	**0.935**	**100**

Source: Note 22 of Audited Financial Statements as at 30 June 2018.

Major operating expenses are salaries & wages which are 70% and 69% of total Operating Expenses excluding Depreciation for 2017 and 2018 respectively whereas other operating expenses remained 30% and 31% during the year 2017 and 2018 respectively. There is need to rationalize its human resources to decrease cost on account of salaries and wages.

3.2.8 Heavy Funds stuck in Trade debts

Trade Debts against sale of electricity has decreased to Rs.15.452 billion in 2018 as compared to Rs.23.086 billion in 2017, showing 33.068% decrease from 2017 to 2018.

3.2.11 Vertical analysis of Profit and Loss Account

A vertical analysis is used to show the relative sizes of the different accounts on a financial statement. Here while doing the vertical analysis of Profit & Loss account Sale of Electricity has been taken as 100%, and every other head of Profit & Loss account has been shown as a percentage of the total sales number.

(Rs. in billion)

	2017	% age	2018	% age
Sale of electricity – net	39.229	100.00	25.247	100.00
Cost of electricity	(38.043)	(96.98)	(24.504)	(97.06)
Gross profit	**1.186**	**3.02**	**0.743**	**2.94**
Administrative and General expenses	(0.852)	(2.17)	(0.935)	(3.70)
Finance Costs	(0.026)	(0.07)	(0.024)	(0.10)
Other Income	0.391	0.99	0.507	2.00
Profit before tax	**0.699**	**1.78**	**0.291**	**1.15**
Taxation	(0.392)	(1.00)	(0.469)	(1.86)
Reimbursements of income Tax	0.392	1.00	0.469	1.86
Net Profit for the Year	**0.699**	**1.78**	**0.291**	**1.15**

Source: Audited Financial Statements as at 30 June 2018.

Vertical analysis of Profit & Loss account of GENCO-I shows a dismal position. Cost of sales is 96.98% of the sales in 2017and 97.06% in 2018 which indicates inefficiencies in business of the company. Operating expenses are 2.17% of sales in 2017 and 3.70% of sales in 2018 which are contributing to decrease in profit in 2018.

3.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
GENCO-I	2016-17	01	-	04 (Para No. 4.1.12, 4.1.19, 4.1.25, 4.1.26)	

Position of compliance with PAC directives is not satisfactory.

3.4 AUDIT PARAS

3.4.1 Non-revaluation of assets - Rs.34,452.94 million

According to IAS-16 that item of property plant and equipment should be recognized as assets when it is probable that:- i) Future economic benefits associated with the asset will flow to the entity ii) the cost of the asset can be measure reliably. As per IAS-16.51 that the residual value and the useful life of an asset should be reviewed at least at each financial year end, if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate.

In GENCO-I Jamshoro, assets worth Rs.34,452.94 million were not revalued since 1998. Physical verification of fixed assets was also not carried out with the fixed assets record. Due to non-revaluation of assets, assets did not reflect the true market value.

Non-adherence to provisions of Companies Act resulted into non-revaluation of fixed assets amounting to Rs.34,452.94 million up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that revaluation of fixed assets was carried out through independent valuator after physical verification of assets. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018, directed the management to get stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 596/2018-19)

CHAPTER-4

CENTRAL POWER GENERATION COMPANY (GENCO-II)

4. CENTRAL POWER GENERATION COMPANY (GENCO-II)

4.1 Introduction

The Central Power Generation Company (CPGCL) is a subsidiary of PEPCO. The Company was incorporated in October, 1998 as a public limited company under Companies Ordinance 1984 (now Companies Act 2017) 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 during July, 2002. The Company has fourteen units having capacity of 12,264,000 MWh.

4.2 Comments on Financial Statements

The financial statements of the Company for the year ended 30 June 2018 were not audited. Hence, no Independent Auditor's opinion was available. However, comments on un-audited financial statements are as under.

4.2.1 Objectives of Financial Analysis

The objective of analysis of financial statement is basically to assess the financial health of the Company to bear its operational costs. For this purpose, the horizontal and vertical trend analysis of Company's financials has been conducted. Critical factors affecting the financial statements have also been highlighted.

4.2.2 Horizontal Analysis of Financial Statement

Horizontal analysis (also known as trend analysis) is a financial statement analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time. The statements for two or more periods are used in horizontal analysis.

4.2.3 Profit and Loss Account
For the year ended June 30, 2017 & 2018

(Rs. in billion)

	2017	% age Inc/(dec)	2018
Sales	60.072	6.68	64.086
Cost of Sales	(51.122)	7.30	(54.854)
Gross profit	**8.950**	3.15	**9.232**
Administrative Expenses	(0.707)	8.91	(0.770)
Other Income	0.553	20.07	0.664
Financial Cost	(2.827)	211.14	(8.796)
Profit before Taxation	5.968	(94.47)	0.330
Taxation	(2.306)	80.70	(4.167)
Profit/(loss) after Taxation	**3.663**	(204.72)	**(3.836)**

Source: Un-audited Financial Statements for the year ended 30 June 2018.

4.2.4 Balance Sheet
As at June 30, 2016 to 2018

(Rs. in billion)

Equity and Liabilities	2016	% age Inc/ (dec)	2017	% age Inc/ (dec)	2018
Share capital and reserves					
Issued, subscribed and paid-up capital	0.001	-	0.001	-	0.001
Un-appropriated Loss	(11.218)	(35.43)	(7.244)	61.41	(11.692)
Deposits for the issuance of shares	3.344	-	3.344	-	3.344
Total Equity	**(7.873)**	(50.48)	**(3.899)**	(4.45)	**(8.347)**
Non-current liabilities					
Long term Financing	48.485	(11.50)	42.907	(1.99)	42.053
Deferred grant	0.957	(17.03)	0.794	(25.00)	0.596
deferred tax liability	-		-		1.232
Staff benefits	20.428	6.35	21.726	15.87	25.175
Total Non-Current Liabilities	**69.870**	(6.36)	**65.427**	**5.55**	**69.056**
Current liabilities					
Trade and other Payables	26.549	(1.89)	26.046	50.76	39.266
Interest accrued on long term financing	2.427	53.81	3.733	40.48	5.244
current portion of long term financing	5.711	2.54	5.856	17.12	6.859
Provision for Taxation	0.095	(18.95)	0.077	170.08	0.209
Total Current Liabilities	**34.782**	2.67	**35.712**	44.43	**51.578**
TOTAL EQUITY AND LIABILITIES	**96.779**	0.48	**97.240**	45.52	**112.287**
Assets					
Non-current assets					
Property plant and equipment	80.317	2.59	82.395	(3.57)	79.453
Long-term advances	0.047	-	0.047	945.04	0.049
Long-term deposits	0.237	(100.00)	-	-	-
deferred tax liability-net	5.088	(46.42)	2.726	(100.00)	-

Total Non-Current Assets	**85.689**	(0.61)	**85.168**	(6.65)	**79.502**
Current assets					
Stores, spare parts and loose tools	2.246	10.28	2.477	(12.65)	2.164
Stock-in-trade	0.450	23.78	0.557	46.58	0.816
Trade debts	2.219	(65.43)	0.767	2,298.10	18.385
Advances	0.972	19.14	1.158	103.72	2.360
Other receivables	0.645	141.86	1.560	1.77	1.588
Tax refunds due from the Govt.	2.569	65.82	4.260	(1.77)	4.185
Bank balances	1.989	(34.99)	1.293	154.15	3.287
Total Current Assets	**11.090**	8.85	**12.072**	171.56	**32.785**
Total Assets	**96.779**	0.48	**97.240**	15.93	**112.287**

Source: Un-audited Financial Statements as at 30 June 2017 & 2018.

4.2.5 Gap between Cost of generation and Sales Revenues

Revenues from sale of Electricity have increased by 6.68% in 2018 whereas the cost of electricity has increased by 7.3% in 2018. This increasing trend in revenues and cost do not supplement each other. Company had discontinued electricity production at TPS Quetta w.e.f from 1 November, 2016. The management of the Company intends to recommence production after award of the generation license

	2017	%.Incr/(dec)	2018
Sale of Electricity Generated	60.07	6.68	64.09
Cost of Electricity Generated	51.12	7.3	54.85
Gross profit	**8.95**	3.15	**9.23**

Source: Un-audited Financial Statements as at 30 June 2018.

Company earned gross profit of Rs.8.95 billion in 2017 which further increased by 3.15% to Rs.9.23 billion in 2018. This increase in gross profit may be attributed to slight increase in sales of electricity generated over the previous year.

4.2.6 Un-reconciled sales figure in financial statements

	2018
Sale of Electricity Units (A)	8.776 billion KWh
Energy charges per KWh (B)	Rs.6.94
Gross sales (C=A*B)	60.903 billion
Capacity Purchase Price (D)	18.634 billion
Total Gross Sales (E=C+D)	79.537 billion
Sales Tax (F)	7.726 billion
Net Sales as per note-12 (G=E-F)	**71.811 billion**

Source: Note 12 & 25 of Un-audited Financial Statements for the year ended 30 June 2018.

During current year, Company sold 8.776 billion units @ Rs.6.94 amounting to Rs.60.904 billion to CPPA(G) with Capacity Purchase Price of Rs.18.633 billion. During the current year, Company's sales as stated in Note 12 do not reconcile with Note 25 where it was stated as Rs.64.087 billion. There is a difference of Rs.7.721 billion which is material mis-statement in financial statements which needs to be investigated.

4.2.7 Increase in management fee and repair & maintenance cost

(Rs. in billion)

	2017	% age Inc/(Dec)	2018
Repair and maintenance cost	0.171	256	0.610
Management Fee	0.000	100	0.114

Source: Note 26 & 27 of Un-audited Financial Statements as at 30 June 2018.

Repair & maintenance expenditure was abnormally increased by 256.73% from Rs.0.171 billion to Rs.0.610 billion as compared to previous year. Expenses on management fee have been increased to Rs.0.114 billion over the previous year which needs to be justified.

4.2.8 Heavy Funds stuck in Trade debts and tax refunds

Receivable against sale of electricity has increased to Rs.18.385 billion in 2018 as compared to Rs.0.767 billion in 2017 showing a significant increase of 2298%. During the current year, company received Rs.54.505 billion from CPPA(G) against a total of Rs.71.812 billion leaving closing balance Rs.18.385 billion. Tax refunds due form Government remained Rs.4.184 billion in 2018 as compared to Rs.4.260 billion in 2017 showing slight decline of 1.77% during the current financial year. Further, company had not claimed input sales tax refunds of Rs.0.847 billion which has become time barred now. Company should hire tax consultants in order to seek condonation from tax authorities for recovery of input tax.

(Rs. in billion)

	2016	%Incr/ (dec)	2017	%Incr/ (dec)	2018
Trade debts	2.219	(65.43)	0.767	2297	18.385
Tax refunds due from Government	2.569	65.82	4.260	(1.78)	4.184
Total	**4.788**	4.99	**5.027**	348.96	**22.569**

Source: Note 12 & 15 of un-audited Financial Statements as at 30 June 2018.

The balance due from Central Power Purchasing Agency (G) does not reconcile with the balance confirmed by CPPA-G and there is difference of

Rs.1.363 billion. It is recommended that efforts need to be made by the management to recover the outstanding debts in order to improve the cash flows and liquidity position of the Company.

4.2.8 Heavy trade and other payables

(Rs. in billion)

	2016	% age Inc/ (dec)	2017	% age Inc/ (dec)	2018
Trade & Other Payables	26.549	(1.89)	26.046	50.76	39.266

Source: Note 22 of un-audited Financial Statements as at 30 June 2018.

Payables by the Company increased to Rs.39.266 billion in 2018 as compared to Rs.26.046 billion in 2017 showing significant increase of 50.76% in 2018. Non-payment to Fuel supplier i.e. Pakistan State Oil (PSO) and SSGCL's dues on time is one of the causes of circular debt.

4.2.9 Vertical Analysis of Profit & Loss Account

A vertical analysis is used to show the relative sizes of the different accounts on a financial statement. Here while doing the vertical analysis of Profit & Loss account Sale of Electricity has been taken as 100%, and every other head of Profit & Loss account has been shown as a percentage of the total sales number.

(Rs. in billion)

	2017	% age of Sales	2018	% age of Sales
Sales	60.072	100.00	64.086	100.00
Cost of Sales	(51.122)	(85.10)	(54.854)	(85.59)
Gross profit	**8.950**	14.90	**9.232**	14.41
Administrative Expenses	(0.707)	(1.18)	(0.770)	(1.20)
Other Income	0.553	0.92	0.664	1.04
Financial Cost	(2.827)	(4.71)	(8.796)	(13.73)
Profit before Taxation	5.968	9.93	0.330	0.51
Taxation	(2.306)	(3.84)	(4.167)	(6.50)
Profit/(loss) after Taxation	**3.663**	6.10	**(3.836)**	(5.99)

Vertical analysis of Profit & Loss account of CPGCL shows that cost of sales was 85.59% of the sales in 2018 as compared to 85.10% in 2017. Gross profit was 14.90% of sales in 2017 and 14.41% in 2018. Management should take steps to enhance its revenues.

Financial cost was 4.71% of sales in 2017 and 13.73% of sales in 2018.

4.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
GENCO-II	2016-17	02	-	03 (Para No.4.1.19, 4.1.28, 6.4.2)	

Position of compliance with PAC directives is not satisfactory.

4.4 AUDIT PARAS

4.4.1 Non-revaluation of fixed Assets - Rs.112,317.12 million

According to IAS-16 that item of property plant and equipment should be recognized as assets when it is probable that:- i) Future economic benefits associated with the asset will flow to the entity ii) the cost of the asset can be measure reliably. As per IAS-16.51 that the residual value and the useful life of an asset should be reviewed at least at each financial year end, if expectations differ from previous estimates, any change is accounted for prospectively as a change in estimate.

In GENCO-II Guddu, assets worth Rs.112,317.12 million were not revalued since 1998. Physical verification / reconciliation of fixed assets were also not carried out. In fact, fixed assets registers were not being maintained. This limited the scope for physical verification of assets. Due to non-maintenance of proper record / revaluation of assets, value of fixed assets was un-reliable and understated.

Non-adherence to provisions Companies Act resulted into non-revaluation of fixed assets amounting to Rs.112,317.12 million up to the Financial Year 2017-18.

The matter was taken up with the management in August 2018 and reported to the Ministry in November, 2018. The management replied that revaluation of assets was in progress. However, further progress would be intimated in due course of time.

The DAC in its meeting held on December 20-21, 2018, directed the management to expedite the revaluation process and complete it at the earliest. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 668/2018-19)

4.4.2 Generation loss due to non-rehabilitation of closed units - Rs.9,938.57 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of store, shall be subject 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, four (04) thermal power units were closed since 2013 and 2015 due for rehabilitation. Rehabilitation of these power generating units was due but the same was not carried out. Rehabilitation work could regain generation capacity of these units. Non-rehabilitation caused generation loss of 90,350.64 million energy units amounting to Rs.9,938.57 million.

Poor operational management resulted in heavy generation loss of Rs.9,938.57 million due to non-rehabilitation of the power plants up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that unit No. 1 & 2 was commissioned in 1974 & unit No. 4 in 1985 and had completed their useful life. In place of these units new state of the art unit i.e. 747-MW CCPP was installed by diverting the Gas Quota. However evaluation of the consultancy services in respect of complete rehabilitation / reconstruction of combine cycle steam turbine (G-13) Siemens Germany along with new civil building at GENCO-II Guddu was in process.

The DAC in its meeting held on December 20-21, 2018, directed the management to get the stance verified by Audit within one week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to take immediate concrete steps for rehabilitation of the plants to avoid their deterioration.

(Draft Para No. 632/2018-19)

4.4.3 Heavy generation loss due to poor maintenance of plant – Rs.6,507.20 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of store,

shall be subject 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 power plant remained out of service from time to time during the year due to serious faults i.e. tripping due to electric fault, condenser tube leakage, emergency drum level low economizer tube leakage, breaking of impeller vane and sometimes due to unknown reasons. The forced outages happened due to improper / poor maintenance of plant. Resultantly 591.56 million energy units amounting to Rs.6,507.20 million were less generated.

Poor operational management resulted in heavy generation loss of Rs.6,507.20 million of the power plants during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that annually 800 hrs were allowed on account of forced outage and all units operated within the prescribed limit as per PPA. The outages did not cause the financial burden on CPGCL, However non-availability of gas was the main reason. This was allocated by the Economic Coordination Committee. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018, directed the management to get the stance verified by Audit within one week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 663/2018-19)

CHAPTER-5

NORTHERN POWER GENERATION COMPANY (GENCO-III)

5. NORTHERN POWER GENERATION COMPANY (GENCO-III)

5.1 Introduction

The Northern Power Generation Company Limited, (NPGCL) is a subsidiary of PEPCO. The Company was incorporated on October 15, 1998 under Companies Ordinance 1984 (now Companies Act 2017) 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 sell it to National Transmission and Despatch Company (NTDC). NPGCL was granted Generation License by NEPRA during July, 2002. The Company has 30 units having *installed capacity of 2,459 MW and **de-rated capacity of 2,071 MW.

5.2 Comments on Financial Statements

The financial statements of the Company for the financial year 2017-18 were not audited. Hence no Independent Auditor's opinion was available. However, comments on un-audited financial statements are as under.

5.2.1 Objectives of Financial Analysis

The objective of analysis of financial statement is basically to assess the financial health of the Company to bear its operational costs. For this purpose, the horizontal and vertical trend analysis of Company's financial statements has been conducted. Critical factors affecting the financial statements have also been highlighted.

5.2.2 Horizontal Analysis of Financial Statement

Horizontal analysis (also known as trend analysis) is a financial statement analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time. The statements for two or more periods are used in horizontal analysis.

5.2.3 Profit and Loss Account
For the year ended June 30, 2018

(Rs. in billions)

	2017	%Inc/(dec)	2018
Sale	85.759	(12.46)	75.072
Cost of Sales	(82.533)	(8.84)	(75.236)
Gross Profit/(Loss)	**3.226**	**(105.08)**	**(0.164)**
Administrative Expenses	(0.907)	(12.79)	(0.791)
Other Expenses	(0.003)	133.33	(0.007)
Other Income	0.440	105.45	0.904
Financial Cost	(2.560)	(5.39)	(2.422)
(Loss)/Profit before Taxation	0.196	(1,365.31)	(2.480)
Taxation	0.560	(6.96)	0.521
Profit /(Loss) before Taxation	**0.756**	**(359.13)**	**(1.959)**

Source: Un-audited Financial Statements as at 30 June 2018.

5.2.4 Balance Sheet
As on June 30, 2018

(Rs. in billions)

	2016	% age Inc/ (dec)	2017	% age Inc/ (dec)	2018
Equity & Liabilities					
Issued subscribed and paid up share capital	0.001	-	0.001	-	0.001
Deposit for issue of Share Capital	17.899	-	17.899	-	17.899
Accumulated Losses	(31.073)	(2.27)	(30.367)	2.07	(30.997)
Surplus on revaluation on Property Plant Equipment-net of deferred income tax	131.308	(0.86)	130.174	(0.59)	129.404
Total Equity	**118.135**	(0.36)	**117.707**	(1.19)	**116.307**
Non-current Liabilities					
Long term financing	28.697	(0.82)	28.461	(14.47)	24.342
Staff retirement benefits	15.416	21.95	18.799	7.71	20.248
Deferred Grants	1.071	(18.02)	0.878	(22.55)	0.680
Deferred income tax liability	16.499	(6.62)	15.407	(6.72)	14.372
	61.683	3.02	63.546	(6.14)	59.643
Current Liabilities					
Trade & Other Payables	94.256	2.85	96.941	12.62	109.179
Accrued Markup	1.601	6.74	1.709	11.04	1.898
Current maturity of long term financing	2.682	8.57	2.912	3.09	3.002
Total Current Liabilities	98.538	3.07	101.562	12.32	114.079
TOTAL EQUITY AND LIABILITIES	**278.357**	**1.60**	**282.815**	**2.55**	**290.028**
Assets					
Non-Current Assets					
Property Plant & Equipment	218.997	(0.67)	217.531	(2.09)	212.992
Intangible asset	0.016	(50.00)	0.008	(100.00)	-
Long term advances	0.049	(24.29)	0.037	(33.67)	0.025
Long term deposits	0.003	29,149.81	0.947	(0.00)	0.947

	219.066	(0.25)	218.523	(2.09)	213.963
Current Assets					
Stores and spare parts	4.577	(4.75)	4.359	23.79	5.396
Fuel Stock	4.867	7.59	5.236	163.13	13.778
Trade debts	28.857	(3.54)	27.834	6.03	29.511
Loans and advances	1.734	12.76	1.956	(11.12)	1.738
Tax refunds due from Government	10.394	24.30	12.920	35.19	17.466
Accrued interest	0.000	2,988.66	0.002	175.59	0.005
Short term deposits and other receivables	6.266	(2.73)	6.095	(30.33)	4.247
cash and bank balances	2.597	126.84	5.891	(33.39)	3.924
	59.291	8.43	64.292	18.31	76.065
TOTAL ASSETS	**278.357**	**1.60**	**282.815**	**2.55**	**290.028**

Source: Un-audited Financial Statements as at 30 June 2018.

5.2.5 Gap between Cost of generation and Sales Revenues

Revenues from sale of electricity have decreased by 12.46% in 2018 whereas the cost of electricity has decreased at lower rate of 8.84% in 2018. This decreasing trend in revenues and cost do not supplement each other.

(Rs. in billion)

	2017	**% age Incr / (dec)**	**2018**
Sale of Electricity Generated	85.759	(12.46)	75.072
Cost of Electricity Generated	(82.533)	(8.84)	(75.236)
Gross Profit/(Loss)	**3.226**	(105.08)	**(0.164)**

Although company earned gross profit of Rs.3.226 billion in 2017 but 12.46% decrease in sales resulted into gross loss of Rs.0.164 billion in 2018.

5.2.6 Increase in HR and repair & maintenance cost

(Rs.in billion)

	2017	**%Incr/(dec)**	**2018**
Salaries, wages and other benefits	1.679	5.66	1.774
Repair and maintenance	0.896	27.12	1.139
Total	**2.575**	13.13	**2.913**

Source: Note 25 of un-audited Financial Statements as at 30 June 2018.

Repair & maintenance expenditure was abnormally increased by 27.12% as compared to previous year. Despite heavy expenditure on plant maintenance, increase in generation could not be achieved. Expenses on salaries, wages and other benefits were also increased by 5.66% during current financial year.

5.2.7 Heavy Funds stuck in Trade debts and tax refunds

(Rs. in billions)

	2016	% age Incr/(dec)	2017	% age Incr/(dec)	2018
Trade debts	28.857	(3.54)	27.834	6.03	29.511
Tax refunds due from Government	10.394	24.29	12.919	35.19	17.465
Total	**39.251**		**40.753**		**46.976**

Source: Note 19 & 21 of un-audited Financial Statements as at 30 June 2018.

Receivable against sale of electricity has increased to Rs.29.511 billion in 2018 as compared to Rs.27.834 billion in 2017 showing an increase of 6.03%.Tax refunds due form Government increased to Rs.17.465 billion in 2018 as compared to Rs.12.919 billion in 2017 showing an abnormal increase of 35.19% during the current financial year.

5.2.8 Non reconciliation of amount due from CPPA(G) -Rs.22146 billion

As per Independent Auditor’s opinion, balances due from Central Power Purchasing Agency (Guarantee) Limited (CPPA(G)) did not reconcile with the balance confirmed by CPPA(G) and there was a difference of Rs.22,146.53 million. The management of the company was confident that matter of difference would be resolved in favor of the company. However, auditor was unable to determine the extent to which such receivable would be settled between CPPA(G) and the company and financial impact of such settlement.

5.2.9 Heavy trade and other payables

(Rs.in billion)

	2016	%Incr/ (dec)	2017	%Incr/ (dec)	2018
Trade & Other Payables	94.256	2.85	96.941	12.62	109.179

Source: Note 10 of un-audited Financial Statements as at 30 June 2018.

Payables by the Company increased to Rs.109.179 billion in 2018 as compared to Rs.96.941 billion in 2017 and Rs.94.256 billion in 2016 showing an increase of 2.85% in 2017 and 12.62% increase in 2018. Non-payment to Fuel supplier i.e. Pakistan State Oil (PSO) and SNGPL in time is one of the major causes of circular debt.

5.2.10 Vertical Analysis of Profit & Loss Account

A vertical analysis is used to show the relative sizes of the different accounts on a financial statement. Here while doing the vertical analysis of Profit & Loss account Sale of Electricity has been taken as 100%, and every other head of Profit & Loss account has been shown as a percentage of the total sales number.

(Rs.in billion)

	2017	%age	**2018**	%age
Sales	85.759	100.00	75.072	100.00
Cost of sales	(82.533)	(96.24)	(75.236)	(100.22)
Gross Profit/(Loss)	**3.226**	**3.76**	**(0.164)**	**(0.22)**
Administrative Expenses	(0.907)	(1.06)	(0.791)	(1.05)
Other Expenses	(0.003)	(0.00)	(0.007)	(0.01)
Financial Cost	(2.560)	(2.99)	(2.422)	(3.23)
	(3.470)	(4.05)	(3.220)	(4.29)
Other Income	0.440	0.51	0.904	1.20
(Loss)/Profit before Taxation	0.196	0.23	(2.480)	(3.30)
Taxation	0.560	0.65	0.521	0.69
Profit /(Loss) before Taxation	**0.756**	**0.88**	**(1.959)**	**(2.61)**

Source: Profit & Loss of un-audited Financial Statements as at 30 June 2018.

Vertical analysis of Profit & Loss account of NPGCL shows that cost of sales was 100.22% of the sales in 2018 as compared to 96.24% in 2017 resulting into gross loss of Rs.0.164 billion in 2018. Operating expenditure, including finance cost, were 4.05% of sales in 2017and 4.29% of sales in 2018.

5.3 Brief comments on the status of compliance with PAC directives

Name of Company	**Year**	**No. of Directives**	**Status of compliance**		
			Full	**Partial**	**Outstanding**
GENCO-III & GENCO-V	2013-14	1	-	-	01 (Para No. 7.3.3)
	2016-17	4		03 (Para No. 4.1.12, 4.1.19, 7.4.2)	02 (Para No. 9.2.2, 9.2.3)

Position of compliance with PAC directives is not satisfactory.

5.4 AUDIT PARAS

5.4.1 Huge accumulated losses sustained by GENCO-III - Rs.32,125.73 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

In GENCO-III Muzaffargarh, the financial statement of the company up to June 30th, 2018 showed that company had suffered accumulated loss of Rs.32,125.73 million which had turned the equity of the company negative.

Non-adherence to the Authority's instructions resulted in accumulated loss of Rs.32,125.73 million up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that since its incorporation, NPGCL was sustaining financial losses due to unjustified tariff being allowed to the Company by NEPRA. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to furnish detailed technical report through GHCL to Audit within fortnight. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 478/2018-19)

5.4.2 Loss due to less generation of energy units in SPS Faisalabad – Rs.7,051.77 million

According to NEPRA Tariff Determination of the Steam Power Station (SPS) Faisalabad, annual generation capacity of the plant was 712.368 MkWh units.

In GENCO-III Muzaffargarh, 705.177 million units valuing Rs.7,051.77 million were less generated in Steam Power Station (SPS) Faisalabad. Due to non-utilization of full capacity of the Steam Power Station (SPS) the company sustained loss to the stated extent.

Non-adherence to authority's instructions resulted in loss of Rs.7,051.77 million due to less generation of units during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that NPCC kept the plant in standby position during Financial Year 2017-18. Therefore, energy could not be generated. The reply was not acceptable as no justification for de-rating of plant capacity was provided.

The DAC in its meeting held on December 20-21, 2018 directed the management to make loss good within one month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to justify the de-ration of plant capacity fixing responsibility.

(Draft Para No. 875/2018-19)

5.4.3 Non-submission of adjustment accounts of deposit works - Rs.4,771.78 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 425-MW CCPP Nandipur (GENCO-III), a deposit work valuing Rs.4,750 million was entrusted with SNGPL for gas pipeline infrastructure development for power plant in December 29, 2015. Moreover, an amount of Rs.21.78 million on account of deposit works was also paid to General Manager NTDC and General Manager (Hydro) WAPDA House, Lahore in February, 2016. A considerable period had since been lapsed but the said amounts could not be adjusted as adjustment accounts / audit certificate were not received from the said departments and works were still not capitalized.

Non-adherence to instructions resulted in non-submission of adjustment accounts of Rs.4,771.78 million from SNGPL up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that adjustment of account would be arranged after completion of works and Audit would be intimated accordingly.

The DAC in its meeting held on December 20-21, 2018 directed the management to obtain adjustment accounts and get it verified within one week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 654/2018-19)

5.4.4 Blockage of funds due to non-commissioning of gas compressor booster - Rs.1,276.78 million

According to Clause-11 of the GFR, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money and expenditure should not be prima facie more than the occasion demands.

In 425-MW CCPP Nandipur (GENCO-III), a Gas Compressor Booster amounting to Rs.1,276.78 million was procured on emergent basis from GENCO-II Guddu for utilization. Despite lapse of more than a year, Gas Compressor Booster could not be commissioned till August, 2018. Non-commissioning of gas compressor booster needed detailed justification with reference to its cost benefits and treatment of its cost in tariff.

Non-adherence to General Financial Rules resulted in blockage of funds amounting to Rs.1,276.78 million due to non-commissioning of gas compressor booster during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that the plant was not operational from 15th October 2018. NPCC and SNGPL had vigorously pursued to start the CCPP Nandipur and restoration of Gas Supply but NPCC did not allowed gas supply. It would be started on the instruction of NPCC. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide detailed technical report through GHCL to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s directives besides fixing responsibility.

(Draft Para No. 657/2018-19)

5.4.5 Loss on account of excess fuel cost component - Rs.987.74 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

In 425-MW CCPP Nandipur (GENCO-III), Fuel Cost Component (FCC) of Rs.10,292.97 million was billed to CPPA whereas actual expenditure on fuel was Rs.11,280.71 million during the year 2016-17, which entailed a loss of Rs.987.74 million. This scenario depicted that the plant was running below its approved efficiency as determined by NEPRA and not able to recover its operational fuel cost component.

Weak operational management resulted in loss of Rs.987.74 million on account of excess fuel cost component up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that the partial operations of the Complex resulted into less generation and higher fuel consumption. The reply was not relevant as no justification for usage of fuel in excess of allowed limit was provided.

The DAC in its meeting held on December 20-21, 2018 directed the management to make loss good within 15 days and intimate Audit accordingly. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate matter regarding non observance of NEPRA's determination besides fixing responsibility.

(Draft Para No. 614/2018-19)

5.4.6 Non-achievement of NEPRA's performance target despite O&M outsourcing - Rs.764.49 million

A contract agreement for Outsourcing of Operation & Maintenance of 425/525 MW CCPP Nandipur Power Plant with Hydro Electric Power System Engineering Company (HEPSEC) was executed on January 06, 2018 with carrying out initial Performance Test within three months. As per Company Secretary Notification dated January 03, 2018, "HEPSEC will take over the Nandipur Power Plant on January 06, 2018 at 49% efficiency, as allowed by NEPRA in their tariff determination and 515MW benchmark capacity on RLNG."

In 425-MW CCPP Nandipur (GENCO-III), a payment of Rs.764.49 million was made to M/s HEPSEC under the Operation and Maintenance agreement. Despite carrying out maintenance work, performance of the condenser was still poor as the machine could only achieve 39% performance than the NEPRA's benchmark of 49%, which resulted in heavy financial loss.

Non-adherence to Contract provision resulted in non-achievement of NEPRA's performance target of CCPP Nandipur despite payment of Rs.764.49 million to O&M contractor during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that NPCC allowed 16 days outage from May 11 to 27, 2018 and the Operator conducted various outage activities. However, some works could not be completed. Therefore, we were constrained to operate the plant on low output. It was decided that Condenser cleaning job would also be done during the Annual Outage of the Complex. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide a detailed report through GENCO Holding Company to Audit within one week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding non-completion of maintenance works in time besides fixing responsibility.

(Draft Para No. 642/2018-19)

5.4.7 Loss due to delay in commencement of O&M services by M/s HEPSEC and non-constitution of inquiry thereof - Rs.459 million

According to the minutes of 98th meeting of BoD, it was resolved that the CEO GHCL be and is hereby requested to constitute an inquiry committee to probe into the reason for delay in commencement of O&M Services by M/s HEPSEC due to which extension from time to time has to be made in M/s AEPL's manpower contract and fix responsibility for such situation.

In 425-MW CCPP Nandipur (GENCO-III), a mobilization advance of US $ 4.5 million equivalent to Rs.459 million was paid to M/s Hydro Electric Power System Engineering Company (HEPSEC) following by a contract agreement made on February 6, 2017 for outsourcing of O&M of Power Plant. The O&M contract was executed on January 06, 2018 after a delay of almost one year for which an inquiry was proposed by the BOD to probe the reasons for delay in commencement of O&M services by HEPSEC. However, inquiry was not conducted for fixing the responsibility and imposition of penalty for delay in commencement of O&M services, which caused huge financial loss to the Company.

Non-adherence to BoDs decision resulted in loss due to delay in commencement of O&M services by M/s HEPSEC despite payment of mobilization advance of Rs.459 million and non-constitution of inquiry thereof up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that inquiry committee was constituted to probe into the reasons for delay in commencement of O&M Contract. The reply was not tenable as the pending inquiry had not been finalized.

The DAC in its meeting held on December 20-21, 2018 directed the management to share outcome of inquiry with Audit within one month alongwith action taken. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expedite the inquiry proceeding besides fixing responsibility.

(Draft Para No. 647/2018-19)

5.4.8 Unjustified O&M payment to contractor without training of staff - Rs.347.07 million

According to the minutes of 67th meeting of BoD, operation and maintenance (O&M) of Nandipur power plant was given on contract initially for a period of six (6) months. During this six month period, the team at Nandipur was to be trained for independent operation and maintenance.

In 425-MW CCPP Nandipur (GENCO-III), O&M contract of Rs.174.60 million was awarded to M/s Al-Bario Engineering (Pvt.) Ltd. (AEPL) for a period of six months w.e.f February 25, 2015 to May 24, 2016 with a condition to train the staff in the said period. Despite repeated extension in contract period, the staff could not be trained by the said O&M Contractor. Hence, the payment of Rs.347.07 million made to M/s Al-Bario during the Financial Year 2017-18 was unjustified.

Non-observance to Contract provision resulted in unjustified payment of Rs.347.067 million on account of O&M to M/s Al-Bario Engineering (PVT) Ltd without imparting training to staff during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted to Audit within a week.

The DAC in its meeting held on December 20-21, 2018 directed the management to conduct inquiry at Ministry level and submit its report to Audit. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1441/2018-19

5.4.9 Non-accountal of Decanted oil from unknown source - Rs.168.92 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GENCO-III Muzaffargarh, 98 tank wagons of furnace oil were decanted at TPS from the period 2006 to 2018. In this way 3378.40 Metric Ton of furnace oil valuing Rs.168.92 million was decanted up to June 30, 2018. After lapse of a period of more than twelve years, the invoices and source of these wagons remained unknown to the management which was a loss to the company.

Non-adherence to the Authority's instructions resulted in loss due to unknown decanting of Furnace Oil valuing Rs.168.92 million up to Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that 98 tank wagons of furnace oil were decanted wrongly at TPS Muzaffargarh from the period 2006 to 2018. The said tank wagons had been decanted but the same was not taken on store stock ledger due to non availability of invoices. The reply was not acceptable as no departmental inquiry was constituted regarding wrong decanting of oil.

The DAC in its meeting held on December 20-21, 2018 directed the management to inquire/investigate the matter at GHCL level and submit its report to Audit within fortnight. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 542/2018-19)

5.4.10 Loss due to unauthorized utilization of energy as auxiliary consumption - Rs.159.72 million

NEPRA under section-15 of the Regulations of Generation, Transmission and Distribution of Electric Power Act 1997, grants a generation license no.gl/03/2002 dated July 01, 2002 to Northern Power Generation Company limited (NPGCL) incorporated under the companies ordinance, 1984 to engage the general business

In GENCO-III Muzaffargarh, two (02) residential colonies were using electricity directly from auxiliary transformer and electricity worth Rs.159.72 million was consumed without billing, which was quite illegal and unjustified.

Non-adherence to the Authority's instructions resulted in loss of Rs.159.72 million due to un-authorized utilization of auxiliary electricity during Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that the matter regarding billing of residential colony TPS Muzaffargarh had been taken up with MEPCO since 2013 but no action was taken.

The DAC in its meeting held on December 20-21, 2018 directed the management of PEPCO to look into the matter regarding consumption of electricity in residential colony through auxiliary consumption and fix responsibility within fortnight. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

(Draft Para No. 353/2018-19)

5.4.11 Irregular refund of retention money to the contractor - Rs.84.65 million

According to price schedule of the Contract agreement with M/s AMCORP-GASCO JV, 10% retention money will be deducted from each invoice of the Contractor.

In 425-MW CCPP Nandipur (GENCO-III), an amount of Rs.99.79 million @ 10% on account of retention money was deducted from the invoices of Contractor M/s AMCORP-GASCO-JV. Later on, an amount of Rs.84.65 million was refunded to the Contractor on August 5, 2017 in violation of contract provision.

Non-observance of contract provisions resulted in irregular refund of retention money of Rs.84.65 million to Contractor during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that retention money was released to the contractor on the advice of consultant. However, an amount of Rs.178 million was still lying with the Company. The reply was not tenable as no documentary evidence was provided to substantiate reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get its stance verified from Audit within one month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 613/2018-19)

5.4.12 Non-completion of work – Rs.66.05 million

As per delivery schedule of P.O/T-ICB-65/801-12, P.O/T-ICB-66/538-49 and P.O/T-ICB-67/762-63 the delivery was to be completed in five months respectively.

In GENCO-III Muzaffargarh, three tenders were opened for international competitive bidding and purchase orders were placed for the replacement of Boiler & Turbine Auto Regulation System, Turbine Auto Governing System and procurement of steel sheet respectively. The completion period of these works was 5 to 6 months but the same was not executed timely.

Non-adherence to the terms and conditions of the purchase order resulted in non-completion of works amounting to Rs.66.05 million within the stipulated time during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that supplier had shipped the material with delay due to some unavoidable issues. Subsequently extension in time was granted to the supplier. The reply was not tenable as no documentary evidence was provided to substantiate reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to recover LD charges from the supplier and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 480/2018-19)

5.4.13 Loss due to non-replacement of defective energy meter – Rs.33.60 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GENCO-III Muzaffargarh, an energy meter of circuit New Multan at 220 KV switch yard Phase-1 was out of operation and required to be replaced immediately. Non replacement of defective energy meter resulted in financial loss of Rs.33.60 million.

Non-adherence to the authority's instructions resulted in loss of Rs.33.60 million due to non-replacement of energy meter during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that Primary ISKRA Energy Meters installed at 220 KV transmission lines in Switchyard of TPS, Muzaffargarh was the property of NTDC. All the issues regarding these meters including testing, calibration and replacement were the responsibility of NTDC. Back up energy meter installed at 220 KV Transmission Line New Multan was used for reading only when primary ISKRA energy meter become nonfunctional due to any reason. The reply was not tenable as no serious efforts were made to replace the faulty meters.

The DAC in its meeting held on December 20-21, 2018 directed the management to inquire and investigate the matter at GHCL level and fix responsibility upon the person at fault within fortnight. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to pursue the matter with NTDC for early replacement of meter besides fixing responsibility.

(Draft Para No. 519/2018-19)

5.4.14 Loss due to imposition of penalty by NEPRA - Rs.10 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GENCO-III Muzaffargarh, a penalty of Rs.5 million was imposed by NEPRA due to failure in the job of maintenance at TPS Muzaffargarh which resulted in a major power break down. Moreover, a fine of Rs.5 million was imposed by NEPRA due to underutilization of generation facilities. Being an operator of the Plant, GENCO-III was held responsible by the NEPRA.

Non-adherence to the NEPRA's instructions resulted in loss of Rs.10 million due to imposition of penalty by NEPRA during Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that a motion for leave to review against NEPRA order had been filed. However, the decision was pending at NEPRA's end. The reply was not acceptable as no justification for underutilization of plant was provided.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide decision on review motion by NEPRA to Audit at the earliest. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding underutilization of Plant besides fixing responsibility.

(Draft Para No. 475 & 476/2018-19)

5.4.15 Unjustified payment of Honoraria in SPS Faisalabad - Rs.8.12 million

According to Rule-46 (b) and C of Fundamental Rules (FR), honorarium can be paid for work performed which is occasional in character and either as laborious of such special merit as to justify a special reward. The sanctioning authority shall record also the reasons which in his opinion justify the grant of the extra remuneration.

In GENCO-III Muzaffargarh, an amount of Rs.8.12 million was paid as honorarium without any justification to the employees of the Steam Power Station Faisalabad. The plant remained closed during the year and NEPRA also cancelled the generation license of SPS Faisalabad. Expenditure on account of honorarium on a closed plant was unjustified.

Non-adherence to financial rules resulted in unjustified payment amounting to Rs.8.12 million during the Financial Year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in November, 2018. The management replied that SPS Faisalabad remained mostly in standby position during the year 2017-18, and it was taken in operation as and when required by NPCC Islamabad. Honoraria / Bonus was announced by Ministry of Energy (Power Division), GoP Islamabad for employees of PEPCO and companies working under its control duly approved by BoD of the Company. The reply was not acceptable as approval was accorded for employees remained idle since long.

The DAC in its meeting held on December 20-21, 2018 directed the management to recover the amount of Honoraria within one month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding payment of honoraria to employees of closed project besides fixing responsibility.

(Draft Para No. 516/2018-19)

5.4.16 Unjustified expenditure on account of litigation fee - Rs.7.50 million

As per Section-g of Fee Schedule of WAPDA Law Division dated February, 2016 fee payable to Advocates in Miscellaneous Cases was Rs.35,000/- per case:- i) cases before Supreme Court (Leave to Appeal) at admission stage, ii) In appeal after grant of Leave to Appeal.

In GENCO-III Muzaffargarh, an amount of Rs.7.50 million was paid to M/s Saeed Akhtar Advocate and Corporate Council, Lahore against professional services. Payment of huge amount on this account was unjustified and extra financial burden on the company.

Non-adherence to financial rules resulted in unjustified payment amounting to Rs.7.50 million during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that M/s Khurram Saeed, Advocate Supreme Court of Pakistan was hired in consultation with Ministry of Energy (Power Division) and GENCOs Holding Company Limited to defend an agreement with an international firm M/s HEPSEC (China) regarding operation and maintenance of 425-MW, CCPP Nandipur with regard to legality of O&M Contract and disposal of employees from surplus pool to other GENCOs. The reply was not agreed to as the lawyer fee was on higher side.

The DAC in its meeting held on December 20-21, 2018 directed the management to get verified its stance within one week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No.760/2018-19)

5.4.17 Loss due to recurring expenditure on 440 MW gifted power plant - Rs.7.13 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GENCO-III Muzaffargarh, an amount of Rs.7.13 million was incurred on account of security staff salaries at UAE 440 MW Gifted Power Plant which was declared obsolete and recommended for disposal in 2016

Non-adherence to the Authority's instructions resulted in loss of Rs.7.13 million during Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that a request was sent to GHCL for taking up the matter with Ministry of Foreign Affairs for the disposal of gifted plant after informing the UAE Government. However, further progress would be intimated in due course of time. The reply was not tenable as no reasons for incurrence of expenditure on a obsolete plant was made known.

The DAC in its meeting held on December 20-21, 2018 directed the management to get verify the stance within one week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expedite the disposal of obsolete plant to save from further financial loss.

(Draft Para No. 477/2018-19)

5.4.18 Unjustified payment on account of overtime in SPS Faisalabad - Rs.3.02 million

As per Clause-11 of the GFR, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money and expenditure should not be prima facie more than the occasion demands.

In GENCO-III Muzaffargarh, an amount of Rs.3.02 million was paid as overtime in the office of the Steam Power Station Faisalabad. The plant remained closed during the year and NEPRA also cancelled the generation license of SPS Faisalabad. Expenditure on account of overtime on a closed plant was unjustified.

Non-adherence to financial rules resulted in unjustified payment of Rs.3.02 million during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that the power plant remained in standby position throughout the year 2017-18. The operational staff remained on duty during gazette holidays for operation of the plant as and when required by NPCC Islamabad. The reply was not acceptable as no justification for payment of overtime to employees on closed plant was given.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified within one week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 456/2018-19)

5.4.19 Wasteful expenditure due to startup and shutdown of Unit No. 4 - 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 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GENCO-III Muzaffargarh, as per instructions of operation staff Unit No. 4 started its generation. However, the unit was not synchronized with National Grid and stopped without generating a single unit and kept on standby. This resulted in loss of Rs.1.41 million on account of startup cost.

Non-adherence to authority's instructions resulted in wasteful expenditure of Rs.1.41 million due to startup and shutdown of Unit No. 4 during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that all the startups and shutdowns were controlled by the G.M system operation NPCC Islamabad and we always abide by the instructions from NPCC Islamabad. The reply was not relevant as the plant was stopped due to non-synchronization with transmission system of NTDC which required justification.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit technical report through CEO GENCO-III to Audit. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s directives besides fixing responsibility.

(Draft Para No. 636/2018-19)

CHAPTER-6

LAKHRA POWER GENERATION COMPANY (GENCO-IV)

6. LAKHRA POWER GENERATION COMPANY (GENCO-IV)

6.1 Introduction

The Lakhra Power Generation Company Limited (LPGCL) is a subsidiary of PEPCO. The Company was incorporated in February, 2002 as a public limited company under Companies Ordinance 1984 (now Companies Act 2017) 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 NTDC. LPGCL was granted Generation License by NEPRA during 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.

6.2 Comments on Financial Statements

The financial statements of the Company for the year were not audited. Hence, no Independent Auditor's opinion was available. However, comments on un-audited financial statements are as under.

6.2.1 Objective of Financial Analysis

The objective of analysis of GENCO-IV's financial statements is basically to assess the financial health of the Company to bear its operational costs. For this purpose the horizontal and vertical trend analysis of Company's financial statements for the financial years 2017-18 have been conducted. Critical factors affecting the financial statements have also been highlighted.

6.2.2 Horizontal Analysis of Financial Statement

Horizontal analysis (also known as trend analysis) is a financial statement analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time. The statements for two or more periods are used in horizontal analysis.

6.2.3 Profit and Loss Account
For the year ended June 30, 2018

(Rs. in millions)

	2017	% age Inc/(Dec)	2018
Sales – net	1,027.715	(96.13)	39.744
Cost of sales	(1,741.420)	(95.48)	(78.799)
Gross loss	**(713.704)**	**(94.53)**	**(39.054)**
Administrative and general expenses	(219.471)	390.70	(1,076.956)
	(933.176)	**19.59**	**(1,116.010)**
Finance cost	(2.922)	(8.72)	(2.667)
	(936.098)	**19.50**	**(1,118.677)**
Other income	30.725	3,743.66	1,180.961
Operating (loss)/profit	**(905.373)**	**(106.88)**	**62.284**
Reimbursement of income tax	10.277	(95.17)	0.497
(Loss)/Profit before tax	**(895.095)**	**(107.01)**	**62.781**
Taxation	(10.277)	(95.17)	(0.497)
(Loss)/Profit after tax	**(905.373)**	**(106.88)**	**62.284**

Source: Un-audited Financial Statements as at 30 June 2018.

6.2.4 Balance sheet
For the year ended June 30, 2018

(Rs. in millions)

	2017	%age Inc/(dec)	2018
ASSETS			
Non-current assets			
Property, Plant and equipment	560.524	(46.72)	298.666
Long term loans and advances	14.974	(45.77)	8.120
Total non-current assets	**575.498**	**(46.69)**	**306.787**
Current assets	-		-
Fuel stock	5.989	(4.04)	5.747
Stores, spares and loose tools	235.346	7.36	252.657
Loans and advances	8,469.397	13.91	9,647.382
Other receivables	502.625	1.02	507.735
Advance income tax	89.853	-	89.853
Bank balances	13.115	172.21	35.699
Total current assets	**9,316.324**	13.12	10,539.074
Total assets	**9,891.822**	9.64	10,845.860
EQUITY AND LIABILITIES	-		-
Share capital and reserves	-		-
Authorized share capital	-		-
20,000,000 (2017: 20,000,000) ordinary shares of Rupees 10 each	200.000	-	200.000
Issued, subscribed and paid up share capital	0.500	-	0.500
Revenue reserve - accumulated losses	(10,795.679)	(1.04)	(10,683.137)
Loan from sponsors	-		214.153

Total equity deficit	**(10,795.179)**	**(3.03)**	**(10,468.483)**
DEPOSIT FOR SHARES	**4,033.688**	**-**	**4,033.688**
Non-current liabilities	**-**		-
Long term loans	12.917	(12.87)	11.254
Deferred liabilities - employees' benefits	2,899.068	6.29	3,081.501
Total non-current liabilities	**2,911.985**	6.21	3,092.755
Current liabilities	**-**		-
Trade and other payables	7,495.898	5.90	7,938.300
Accrued mark up on borrowings	-		2.508
Current portion of long term loans	6,134.093	0.03	6,135.755
Provision for taxation	111.337	-	111.337
Total current liabilities	**13,741.328**	3.25	14,187.900
Total liabilities	**16,653.313**	3.77	17,280.656
Contingencies and commitments	-		-
Total equity and liabilities	**9,891.822**	9.64	10,845.860

Source: Un-audited Financial Statements as at 30 June 2018.

6.2.5 Foreign exchange gain

An amount of Rs.1.174 billion was recognized in the books of account as foreign exchange gain on balance of advance given to M/s KARKEY. Advance of US$ 80 million was paid to the M/S KARKEY in terms of rental service contract. Out of this amount of US $ 9.3 million was recovered against billing of rental fees. The balance of US $ 70.7 million (2018: Rs.8,585.93 million, 2017: Rs.7,411.91 million) was to be recovered against the future billing of rental fees. The advance and other amount calculated by National Accountability Bureau US $128 million has not been recovered so far. Afterward M/S KARKEY approached International Centre for Settlement of Investment Disputes (ICSID) at Washington DC against Government of Islamic Republic of Pakistan for international arbitration. On 22 August 2017, ICSID rendered award in favour of KARKEY. Exact amount of compensation of award is still subject to mutual settlement, according to Attorney General of Pakistan. The Attorney General of Pakistan has filed an appeal for the annulment proceedings against award rendered in favour of KARKEY which is pending. The financial impact of the award of on financial results of the Company is still to be determined.

6.2.6 Non recognition of liability of markup on loan

On 09 May, 2009, the Company entered into a Syndicated Finance Agreement with National Bank of Pakistan (NBP) to obtain finance of Rs.6.40 billion. The funds have been used to make advance payment under a rental service contract to the KARKEY. The loan as repayable in 60 equal monthly installments of Rs.106.666 million commencing 31st December, 2009 and carries mark-up at one month KIBOR+ 215 basis points with no floor or cap. The date of last installment was due on 30th November 2014. However, no repayment of principle amount and mark-up has been made so far. In May 2017, the bank filed a suit against the Government of Pakistan and NTDC for recovery of Principal and markup. The Honorable High Court announced the case against the Company and converted the case into execution proceedings for recovery of Rs.7,630.634 million (Rs.6,132.68 Principal and Rs.1,497.96 million being mark-up amount). The Company had not recognized such mark-up in its financial statements.

6.2.7 Gap between Cost of generation and Sales revenues

(Rs. in million)

	2017	% age Inc/(Dec)	2018
Sales – net	1,027.715	(96.13)	39.744
Cost of sales	(1,741.420)	(95.48)	(78.799)
Gross loss	**(713.704)**	**(94.53)**	**(39.054)**

Source: Un-audited Financial Statements as at 30 June 2018.

Revenues from Sale of Electricity have decreased by 96.13% from 2017 to 2018, however the cost of electricity has also decreased at a rate of 95.48%. The revenue was not enough to meet the cost of generation resulting into gross loss in 2017 & 2018. Therefore, there is need of strict control over the cost to turn the gross loss into gross profit in coming years.

6.2.8 Increase in Salaries, wages & other benefits and Repair & maintenance cost

(Rs. in million)

	2017	% age Inc/(Dec)	2018
Salaries and Wages	72.730	796.27	651.859
Repair and Maintenance	3.546	1137.06	43.866

Source: Note 20 of Un-audited Financial Statements as at 30 June 2018.

Salaries & wages increased to Rs.651.859 million in 2018 as compared to Rs.73.730 million in 2017 showing an increase of 796.27%. Similarly repair and maintenance cost increased to Rs.43.866 million as compared to Rs.3.546 million in 2017 showing an abnormal increase of 1137.06% in 2018.

6.2.9 Vertical Trend Analysis Profit and Loss Account

A vertical analysis is used to show the relative sizes of the different accounts on a financial statement. Here while doing the vertical analysis of Profit & Loss account Sale of Electricity has been taken as 100%, and every other head of Profit & Loss account has been shown as a percentage of the total sales.

(Rs.in million)

	2017	% age of Sales	2018	% age Sales
Sales – net	1,027.715	100.00	39.744	100.00
Cost of sales	(1,741.420)	(169.45)	(78.799)	(198.27)
Gross (Loss)	**(713.704)**	**(69.45)**	**(39.054)**	**(98.26)**
Administrative and general expenses	(219.471)	(21.36)	(1,076.956)	(2,709.73)
-	(933.176)	(90.80)	(1,116.010)	(2,808.00)
Finance cost	(2.922)	(0.28)	(2.667)	(6.71)
-	(936.098)	(91.09)	(1,118.677)	(2,814.71)
Other income	30.725	2.99	1,180.961	2,971.42
Operating (Loss)/profit	(905.373)	(88.10)	62.284	156.71
Reimbursement of income tax	10.277	1.00	0.497	1.25
(Loss)/Profit before tax	(895.095)	(87.10)	62.781	157.96
Taxation	(10.277)	(1.00)	(0.497)	(1.25)
(Loss)/Profit after tax	**(905.373)**	**(88.10)**	**62.284**	**156.71**

Source: Un-audited Financial Statements as at 30 June 2018.

Vertical analysis of Profit & Loss account of GENCO-IV shows a very dismal position. Cost of sales is 169.45% of the sales in 2017 which increased to 198.27% in 2018 indicating serious inefficiencies of business of the company. Administrative and general expenses are 21.36% of sales in 2017 and 2709.73% of sales in 2018 showing abnormal increase and needs to be justified.

6.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
GENCO-IV	2016-17	1	-	-	02 (Para No. 9.2.2, 9.2.3)

Position of compliance with PAC directives is not satisfactory.

6.4 AUDIT PARAS

6.4.1 Generation loss due to closure of power plant - Rs.1,269.90 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

In GENCO-IV, the power plant remained closed as a result of fire incident occurred on July 20, 2017. Shut down of power plant resulted in generation loss of 158.74 million units amounting to Rs.1,269.90 million during the year.

Non-adherence to rules resulted in generation loss of Rs.1,269.90 million during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that after fire incident the Unit No. 2 was repaired and declared ready for commercial operations in December, 2017. However, BoD did not permit to bring it in operation. The reply was not tenable as no reasons regarding for not permitting the operation of plant was made known.

The DAC in its meeting held on December 20-21, 2018, directed the management to provide a detailed report through GENCO Holding Company (GHCL) to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1115/2018-19)

6.4.2 Loss on account of excess fuel cost component – Rs.91.29 million

NEPRA determined fuel cost component as Rs.4.6134 per unit in respect of GENCO-IV.

In GENCO-IV, Fuel Cost component of the power plant was Rs.6.3483 & Rs.5.5831 per unit during F.Y 2016-17 & 2017-18 against the NEPRA determination of Rs.4.6134 per unit. Hence, an expenditure of Rs.91.29 million was excessively incurred on account of fuel cost component, which entailed loss to the stated extent.

Non-adherence to the Fuel Cost Component determined by NEPRA resulted in loss of Rs.91.29 million on account of excess fuel cost component up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that plant was commissioned in 1995. The installation of these units was first experience of M/s DEC which faced serious problems even during its warranty period.

Availability of plant remained low and became main cause of being high generation cost. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018, directed the management to make the loss good within 15 days and get it verified. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding non observance of NEPRA's limits besides fixing responsibility.

(Draft Para No. 1071/2018-19)

6.4.3 Loss due to line losses in Lakhra residential colony - Rs.55.93 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GENCO-IV, 13.76 million units were supplied by HESCO being one point supply to Lakhra Power House residential colony during 2016-17 & 2017-18. The line losses remained at 22% & 24%, which entailed loss of 3.12 million units amounting to Rs.55.93 million. No monitoring & billing procedure existed as the residents of the colony were being billed without meters, Hence, line losses were not identified and Company sustained a recurring loss on account of line losses.

Non-adherence to Authority's instructions resulted into loss of Rs.55.93 million on account of line losses in Lakhra residential colony up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that the matter has been taken up with Ministry of Energy (Power) through GHCL Islamabad for installation of individual energy meters in the residential colony Lakhra and its metering/billing by the Distribution Company HESCO.

The DAC in its meeting held on December 20-21, 2018 directed the management to make the loss good within 15 days and get it verified. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to pursue the matter with Ministry vigorously.

(Draft Para No. 1072/2018-19)

CHAPTER-7

GENCO HOLDING COMPANY LIMITED (GHCL)

7. GENCO HOLDING COMPANY LIMITED (GHCL)

7.1 Introduction

The Government of Pakistan constituted a Holding Company having representation of reputable from private sector on its Board to accelerate the process of giving four Generation Companies (GENCOs) to the private management with a view to improving the efficiency of power sector. Accordingly GENCO holding Company was established as managing agent of the Government owned generation companies and made responsible for generating electricity efficiently and proper operations & maintenance system of the following power plant:-

i) Jamshoro Power Generation Company (GENCO-I)
ii) Central Power Generation Company (GENCO-II)
iii) Northern Power Generation Company (GENCO-III)
iv) Lakhra Power Generation Company (GENCO-IV)

7.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, "the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of financial year adopted by the company".

In GHCL, the Profit & Loss account and Balance Sheet of the company for the Financial Year 2017-18 could not be finalized by the management up till December 31, 2018.

7.3 AUDIT PARAS

7.3.1 Wasteful running expenditure on Power Plants - Rs.80.00 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GENCO Holding Company, Lahore, the total running expenditure of three (03) Power Plants was Rs.80.00 million and despite the huge expenditure, the energy Generation remained zero. Hence, the whole expenditure had gone wasted to the stated extent.

Non-adherence to the rules resulted in loss of Rs.80.00 million due to wasteful running expenditure during the Financial Year 2017-18.

The matter was taken up with the management and reported to the Ministry in December, 2018. The management replied that this para relates to GENCOs. The reply was not tenable as the GENCO Holding Company was the management company relating to all GENCOs.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite compliance to observation and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1499/2018-19)

CHAPTER-8

NATIONAL TRANSMISSION AND DESPATCH COMPANY (NTDC)

8. NATIONAL TRANSMISSION AND DESPATCH COMPANY (NTDC)

8.1 Introduction

The National Transmission and Despatch Company (NTDC) is a subsidiary of PEPCO. The Company was incorporated as a corporate entity during 1998 under Companies Ordinance 1984 (now Companies Act 2017). The principal activity of NTDC is to receive electricity from Hydel / Thermal / Nuclear Power Stations, Renewable Energy Plants and IPPs, which is transmitted to National Grid for distribution to all DISCOs and K-Electric. 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 / generation companies under PEPCO, nuclear power plant and hydroelectric plants owned and operated by WAPDA.

NEPRA granted transmission license to NTDC for a period of 30 years during December, 2002 for undertaking its obligations. NTDC was restructured into following three main tiers:

1. Transmission Network Operator (TNO)
2. System Operator (SO)
3. Contract Registrar And Power Exchange Administrator(CRPEA)

The Company operates and maintains eighteen (18) 500 KV Grid Stations and fifty (50) 220 KV grid stations along with 7,127 KM 500 KV transmission lines, and 10,129 KM 220 KV transmission lines in Pakistan.

8.2 Comments on Financial Statements

In NTDC, the Profit & Loss account and Balance Sheet of the company for the Financial Year 2017-18 was qualified by Independent Auditors on the basis of following:

a) Evidence related to Sales tax refundable of Rs.3,060 million in respect of purchase and sale of electricity was not provided to auditor. Further, management has not recorded impairment in these financial statements in respect of this balance. Had this impairment been recorded, profit and other comprehensive income would have been lower by Rs.3,060 million and sales tax refundable and un-appropriated profit would have been lower by Rs.3,060 million.

b) The Company had not made provision for tax in its financial statements for financial year 2014 and 2015 on minimum tax under section 113 of Income Tax Ordinance, 2001 till tax year. Had provision for minimum tax been made in prior years, financial statements based on gross turnover, tax provision would have been higher by Rs.15,668 million and un-appropriated profits would have been lower by Rs.15,668 million.

c) The Company has not established a Workers' Profit participation Fund (WPPF) under the Companies Profit (Workers Participation) Act, 1968 and also related provision has not been recognized in these financial statements. Had the Company accounted for the provision of WPPF for the year 2012-2018 in which the Company has earned profits, profit for the year would have been lower by Rs.943 million, liabilities would have been higher by Rs.8,248 million and un-appropriated profit would have been lower by Rs.8,248 million.

Further in the audit opinion, auditor emphasis the following matters:

The property and rights of certain assets were transferred on March 01, 1999 by WAPDA in accordance with the terms and conditions of the Business Transfer Agreement and Supplementary Business Transfer Agreement. However, titles of such freehold land and vehicles have not been transferred in the name of the company in land revenue records and vehicle registration authorities respectively.

8.2.1 Objective of Financial Analysis

The objective of analysis of NTDC financial statements is basically to assess the financial health of the Company to bear its operational costs. For this purpose the horizontal and vertical trend analysis of Company's financial statements for the year 2017-18 have been conducted. Critical factors affecting the financial statements have also been highlighted.

8.2.2 Horizontal Analysis of Financial Statement

Horizontal analysis (also known as trend analysis) is a financial statement analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time. The statements for two or more periods are used in horizontal analysis.

8.2.3 Profit and Loss Account
For the year ended June 30, 2018

(Rs. in billions)

	2017	%age Inc/(Dec)	2018
Use of system / wheeling charges	31.326	17.30	36.744
Operating Expenses	16.166	6.03	17.141
Finance costs	1.259	263.38	4.575
	17.425	**24.63**	**21.716**
Other income	1.532	(36.75)	0.969
Profit before tax for the year	15.432	3.66	15.997
Taxation:			
-Current year	0.215	(100)	-
-Prior year	-	-	0.157
-Deferred	4.632	(76.17)	1.104
	4.847	**(73.98)**	**1.261**
Profit after tax for the year	**10.585**	**39.22**	**14.736**

Source: Audited Financial Statements as at 30 June 2018.

8.2.4 Balance Sheet as at June 30, 2018

(Rs. in billions)

	2017	% age Inc/(Dec)	2018
ASSETS			
Non-current assets			
Property, plant and equipment	215.810	16.46	251.341
Long-term loans and advances	0.756	19.97	0.907
Long-term prepayment	0.062	(8.06)	0.057
Long-term deposits	0.008	(87.50)	0.001
	216.636	16.47	**252.306**
Current assets			
Current portion of long-term loans and advance	0.084	19.05	0.100
Stores, spares and loose tools	17.191	(2.50)	16.761
Trade debts	31.925	23.54	39.440
Advances and other receivables	36.996	17.53	43.483
Accrued mark up	-	-	0.006
Cash and bank balances	7.412	12.25	8.32
	93.608	15.49	**108.11**
TOTAL ASSETS	**310.244**	16.17	**360.416**
EQUITY AND LIABILITIES			
Share capital and Reserves			
Authorized capital			
6,000,000,000 (2017:6,000,000,000) ordinary shares of Rupees 10/- each	60	-	60
Issued, subscribed and paid-up capital	52.7	-	52.7
Un appropriated profit	49.673	25.09	62.138
	102.373	**12.18**	**114.838**
Shares deposit money	**7.163**	**-**	**7.163**
Non-current liabilities			
Non note payable to CPPA-G	33.662	-	33.662
Long-term loans and financing	58.605	28.18	75.118
Deferred liabilities	36.054	14.51	41.287
Deferred taxation	9.774	1.81	9.951
Deferred credit	5.22	(1.59)	5.137
Current liabilities			

Trade and other payables	27.87	(1.84)	27.356
Accrued mark up	13.551	62.00	21.953
Current portion of long-term loans	15.972	49.96	23.951
	57.393	**27.65**	**73.26**
TOTAL EQUITY AND LIABILITIES	**310.244**	**16.17**	**360.416**

Source: Audited Financial Statements as at 30 June 2018.

8.2.5 Heavy cost of Salaries, wages & other Benefits

(*Rs.in billion*)

	2017 (Rs.)	**%age of Total OPEX 2017**	**2018 (Rs.)**	**%age of Total OPEX 2018**
Salaries, wages and other benefits	9.208	95.10	9.721	94.54
Other Operating Cost	0.474	4.90	0.561	5.46
Total Operating Cost excluding Depreciation	**9.682**	**100.00**	**10.282**	**100.00**

Source: Note 24 of Audited Financial Statements as at 30 June 2018.

Operating expenses showed increasing trend in year to year comparison. Major operating expenses are salaries & wages which are 95.10% and 94.54% of total Operating Expenses excluding Depreciation for 2017 and 2018 respectively whereas other operating expenses remained 4.90% and 5.46% during the year 2017 and 2018 respectively. There is need to rationalize its human resources.

8.2.6 Heavy Funds stuck in Trade debts

Trade Debts against use of system charges has increased to Rs 39.440 billion in 2018 as compared to Rs 31.925 billion in 2017, showing 23.54% increased from 2017 to 2018. Total trade debt is representing receivable from CPPA-G on account of use of company's transmission network used by the power generation and distribution companies.

8.2.7 Store, Spare parts and loose tools

Figure of store, spare parts and loose tools has decreased to Rs.16.886 billion in 2018 as compared to Rs.17.316 billion in 2017, showing 2.50% decrease from 2017 to 2018. The major decrease is mainly due to impairment/provision for slow moving and obsolete items of Rs.0.125 billion during financial year 2017 and 2018.

PEPCO directed to transfer seven warehouses from the Company to DISCOs in 2007 which have been transferred to DISCOs by the Company. However, certain material items are lying at transferred warehouse amounting to Rs.208.20 million (2017 Rs.210.36 million) owned by the Company.

8.2.8 Loans for Power Transmission and enhancement Project

The management of NTDC has obtained huge amount of long term loans through Government of Pakistan from Asian Development Bank (ADB), Japan

International Corporation Agency and World Bank. In June 2018 total amount of long term loan, including current liability portion, was Rs.99.068 billion as compared to Rs.74.577 billion in June 2017. Due to increase in loan, the finance cost increased from Rs.1.259 billion in 2017 to Rs.4.575 billion in 2018, showing 263.38 % increase.

8.2.9 Vertical Analysis of Profit and Loss account

A vertical analysis is used to show the relative sizes of the different accounts on a financial statement. Here while doing the vertical analysis of Profit & Loss account Sale of Electricity has been taken as 100%, and every other head of Profit & Loss account has been shown as a percentage of the total sales number.

(Rs.in billion)

	2017	% age	2018	% age
Use of system / wheeling charges	31.33	100.00	36.74	100.00
Operating Expenses	16.17	51.61	17.14	46.65
Finance costs	1.26	4.02	4.58	12.45
	(17.43)	(55.63)	(21.72)	(59.10)
Other income	1.53	4.89	0.97	2.64
Profit before tax for the year	15.43	49.26	16.00	43.55
Taxation:		-		-
-Current year	0.22	0.69	-	-
-Prior year	-	-	0.16	0.43
-Deferred	4.63	14.79	1.10	3.00
	4.85	15.47	1.26	3.43
Profit after tax for the year	**10.59**	**33.79**	**14.74**	**40.10**

Source: Audited Financial Statements as at 30 June 2018.

Vertical analysis of Profit & Loss account of NTDC shows good position. Operating expenses are 51.61% of the sales in 2017 and 46.65% in 2018 which indicates marginal improvement in operational efficiencies.

8.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
NTDC	2016-17	1	**01** (Para No. 10.4.3)	**12** (Para No. 4.1.2, 4.1.11, 4.1.13, 4.1.15, 4.1.17 to 4.1.20, 4.1.24, 4.1.25, 4.1.26, 4.1.28)	**01** (Para No. 10.4.7)

Position of compliance with PAC directives is not satisfactory.

8.4 AUDIT PARAS

8.4.1 Loss due to time barred GST refund claims - Rs.4,109.16 million

As per Section-10(1) of Sales Tax Act 1990 (Refund of input tax), "If the input tax paid by a registered person on taxable purchases 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 such manner and subject to such conditions as the Board may, by notification in the official Gazette specify".

In NTDC Lahore, GST refund claims of Rs.4,109.16 million were not claimed from FBR and became time barred, which caused loss to the Company.

Non-adherence to the Sales Tax Act resulted in loss of Rs.4,109.16 million due to time barred GST refund claims up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that once clarification was received from FBR an application would be filed for condoning time barred cases as admissible GST input in monthly sales tax return. The reply was not tenable as no reasons regarding abnormal delay in submission of the refund claims of GST was given.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the process and get clarification from FBR within shortest possible time and produce it to Audit for verification. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding abnormal delay in submission of the refund claims of GST.

(Draft Para No. 1196/2018-19)

8.4.2 Loss due to cost overrun of mega projects - Rs.2,034.01 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject 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 Lahore, a huge loss amounting to Rs.2,034.01 million was sustained by the Company due to delay and cost overrun in 11 mega projects. These mega projects were of national importance. All out efforts were required for timely completion of such projects to save extra burden on public exchequer. The detail of 11 mega projects is as under:-

(Rs. in million)

Sr. No.	Name of Project	Cost Overrun
1	Construction of 220 KV Grid Station, Manshera	55.93
2	Augmentation at 220 KV Grid Station, Bhuran	157.41
3	Additional work of 1 x 160 MVA T/F at 220 KV Grid Station, KSK	0.71
4	Additional work of 1 x 160 MVA T/F at 500 KV Grid Station, Sheikhupura	84.19
5	Augmentation of 220 KV Grid Station Ghazi Road, Lahore	25.92
6	220 KV Grid Station, Chishtian	1,393.92
7	Works for Extension at 500 KV Mangla Power House Grid Station	16.59
8	220 KV Grid Station Bannu Works (Extension Work)	37.64
9	Augmentation Work at 220 KV Grid Station, Burhan	26.57
10	Extension of 500 / 220 KV Substation at Rewat	30.25
11	500 KV Grid Station Sheikhupura (Extension)	204.88
	TOTAL	**2,034.01**

Non-adherence to the authority's instructions resulted in loss due to cost overrun Rs.2,034.01 million up to the financial year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in November, 2018. The management replied that the delay was beyond the control of NTDC as clearance of right of way and NOC from different Government Departments was required to execute the work. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit the document in support of stance for detail verification within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expedite the pending action with respective departments to avoid further time overrun besides fixing responsibility.

(Draft Para No. 470/2018-19)

8.4.3 Irregular reimbursement of duties and taxes to contractor without Consultant's verification – Rs.1,257.29 million

According to Clause A-1.2 of Appendix-A of Engineering and Consultancy Contract with NESPAK for New Lahore Grid Station and Allied Transmission Line, the Consultant was responsible for verification of Contractor's invoices, processing of Contractor's claim for EOT and cost compensation etc.

In EHV-I NTDC Lahore, reimbursement of custom duties and taxes amounting to Rs.1,257.29 million was made to the contractor i.e. M/s CCPG Central China Power Grid International and Trade Co. Ltd. without verification of Consultant (NESPAK).

Non-adherence to the Consultancy Contract provision resulted in irregular reimbursement of Rs.1,257.29 million on account of duties and taxes to contractor without verification of Consultant up to the Financial Year 2017-18.

The matter was taken up with the management in March, 2018 and reported to the Ministry in September, 2018. The management replied that verification of duties and taxes did not fall under the scope of the consultants. Original payment challan were provided by the contractor against the reimbursement. Therefore, the claim of reimbursement of duties and taxes was not verified by the consultant. The reply was not tenable as verification of consultant was required under provision of agreement.

The DAC in its meeting held on December 20-21, 2018 directed the management to get stance verified from Audit 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 regarding irregular reimbursement of Contractor’s claims without Consultant’s verification.

(Draft Para No. 39/2018-19)

8.4.4 Loss due to non-receipt of material issued on loan basis - Rs.815.06 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

In NTDC Warehouses, material valuing Rs.815.06 million was issued on loan basis to different projects since 2013 but neither the payment was received nor material returned to concerned warehouses. The material was procured exclusively for specific projects under ADB, IPP, grant / loan / PSDP portion. Non-return of material given on loan basis could badly affect the completion of these projects.

Non-adherence to above rule resulted in loss of Rs.815.06 million due to non-receipt of material issued on loan basis up to financial year 2017-18.

The matter was taken up with the management in February, 2018 and reported to the Ministry in November, 2018. The management replied that the Chief Engineer Design was competent to manage the issuance / allocation of material on loan basis depending upon urgency of the project and arrange return of the same from receiving NTDC formation. Hence no irregularity had been committed in issuance of material. The reply was not acceptable as justification for urgency of the project was not provided.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit detail of return material issued on loan basis for verification within a week and responsibility be fixed for non return of material. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expedite the return of material besides fixing responsibility.

(Draft Para No. 809/2018-19)

8.4.5 Irregular expenditure due to contractual mismanagement / negligence - Rs.812.35 million

According to Section-4.5 of Book of Financial Powers 2007 (NTDC), "variation / change orders in original contract / work orders would be exercise where Chief Executive Officer can approve up to maximum 25% of total amount of original contract / work order".

In MP&M NTDC Lahore, various items of BoQ were excess measured / claimed. The quantities of some items of BoQ paid were abnormally increased ranging from 14% to 793% against original estimated quantities. Payment of Rs.812.35 million due to excess execution of items of BoQ was unjustified and irregular.

Non-adherence to rules resulted in irregular expenditure amounting to Rs.812.35 million due to contractual mismanagement and negligence up to Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in November, 2018. The management replied that the quantities given in the bill of quantities were the quantities as per actual work done measured by the Project Manager. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 did not agree with the stance and directed the management to submit the revised reply alongwith documentary evidence through PEPCO. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 548/2018-19)

8.4.6 Irregular expenditure over and above contract provision – Rs.368.82 million

According to Rule-10 of the GFR, "every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money."

In EHV-I NTDC Lahore, an expenditure of Rs.368.82 million was incurred over and above the contract provision. The contract for survey of tower staking, foundation, erection, stringing, testing and commissioning of 220 KV D/B NKLP-Sarfraz Nagar transmission line in / out at 220 KV Ghazi Road Grid Station was awarded to M/s Potential Engineering (Pvt.) Ltd., Lahore at contract price of Rs.549.89 million. The expenditure of Rs.918.71 million was made on the said contract which was 67.07% above the contract price. Incurrence of expenditure over and above the contract provision was irregular.

Non-adherence to general financial rules resulted in irregular expenditure of Rs.368.82 million over and above contract provision up to the Financial Year 2017-18.

The matter was taken up with the management in January, 2018 and reported to the Ministry in November, 2018. The management replied that transmission line re-routed along the canal due to right of way problem. Therefore, variation was made in the contract. The reply was not acceptable as justification regarding wrong feasibility of the work was not provided.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit Technical Report through PEPCO to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding wrong feasibility of the work.

(Draft Para No. 887/2018-19)

8.4.7 Irregular recording of material into books of accounts - Rs.340.66 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In NTDC Warehouses, two (02) Power Transformers of 250MVA&10/13MVA valuing Rs.340.66 million was recorded in the stock account of June, 2017. But the power transformers were not physically present in the warehouse. Moreover, material amounting Rs.15.05 million was also not taken into accounts and issued without any gate pass, which created doubt about the issuance of material and chances of misappropriation could not be ruled out.

Non-adherence to above rule resulted into irregular recording of material in books of accounts of Rs.340.66 million up to Financial Year 2017-18.

The matter was taken up with the management in February, 2018 and reported to the Ministry in November, 2018. The management replied that receipt of material and issuance process had been completed as per SOP in the light of direction from the Chief Engineer (Design) NTDC as such no irregularity committed. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce all relevant documents for verification and necessary SOP be approved from PEPCO for such type of transactions within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 829/2018-19)

8.4.8 Irregular approval of variation orders beyond financial limit - Rs.328.35 million

According to Book of Financial Powers of NTDC, Chief Executive Officer is competent to approve variation / change orders in original contract / work order up to maximum of 25% of total amount of original contract price.

In NTDC, two contracts valuing Rs.1,110.49 million (Rs.324.08 million + Rs. 786.41) for execution of civil works, erection, testing & commissioning of 220 kV AIS Grid Station at Jhimpir and construction of 46 KM 500 KV double circuit quad bundled Neelum Jhelum to Domei transmission line were awarded to the contractors. Subsequently, cost of both the contracts / projects was enhanced to Rs.1,438.84 million (Rs.430.73 million + Rs.1,008.10 million) respectively, which was beyond the 25% of original contract price. Hence, approval of variation orders amounting to Rs.328.35 million (Rs.1,438.84 million – Rs.1,110.49 million) beyond the permissible financial limit, was irregular.

Non-adherence to the NTDC Book of Financial Powers resulted in irregular approval of variation orders amounting to Rs.328.35 million beyond the financial limit up to the Financial Year 2017-18.

The matter was taken up the management in April, 2018 and reported to the Ministry in December, 2018. The management replied that amendments were within the limit of 30% and fell within the competency of MD NTDC. The reply was not agreed to as the MD was competent to approve variation up to 25%.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide the record for verification to Audit within a week. No progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1338 & 1347/2018-19)

8.4.9 Irregular increase in contract price - Rs.205.94 million

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

In EHV-II NTDC Hyderabad, a contract amounting to Rs.723.47 million was made for construction of transmission line. However, an amount of Rs.929.41 million was paid with an increase of Rs.205.94 million to the contractor in excess of contract price.

Non-adherence to rules resulted in increase in contract price amounting to Rs.205.94 million up to the financial year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that the quantities given in the bill of quantities were the quantities as per actual work done measured by the Project Manager. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 did not agree with the stance and directed the management to submit the revised reply alongwith documentary evidence through PEPCO. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 691/2018-19)

8.4.10 Non-deduction on account of price adjustment - Rs.201.24 million

As per general condition of contract, the price adjustment against revised rates of steel / aluminum (US$) was made at prevailing (60) days prior to the shipment (i.e. 60 days prior to the date of bill of lading).

In EHV-II NTDC Multan, a contract regarding procurement of plant, design, supply, installation, testing & commissioning of 500 KV transmission line was awarded to M/s TBEA Company Limited Lahore. The de-escalation of CN¥ 10.54 million was worked out based on the revised rates of 60 days prior to shipment (i.e. 60 days prior to the date of bill of lading) against invoice No.001 to 012 dated October 30, 2017 (Schedule No. 1 -Plant & Equipment). Contrary to this, deduction of de-escalation on account plant & equipment was not made up-till now by the management. Hence, NTDC management sustained a loss of Rs.201.24 million due to non-deduction of price adjustment.

Non-adherence to the condition of contract clause resulted into non-deduction / recovery of Rs.201.24 million during the year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in December, 2018. The management replied that there was dispute in calculation regarding de-escalation. As soon as it was finalized recovery would be made from the pending claim of the contractor.

The DAC in its meeting held on December 20-21, 2018 directed the management to effect recovery and got verified from Audit within a week. Further progress was not reported till finalization of the report.

Audit recommends for expeditious recovery from contractor besides fixing responsibility.

(Draft Para No. 1477/2018-19)

8.4.11 Irregular award of variation order at exorbitant rates - Rs.195.05 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In MP&M NTDC Lahore, a contract valuing Rs.786.41 million for Construction of "46 KM 500 KV double circuit quad bundled Neelum Jhelum to Domei Transmission Line" was awarded to M/s Power line Construction Company. Due to increase in the length of the Transmission Line from 45 KM to 45.86 KM a variation order amounting to Rs.195.05 million was issued. Only 0.86 KM length of T/L was increased whereas cost of the work was enhanced to 24.80%, which indicated that the variation order was awarded at exorbitant rates. Moreover, the route and length of the transmission line was amended through the said V.O but the design, vetting of the consultant and field condition / data was not provided. In addition, the investigation regarding selection of the right edge of the river Jhelum at bidding stage was not forthcoming from the record as pointed out by Manager Civil (NTDC).

Non-adherence to the Authority's instructions resulted in irregular award of variation order amounting to Rs.195.05 million at exorbitant rates up to the Financial Year 2017-18.

The matter was taken up the management in April, 2018 and reported to the Ministry in December, 2018. The management replied that comprehensive reply would be submitted after consultation with the NESPAK.

The DAC in its meeting held on December 20-21, 2018 directed the management to initiate inquiry at PEPCO level within a month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1360/2018-19)

8.4.12 Blockage of funds lying in bank account - Rs.138.28 million

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

In MP&M NTDC Lahore, an amount of Rs.138.28 million was appearing in account head 17-03-03-000 with the name of Bank Account Norway since June, 2017. This resulted into blockage of funds valuing Rs.138.28 million.

Non-adherence to the Government rules resulted in blockage of funds for Rs.138.28 million up to the Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in November, 2018. The management replied that the matter was taken up for change of authorization in name titled as "Chief Engineer (MP&M) NTDC" and process for procurement of material would be started. The reply was not tenable as the material was not procured and funds were not utilized timely.

The DAC in its meeting held on December 20-21, 2018 did not agree with the stance and directed the management to initiate inquiry at Ministry level within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 551/2018-19)

8.4.13 Non-fixation of responsibility for incomplete material - Rs.77.86 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In NTDC Warehouses, material valuing Rs.77.86 million related to grid stations was incomplete in warehouse premises. However, no departmental action was finalized to fix responsibility and making the loss good of the Company.

Non-adherence to rules resulted in non-fixation of responsibility for incomplete material valuing Rs.77.86 million up to the financial year 2017-18.

The matter was taken up with management in February, 2018 and reported to the Ministry in November, 2018. The management replied that the matter was subjudice in the court. However, further progress in the matter would be informed to Audit in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to follow the case expeditiously and inform Audit accordingly. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 833/2018-19)

8.4.14 Irregular increase in the estimate for the construction of boundary wall - Rs.57.28 million

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

In EHV-I NTDC Lahore, an estimate of construction of boundary wall at 500 KV grid station was prepared for Rs.30.22 million. The tender was called for and only one bidder participated and offered bid for Rs.42.25 million which was 39.83% above the estimated cost. The bidder offered 12% rebate with new bid price of Rs.37.18 million. However, the bid was scrapped being of higher rates. Subsequently, the estimate for the same work was revised and approved for Rs.57.28 million which was 89.55% higher than the previous sanctioned estimates.

Non-adherence to the rules resulted in irregular increase in estimate for the construction of boundary wall amounting to Rs.57.28 million up to the Financial Year 2017-18.

The matter was taken up with the management in January, 2018 and reported to the Ministry in November, 2018. The management replied that estimated cost was increased due to change in design/drawings of boundary wall and after open tendering work was awarded to lowest bidder who was 20.07% below than estimated cost. The reply was not tenable as construction of boundary wall must had been based upon well consider drawings / technical sanction.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the original design, revised design, comparative statement of subsequent tender and drawings for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 835/2018-19)

8.4.15 Unjustified storage/placement of unutilized material - Rs.56.12 million

As per Executive Order No.CEO/PEPCO/Admn:466-A/2219-2247 dated July 17, 2007, the NTDC Warehouses are hereby transferred to respective DISCOs along with the material as per list attached with effect from July 01, 2007 with the conditions that the material including spares which are no longer required by NTDC may be offered to DISCOs during the proposed one year transitional period against cash payment to the price based on prevailing store issue rates.

In NTDC Warehouses, material valuing Rs.56.12 million was unutilized in NTDC system, lying in warehouse since 2008. Despite lapse of more than 10 years no efforts were made by the management in compliance with the directions of Authority for transfer or to dispose off material which resulted into unjustified storage / blockage of material in warehouses.

Non-adherence to Authority's instructions resulted unjustified storage of unutilized material amounting to Rs.56.12 million up to the Financial Year 2017-18.

The matter was taken up with management during February, 2018 and reported to the Ministry in November, 2018. The management replied that revised reply would be submitted to Audit in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the PEPCO to intervene and ensure the transfer to store to distribution companies within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 894/2018-19)

8.4.16 Undue financial benefit to Contractor - Rs.53.42 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982

(amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject 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 Islamabad, a contract valuing Rs.106.83 million for construction of 132 KV D/C Transmission Line Patrind Power House to Mansehra was awarded to M/s Mecons Pvt. Ltd. The expenditure incurred on the said project was in excess of more than 50% of BoQ. The expenditure of Rs.53.42 million was incurred without approval of revised BoQ from competent authority. Moreover, most of the work was executed on the instructions of site Engineer.

Non-adherence to Authority's instructions resulted in undue financial benefits of Rs.53.42 million to the Contractor during the Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in November, 2018. The management replied that transmission line was re-routed along the canal due to right of way problem. Therefore, variation was made in the contract. The reply was not agreed as justification for wrong feasibility of work was not provided.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit detail report through Ministry of Power within a month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 956/2018-19)

8.4.17 Non-recovery / adjustment of the cost of material from contractor - Rs.47.75 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In MP&M NTDC Lahore, additional material valuing Rs.47.75 million was issued to the Contractor i.e. M/s Power Line Construction Company in respect of construction of "46 KM 500 KV Double Circuit Quad bundled Neelum Jhelum to Domei Transmission Line". However, neither the cost of the material was recovered nor adjusted from the invoices despite the fact that a termination notice had been served upon the said contractor due to non-completion of work within stipulated time.

Non-adherence to the instructions resulted in non-recovery / adjustment of cost of material amounting to Rs.47.75 million from contractor up to the Financial Year 2017-18.

The matter was taken up with the management in April, 2018 and reported to the Ministry in December, 2018. The management replied that reconciliation of the material against contract had not been finalized. However, case of blacklisting was under process. After receipt of decision from NTDC Right Protection Committee, the payment would be made. The reply was not agreed as the material cost was not received from the contractor.

The DAC in its meeting held on December 20-21, 2018 directed the management to inquire the matter at PEPCO level. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to effect cost of material from the contractor besides fixing responsibility.

(Draft Para No. 1340/2018-19)

8.4.18 Loss due to short supply of material - Rs.45.89 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In NTDC Warehouses, short supply of material valuing Rs.45.89 million was received against a contract awarded for the supply of disconnections in 2010. The short supply was not recovered from the contractor. Resultantly, loss sustained by the Company.

Non-adherence to rules resulted in short supply of material amounting to Rs.45.89 million up to the Financial Year 2017-18.

The matter was taken up with management in February, 2018 and reported to the Ministry in November, 2018. The management replied that the material was received in NTDC warehouse Multan. However, shortage of material was taken up with the supplier through Chief Engineer (MP&M). The reply was not tenable as no action under the contractual obligation was taken against the contractor.

The DAC in its meeting held on December 20-21, 2018 directed the management to penalize the contractor as per contract agreement and produce record for verification to Audit within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 812/2018-19)

8.4.19 Contract appointments at exorbitant rates - Rs.36.06 million

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

In NTDC Lahore, eight (08) officers were appointed on lump sum pay package at exorbitant rates for a period of three years along with other facilities comprising company maintained vehicles with POL & repair, comprehensive health insurance, gratuity upon separation from the company and TA / DA etc. An expenditure of Rs.36.06 million was incurred on account of salaries other than additional benefits.

Non-adherence to canons of financial propriety and probity resulted in contract appointments at exorbitant rates and payment of salary of Rs.36.06 million thereof up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that matter had already been taken up with the Ministry of Finance through Ministry of Energy for obtaining concurrence. The reply was not agreed as outcome of Ministry of Finance advice was not shared with Audit.

The DAC in its meeting held on December 20-21, 2018 directed the management to get concurrence of the Finance Division without further delay in order to resolve the issue. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1401/2018-19)

8.4.20 Blockage of funds due to un-necessary retention of money with District Treasury - Rs.35.97 million

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

In EHV-I NTDC Lahore, an amount of Rs.35.97 million was deposited with the District Treasury for cost of land of different Grid Stations. But the said funds remained undisbursed since two (2) to nine (9) years. This resulted into blockage of funds valuing Rs.35.97 million.

Non-adherence to the Government rules resulted in blockage of funds for Rs.35.97 million due to unnecessary retention of money with District Treasury up to the Financial Year 2017-18.

The matter was taken up with the management in November, 2017 and reported to the Ministry in August, 2018. The management replied that most of the payment had been disbursed to the concerned land owners. However, minor amount was lying undisbursed which would be paid to land owners.

The DAC in its meeting held on December 20-21, 2018 directed the management to take up the matter with Finance Department for receipt of retention money. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 11/2018-19)

8.4.21 Sub-standard procurement and installation of CCTV cameras - Rs.34.38 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In NTDC Warehouses, ten (10) CCTV cameras for security of biggest warehouse of NTDC were procured amounting to Rs.34.38 million in 2015. Out of ten, six (06) cameras became defective during warranty period, but no efforts were made for replacement of defective cameras from the suppliers. Moreover, frequent malfunction of cameras not only increased the threat to loss/theft of materials in warehouse but also showed defective procurement and installation of CCTV cameras.

Non-adherence to rules resulted in substandard procurement of CCTV cameras amounting to Rs.34.38 million up to the Financial Year 2017-18.

The matter was taken up with the management in February, 2018 and reported to the Ministry in November, 2018. The management replied that matter had already been taken with the contractor to rectify the faulty cameras. However, further progress in this regard will be communicated to Audit accordingly. The reply was not agreed to as no action was taken against supplier for supply of defective cameras as per contractual obligation.

The DAC in its meeting held on December 20-21, 2018 directed the management to replace the defective cameras at the cost of supplier and got verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 815/2018-19)

8.4.22 Irregular refund of liquidity damages deducted - Rs.31.36 million

As per General Condition of Contract Clause-27.1 Section-VIII SCC, "The liquidated damage shall be 0.05 % of the Total Contract Price per day or part thereof. The maximum amount of liquidated damages hall be ten percent (10%) of the Contract Price.

In MP&M NTDC Lahore, an amount of Rs.31.36 million was refunded to the contractors on account of Liquidity Damages already deducted in different invoices due to delay in completion of contracts. The company released such amount of liquidity damages in favour of contractors after issuing unauthorized extension of time to these contractors. It was also added that no one was competent authority to waive off the Liquidity Damages imposed by management as result of default by contractor either in Contract clauses or in book of financial power 2007 of NTDC.

Non-adherence to the contract clauses resulted in irregular refund of liquidity damages amounting to Rs.31.36 million during the Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in November, 2018. The management replied that Managing

Director NTDC Lahore had granted approval for non-deduction of LD charges from the running / progressive invoices of the contractors up to December 31, 2017. In addition to the above 10% retention money is also available with the management to adjust the recoverable LD charges in case EoT was not granted to the contractor. The reply was not acceptable as the approval for non-deduction of LD by MD NTDC was not justified.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter at appropriate level besides fixing responsibility.

(Draft Para No. 554/2018-19)

8.4.23 Unjustified payment to consultant - Rs.31.23 million

The contract for Engineering consultancy services for New Lahore 500 KV substation and associated transmission lines (Lot-I) was made with M/s NESPAK on October 07, 2010 effective for July 02, 2010 when the consultant commenced services.

In EHV-I NTDC Lahore, a consultancy agreement for preparation of bidding documents was awarded to M/s NESPAK. The consultant did not succeed to complete the agreement within time lines set for the same. In this way project delayed for one and half year. Hence, the payment of Rs.31.23 million on account of consultancy charges for a period of one and half year stood unjustified and irregular.

Non-adherence to the rules/regulation of Authority resulted in undue and unjustified payment to consultant-Rs.31.23 million during the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that the project was still in progress and expected to be completed within current financial year. The reply was not tenable as no action was taken against the consultant for abnormal delay as per agreement.

The DAC in its meeting held on December 20-21, 2018 directed the management to get verified the extension of consultancy agreement alongwith

Job description within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 242/2018-19)

8.4.24 Non-recovery of cost of work executed at the risk & cost of the defaulted contractor -Rs.26.64 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In MP&M NTDC, Lahore, a contract valuing Rs.786.41 million for construction of 46 KM 500 KV double circuit quad bundled Neelum Jhelum to Domei transmission line was awarded to M/s Power line Construction Company, which was subsequently enhanced to Rs.981.65 million. However, due to his failure in completion of work, the remaining work was awarded to M/s MREC at the cost of Rs.26.64 million. Since, the remaining work was got completed at the risk & cost of the defaulted contractor, but the amount of Rs.26.64 million was not recovered from him.

Non-adherence to the instructions resulted in non-recovery of Rs.26.64 million from defaulted contractor on account of work done at his risk & cost during the Financial Year 2017-18.

The matter was taken up the management in April, 2018 and reported to the Ministry in December, 2018. The management replied that the case of blacklisting was under process with Right Protection Committee. However, retention money equal to 10% of the contract price was lying pending and action would be taken accordingly. The reply was not agreed as due retention money and performance guarantee were not forfeited.

The DAC in its meeting held on December 20-21, 2018 did not agree with the view point of management and directed to effect recovery within a week and record to be produced to Audit for verification. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 1344/2018-19)

8.4.25 Loss due to collapsing of 500 KV towers - Rs.25.20 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In NTDC Lahore, fourteen (14) 500 KV towers at Dadu-Guddu circuit were completely collapsed near Phulji, Pepri Goth, District Dadu and an expenditure of Rs.25.20 million was incurred on rehabilitation work. It was reported that the above towers were collapsed due to wind storm, snow and rain fall whereas snow falling was never witnessed in Dadu district. No departmental inquiry was conducted to ascertain the causes of collapsing of towers for fixing the responsibility. Hence, the expenditure of Rs.25.20 million incurred on rehabilitation was irregular.

Non-adherence to the Authority's instructions resulted in loss of Rs.25.20 million due to collapsing of 500 KV towers during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that inquiry had been constituted to probe into the cause of loss and fact finding report would be submit the report in due course of time. The reply was not agreed as no inquiry report was submitted up-till now.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce inquiry report and share outcome of inquiry with Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expedite inquiry proceeding besides fixing responsibility.

(Draft Para No. 1198/2018-19)

8.4.26 Loss on account of payment of salary to Ex-MD NTDC after termination of services - Rs.20.40 million

According to Clause-10.1(iv) of Employment / Service Agreement, "company shall have the right to terminate the Employment or this Agreement with the Employee with or without cause at any time by giving Notice of Termination. For purposes of agreement, cause shall mean: gross omission, gross dereliction, gross negligence, or breach of any duty of loyalty to the Company".

In NTDC Lahore, a payment of Rs.20.40 million equal to 12 months salaries was made to Mr. Fiaz Choudary, Ex M.D NTDC without any reason after termination of his services under Clause-10.3 of service agreement. It was learnt that his services were terminated on account of bad governance and wrong practices. An inquiry was being conducted against him and others by National Accountability Bureau (NAB). Had the services of Ex-MD been terminated under Clause-10.1of service contract instead of Clause-10.3, payment of salary could have been saved. Hence, termination of services under wrong clause resulted into loss of Rs.20.40 million.

Non-adherence to Clause of Employment / Service Agreement resulted in loss of Rs.20.40 million on account of payment of salary to Ex-MD NTDC up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that payment was made to Ex-MD in strict adherence to the term of employment of the contract. The reply was not tenable as Ex. MD was required to be terminated as per Clause-10.1 of Service Contract in the light of finding of inquiry committee without salary of one year.

The DAC in its meeting held on December 20-21, 2018 directed the management to effect recovery from the Ex-MD. Further progress was not reported till finalization of the report.

Audit emphasizes for expeditious recovery from Ex-Officer besides fixing responsibility.

(Draft Para No. 1197/2018-19)

8.4.27 Recoverable amount of excess deposited compulsory land acquisition charges - Rs.19.15 million

As per judgment of the Supreme Court of Pakistan in appeal No.2015 SCMR 28 (Section-17) published in Supreme Court monthly review volume XLVIII, “It is clear and obvious from a bare reading of section 23(2) of the Land Acquisition Act 1894 which reveals that the purpose for which the land is acquired, is the determining factor for ascertaining compulsory acquisition charges. If the purpose is a public in nature, then such compulsory acquisition charges will be payable at the rate of 15% even if, such acquisition is for a company”.

In EHV-I NTDC Lahore, an amount of Rs.239.375 million (Rs.191.50 million + Rs.47.875 million) on account of cost of land and compulsory acquisition charges was paid to Land Acquisition Collector Chakwal for acquisition of land for construction of 500 KV Grid Station New Chakwal. The said amount included cost of compulsory acquisition charges @ 25% amounting Rs.47.875million whereas the same were required to be paid @ 15% i.e. Rs.28.725 million. Resultantly an amount of Rs.19.15 million was excess paid to the Land Acquisition Collector.

Non-adherence to the judgment of Supreme Court of Pakistan resulted in excess payment of Rs.19.15 million on account of compulsory acquisition charges up to the Financial Year 2017-18.

The matter was taken up with the management in November, 2017 and reported to the Ministry in July, 2018. The management replied that NTDC was making efforts in the case and persuading the Addl. District Collector Chakwal to re-assess the compulsory acquisition charges @15% instead of 25%. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to take up the matter with Revenue Authority for recovery of excess in compensation of 25%. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding excess compensation besides fixing responsibility.

(Draft Para No. 10/2018-19)

8.4.28 Loss due to abnormal T&T losses beyond the targets of NEPRA - Rs.15.73 million

NEPRA prescribed the target of T&T losses @2.8% in NTDC for the financial year 2017-18.

In GSO NTDC Multan, 1.573 Mkwh units were lost beyond the target of 2.8% set by NEPRA at 220KV Grid station Multan. Resultantly, a loss of Rs.15.73 million @ Rs.10/per unit was sustained by the Company. Furthermore, either the meters were not installed or out of order at many locations.

Non-adherence to target set by NEPRA for energy losses resulted in loss of Rs.15.73 million during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that readings (unit received and unit sent) mentioned in the para do not match with monthly statement of T&T losses in respect of grid station which were within the permissible limit of NEPRA prescribed limit 2.8%. The reply was not tenable as documentary evidence was not provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 did not agree with the stance and directed the management to get the record verified within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 504/2018-19)

8.4.29 Unjustified price adjustment beyond completion date - Rs.14.16 million

Appendix-2 Price Adjustment of the contract; provided always that no adjustment will be allowed if the cost increase is because of the default or negligence of the contractor. The escalation for each component has to be according to the scheduled completion of that item provided that extension is granted pursuant to GCC Clause-40. For each claim, contractor shall submit invoice from each source of supply.

In EHV-II NTDC Hyderabad, an amount of Rs.14.16 million was paid to contractor against 100% escalation for the local currency component which was not admissible as the contractor delayed work and validity period of subject contract was already expired on August 2, 2014 and no extension of time was granted to the contractor. Therefore, the payment made on this account was unjustified.

Non-adherence to the instructions resulted in loss due to unjustified price adjustment of Rs.14.16 million during the Financial Year 2017-18.

The matter was taken up with the management in March, 2018 and reported to the Ministry in November, 2018. The management replied that EOT case applied by the contractor was under process and outcomes of EOT case, accordingly, would be intimated to Audit. The reply was not agreed as the escalation was not admissible beyond the contract agreement period.

The DAC in its meeting held on December 20-21, 2018 did not agree with the stance and directed to inquire the matter at PEPCO level. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 523/2018-19)

8.4.30 Unjustified payment on account of additional consultancy services - Rs.13.01 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject 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 Islamabad, an amount of Rs.13.01 million was paid to NESPAK on account of additional consultancy services for construction of residential building along with allied boundary wall at Mansehra 220 KV grid station. In the presence of a full fledge Civil Works Wing, the hiring of additional consultancy services for the said civil work reflected negligence and poor supervision.

Non-adherence to Authority's instructions resulted in unjustified payment of Rs.13.01 million on account of additional consultancy services during the Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in November, 2018. The management replied that no payment was made to the consultant on account of additional services. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce approval of additional consultancy services and consultancy agreement for verification within a week. Further progress was not reported till finalization of the report.

Audit emphasizes for expeditious recovery of additional services from consultants.

(Draft Para No. 959/2018-19)

8.4.31 Non-recovery of dumped material - Rs.12.97 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores,

shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In NTDC Warehouses, material valuing Rs.12.97 million was not physically counted during verification in June 2017 due to incomplete/dumped by Ex-store keeper, NTDC Warehouse Multan. Neither any departmental inquiry was conducted nor any action was taken against the responsible persons. Hence, the dumped material could not be recovered.

Non-adherence to rules resulted in non-recovery of dumped material amounting to Rs.12.97 million up to the Financial Year 2017-18.

The matter was taken up with the management in February, 2018 and reported to the Ministry in November, 2018. The management replied that all material was waived in the presence of committee and its survey report was in progress. However, working sheet of its weight calculation sheet was ready for verification. The reply was not agreed as documentary evidence in support of reply was not provided.

The DAC in its meeting held on December 20-21, 2018 directed the management to complete its report of dump material and get it verified from Audit within a week alongwith inquiry committee report. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expedite final disposal of dumped material.

(Draft Para No. 832/2018-19)

8.4.32 Excess payment on account of overhead and fee to NESPAK - Rs.12.90 million

According to GM (C&M) Water (WAPDA) office memo No. CEC/ C&M(W)D(C)/HEP-15 dated August 19, 2007 and Authority's decision in meeting held on May 27, 2010, overhead, including fee, will be charged at 50% of basic salary of non-regular employees of the consultants.

In EHV-I NTDC Islamabad, an amount of Rs.12.90 million was paid to NESPAK in excess of 50% of basic salary on account of overhead cost including fee against the non-regular and contract employees, which was irregular and needed to be recovered.

Non-adherence to Authority's instructions resulted in excess payment of Rs.12.90 million on account of overhead and fee to NESPAK up to Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in November, 2018. The management replied that the payment to NESPAK was made according to the contract. The reply was not tenable as overhead and fee allowed were more than admissible limit.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit contract agreement alongwith other ancillary record to Audit for detail verification within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter for allowing inadmissible overheads.

(Draft Para No. 955/2018-19)

8.4.33 Payment of remuneration to BoD members at exorbitant rates – Rs.11.65 million

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

In NTDC Lahore, an amount of Rs.11.65 million was paid as remuneration to eight (08) BoD members for attending meetings on exorbitant rates of Rs.35,000/- per meeting from July 01, 2017 to December 31, 2018. The remuneration rates were further increased from Rs.35,000/- to Rs.60,000/- per meeting. In some cases, two meetings were held in just one day and payment was made for two meetings at the double rate i.e. Rs.60,000 + 60,000 = 120,000. Hence, the payment of remuneration of Rs.11.65 million at such exorbitant rates was undue and unjustified.

Non-adherence to canons of financial propriety and probity resulted in payment of remuneration of Rs.11.65 million to BoD members at exorbitant rates during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that matter had already been taken up with the Ministry of Finance through Ministry of

Energy for obtaining concurrence. The reply was not tenable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to obtain concurrence of the Finance Division without further delay in order to resolve the issue. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1464/2017-18)

8.4.34 Loss due to blockage of public funds for 17 years - Rs.11.44 million

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

In EHV-I NTDC Lahore, an amount of Rs.11.44 million were deposited in State Bank Peshawar on October 8, 2001 to acquire land but the land owner refused to sell his land. These funds remained stuck in State Bank Peshawar for 17 years. Abnormal delay in refund of subject amount resulted in financial loss of Rs.11.44 million to the Company.

Non-adherence to rules resulted in loss due to blockage of funds of Rs.11.44 million for the 17 years up to the Financial Year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in November, 2018. The management replied that due to dispute and refusal of owner of land to receive payment and to hand over the possession of the land to WAPDA, it decided to leave the said land and directed to LAC Lahore for further action. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 did not agree with the stance and directed to inquire the matter at PEPCO level. Further progress was not reported till finalization of the report.

Audit recommends the management needs to investigate the matter for fixing responsibility of loss due to blockage of funds.

(Draft Para No. 471/2018-19)

8.4.35 Imposition of penalty by NEPRA - Rs.10 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In NTDC Lahore, a fine of Rs.10 million was imposed on NTDC by NEPRA on account of certain discrepancies comprising delayed developmental work, poor pace of works, non functional fault and event recorders, mishandling of Supervisory Control and Data Acquisition (SCADA) up gradation project, delay in implementation of cross trip scheme, fragile security of grid stations and over loading of 220 KV transmission lines.

Non-adherence to Authority instructions resulted in loss of Rs.10 million due to imposition of penalty during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that no fine had been paid to NEPRA. However, Chief Law Officer was preparing writ petition for filing in Honorable Lahore High Court. The reply was not acceptable as justification for mishandling of SCADA up-gradation project and delay in its implementation was not provided.

The DAC in its meeting held on December 20-21, 2018 directed the management to inform Audit with the latest position of the case within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 1200/2018-19)

8.4.36 Non-enhancement of the amount of performance security - Rs.19.51 million

According to Particular Conditions of Contract Clause-10.4, the performance security shall be binding irrespective of changes in the quantities or variations in the works or extensions in time for completion of the works which are granted or agreed upon the provisions of the contract.

In MP&M NTDC, Lahore, a contract valuing Rs.786.41 million for construction of 46 KM 500 KV double circuit quad bundled Neelum Jhelum to Domei transmission line was awarded to M/s Power line Construction Company, which was subsequently enhanced to Rs.981.65 million. However, the performance security of Rs.78.64 million was not enhanced up to Rs.98.15 million hence, undue benefit of Rs.19.51 million was given to the contractor.

Non-adherence to standard Contract Clause resulted in non-enhancement of the amount of performance guarantee by Rs.19.51 million during the Financial Year 2017-18.

The matter was taken up the management in April, 2018 and reported to the Ministry in December, 2018. The management replied that contractor was advised to enhance the amount of performance guarantee but he failed to do so. However, final notice had been served to the contractor. The reply was not tenable as the interest of the work was not safeguarded.

The DAC in its meeting held on December 20-21, 2018 directed the management to effect the recovery to the extent of enhancement of performance guarantee and get it verified within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s directives besides fixing responsibility.

(Draft Para No. 1343/2018-19)

8.4.37 Non-recovery on account of missing spare parts - Rs.8.96 million

According to recommendations of inquiry Committee constituted under the orders of M.D NTDC, appropriate disciplinary action is to be taken against Mr. Ishtiaq Ahmad Jassal, the then Dy. Manager under relevant rules and recovery of missing material / recovery of cost of missing material is to be made from him.”

In NTDC Lahore, an Inquiry Committee had probed the matter of missing material comprising spare parts valuing US$ 72,271 equivalent to Rs.8.96 million received under contract No. 2017-18 Lot-III dated June 13, 2004 at 500 KV Grid Station Sheikhupura. The inquiry committee had recommended recovery of cost of missing material amounting to US$ 72,271 from Mr. Ishtiaq Ahmad Jassal the then Dy. Manager. However, the recovery was not yet made from the said officer.

Non-adherence to the inquiry committee’s recommendations resulted in non-recovery of cost of missing spare parts amounting to Rs.8.96 million up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that inquiry committee was constituted to probe into the matter. The reply was not acceptable as recovery was not effected till now.

The DAC in its meeting held on December 20-21, 2018 directed the management to effect recovery of missing parts within 15 days and shared the outcome of inquiry with Audit. Further progress was not reported till finalization of the report.

Audit recommends for expeditious recovery from delinquent under intimation to Audit.

(Draft Para No. 1237/2018-19)

8.4.38 Loss on account of paint job of steel structures by preparing fake documents - Rs.8.70 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In NTDC Lahore, a paint job work of steel structures was not only carried out by Civil Division GSO (S) NTDC Hyderabad but the same work was also carried out by Dy. Manager 220 KV Grid Station T.M Khan Road Hyderabad and Resident Engineer 500 KV Grid Station Jamshoro by preparing fake documents. A joint Inspection Committee probed the matter and recommended recovery of Rs.8.70 million from three firms to whom the amounts were over paid as they did not execute the work and had done inferior quality work. However, the recovery was not made from them.

Non-adherence to the Authority's instructions resulted in loss of Rs.8.70 million on account of paint job of steel structures by preparing fake documents during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that high power inquiry committee was constituted but MD NTDC did not recommend recovering any amount from any officers/official. However, committee recommended recovering the loss from private contractors.

The DAC in its meeting held on December 20-21, 2018 directed the management to get effected recovery verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends for expeditious recovery from the contractors as per contractual obligations besides fixing responsibility.

(Draft Para No. 1239/2018-19)

8.4.39 Loss due to irregular / fraudulent drawl of material from Ware House - Rs.7.78 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In NTDC Lahore, 19.200 km ACSR Rail Conductor valuing Rs.7.78 million was drawn by an unknown person namely Mr. Sultan Akhtar Rasool at Gatti Ware House Faisalabad by presenting bogus / fake documents. An inquiry committee was constituted, which recommended disciplinary action against the staff of Ware House and pointed out the involvement of Mr. Abdul Razzaq (Gate Clerk) in fraud. However, no legal action was taken to make the loss good.

Weak inventory management resulted in loss of Rs.7.78 million due to irregular / fraudulent drawl of material from Ware House during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that latest status of matter would be apprised by the Chief Engineer MP&M to Audit. The reply was not tenable as no legal action was taken to make the loss good.

The DAC in its meeting held on December 20-21, 2018 did not agree with the view point of the management and directed to effect recovery of material within 15 days. Further progress was not reported till finalization of the report.

Audit recommends for expeditious recovery from the contractors as per contractual obligations besides fixing responsibility.

(Draft Para No. 1236/2018-19)

8.4.40 Loss due to execution of work from other contractor on excess rates - Rs.7.71 million

According to Work Order No. 442-48 dated February 12, 2016 (XEN TLC EHV-I Faisalabad) the work of soil investigation, civil works, erection and stringing work of 7 Nos. tower at existing 220 KV D/C Multan T.T Singh Samundary Road Nishatabad line was issued with an contract amount of Rs.16,710,000/-.

In EHV-I, NTDC Lahore, work for soil investigation, civil, erection, and stringing works of seven (7) towers was awarded to M/s Shelter Builders for Rs.16.71 million. Subsequently, the work was reduced to six (6) towers. Accordingly, amount of work was reduced up to Rs.14.49 million. Hence, an amount of Rs.2.21 million was decreased from the bill. Later on, the said reduced work i.e. installation of one tower was awarded to another contractor i.e. M/s Muzammil Brothers for Rs.9.92 million. In this way the said work was awarded for excess/extra amount at Rs.7.71 million.

Non-adherence to work order clauses resulted in loss of execution of single tower work from other contractor on excess rates amounting to Rs.7.71 million during the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that the scope of work & type of tower/pole was changed due to revised profile. Therefore, re-tendering was required to complete the job and meet the time line. The reply was not tenable as additional work was to be carried out through variation order from the original contractor at his agreed rates.

The DAC in its meeting held on December 20-21, 2018 directed the management to conduct inquiry at PEPCO level to submit its reports to Audit. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s directives besides fixing responsibility.

(Draft Para No. 356/2018-19)

8.4.41 Irregular payment to contractor on account of construction of already constructed approach road - Rs.6.77 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores,

shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In MP&M NTDC, Lahore, a variation order No. 01 for construction of temporary access road at the cost of Rs.6.77 million was approved in respect of a contract already awarded for civil works, erection, testing & commissioning of 220 KV AIS Grid Station at Lal - Suhanara, Bahawalpur for evacuation of 600 MW energy from Quaid-e-Azam Solar Park. Since, the up-gradation of access road was already undertaken by the Energy Department, Government of Punjab and even prior to up-gradation, the available track was traffic worthy and being utilized by the contractor, hence, payment on account of already constructed access road was irregular.

Weak project management resulted in irregular payment of Rs.6.77 million to contractor on account of construction of already constructed approach road up to the Financial Year 2017-18.

The matter was taken up the management in April, 2018 and reported to the Ministry in December, 2018. The management replied that matter had been taken up with the PD EHV-I Lahore. The reply was not acceptable as construction of road by NTDC at already constructed road was doubtful.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce NOC from Provincial Government alongwith taking / handing over of road for carrying out construction within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement the DAC's directives besides fixing responsibility.

(Draft Para No. 1337/2018-19)

8.4.42 Non-recovery of cost of material from the contractor - Rs.5.95 million

As per Chief Engineer Design (Transmission Line) NTDC letter No.CED/ NTDC/ MTL/ GA-60/ 1646-53 dated December 11, 2017, "hardware material was allocated to M/s CCPG China on Payment Basis / deduction of cost from the invoices of the contractor.

In EHV-I NTDC Lahore, Hardware material valuing Rs.5.95 million was allocated and issued to M/s CCPG China for the work Design, Supply, Installation, Testing & Commissioning of Associated Transmission Line for 500 KV New Lahore and 220 KV Gujrat Grid Station. The material was required to be issued to the contractor on payment basis or by deducting cost from the invoices of the contractor. But the cost of material was not realized.

Non-adherence to the directions of Authority resulted into non-recovery cost of material valuing Rs.5.95 million from the contractor during the Financial Year 2017-18.

The matter was taken up with the management in March, 2018 and reported to the Ministry in July, 2018. The management replied that presently the work on 220 KV T/Line (Lot-IIB) was under progress and after the completion of said T/L the material reconciliation would be finalized and cost of allocated material deducted. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to recover the amount within three (03) months and get verified from Audit. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expeditious recovery besides fixing responsibility.

(Draft Para No. 09/2018-19)

8.4.43 Loss due to award of work order for remaining works at higher cost - Rs.5.45 million

According to work order stipulated provision bearing No.2109-12/XEN/EHV/WE-53(II) dated October 08, 2013, the contractor was required to execute the work strictly in accordance with the approved design/drawings, specifications and instructions of Engineer in charge within contractual period of 300 days.

In EHV-I NTDC Lahore, a work order amounting Rs.9.442 million (31.5% below the BOQ cost) for the construction of residences category-V (08 Nos.) 2-Units of double story flats Lot-VI at 220/132 KV Grid Station new Gujrat was awarded to M/s Musa Enterprises on October 08, 2013. The construction work was partially completed by contractor as a 220 LV Transmission Line passing over the site was shifted on November 26, 2015 almost two years after award of contract. The contractor refused to complete the remaining work worth Rs.6.58 million due to non-handing over of site. Later on the remaining works were awarded to M/s Tariq Ch. & Co. for Rs.12.03 million (7.85% above BOQ) on January 01, 2018. Resultantly extra expenditure of

Rs.5.45 million was incurred due to poor planning in shape of awarding remaining works at higher cost.

Non-adherence to provision of work order resulted into loss of Rs.5.45 million in shape of extra expenditure due to award of work order for remaining works at higher cost during the Financial Year 2017-18.

The matter was taken up with the management in November, 2017 and reported to the Ministry in August, 2018. The management replied that transmission line was shifted on November 26, 2015. At that time the contractor refused to execute further work and asked for finalization of work. Hence, the contract was finalized and balance work was given to another contractor through open competitive bidding. The reply was not acceptable as contractual action was to be initiated against the contractor on his refusal to execute the work.

The DAC in its meeting held on December 20-21, 2018 directed the management to inquire/investigate the matter at Ministry level as site of the work was not handed to the contractor timely and fixed the responsibility upon the person (s) at fault. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 26/2018-19)

8.4.44 Non-obtaining of performance guarantees - Rs.5.16 million

According to Clause-4.4 of the condition of contract, "the successful tenderer shall be required to furnish a bank guarantee for the performance of the contract @10% of the contract price.

In EHV-I NTDC Lahore, two (02) civil works amounting to Rs.51.61 million were awarded to contractors for execution. However, performance guarantees amounting to Rs.5.16 million were not obtained / forfeited from the contractors in violation of contract agreement. Completion schedule of works expired but the works could not be completed. Since the performance guarantees were not obtained from contractors, hence nothing was left to be forfeited and work could not be got completed at the risk & cost of the defaulted contractors.

Non-adherence to the provisions of contract agreement resulted in non-obtaining of performance guarantees amounting to Rs.5.16 million during the Financial Year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in November, 2018. The management replied that retention money equivalent to performance security would be held from the invoices of the contractor and point to be noted for strict compliance in future. The reply was not agreed as the performance guarantee was not obtained.

The DAC in its meeting held on December 20-21, 2018 did not agree with the stance and directed the management to fix the responsibility for non-obtaining of performance guarantee. Moreover, it was also directed to get the performance guarantee from the contractors and got it verified within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 457/2018-19)

8.4.45 Loss due to payment of demurrage / container detention charges - Rs.5 million

According to Para No.54.3 of FIDIC, on customs clearance the employer will use his best endeavors in assisting the contractor, where require, in obtaining clearance through the customs of contractor's equipment, materials and other things required for the works.

In MP&M NTDC Lahore, an amount of Rs.5 million was paid to Chief Resident Representative Karachi (CRRK), WAPDA on account of demurrage / container detention charges in respect of clearance of material procured under purchase order No. CPP-02M-2016 (Lot-I). The CRRK had identified lapses on proportionate basis on supplier and transporter. But the matter was not inquired for fixing responsibility and recovery from supplier / transporter.

Non-adherence to FIDICs instructions resulted in loss of Rs.5 million due to payment of demurrage / container detention charges during the Financial Year 2017-18.

The matter was taken up the management in April, 2018 and reported to the Ministry in December, 2018. The management replied that acceptance certificate was not yet issued to supplier. The demurrage / detention charges would be recovered from the supplier's invoice. The reply was not tenable as no demurrage amount was recovered.

The DAC in its meeting held on December 20-21, 2018 directed the management to recover the demurrage/detention charges and get the recovery verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends for expeditious recovery of demurrage / container detention charges from suppliers.

(Draft Para No. 1339/2018-19)

8.4.46 Non-receipt of T&P items after completion of project - Rs.4.63 million

According to Clause-25.15 of Conditions of Contract, "within 30 days after issuance of taking-over certificate, and unless otherwise indicated or directed by the Employer the Contractor shall hand over to the Employer without any additional cost, all the contractors camps, labour and staff accommodation. Engineer's field offices additional buildings constructed all inclusive of furnishings, equipment, air conditioner and like amenities and utilities as specified. And all facilities provided by the Contractors under this Clause, all in good conditions, fair wear and tear accepted. Unwanted facilities shall be removed, and the site cleared and reinstated to the satisfaction of the Engineer".

In EHV-I NTDC Islamabad, T&P items valuing Rs.4.63 million was not handed over by NESPAK after completion of Neelum Jehlum 500 KV transmission line project in March, 2018.

Non-adherence to Contract Clause resulted in non-receipt of T&P items valuing Rs.4.63 million after completion of project up to Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in November, 2018. The management replied that all T&P items would be handed over by the consultant after completion of the work. Thereafter, necessary record would be produced to Audit. The reply was not agreed as the work was completed in March, 2018 and no T&P items were handed over by the consultant.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce all relevant record of T&P items to Audit for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 958/2018-19)

8.4.47 Non-recovery of interest on accounts of revolving fund paid to M/s NESPAK - Rs.4.32 million

As per clause 6.4 (A) (II) of the General Condition of Contract for Engineering Consultancy Services between NTDC and NESPAK for new Lahore 500 KV Substation and Associated Transmission line (Lot-II) "Any bank interest accruing in a revolving fund shall be credited by the consultants to the client".

In EHV-I, NTDC Lahore, an amount of Rs.6.50 million on account of revolving funds was paid to the consultant (NESPAK) in 2011 which remained with the consultant and was adjusted in 2013 after 28 months since payment. The revolving fund was recouped amounting to Rs.4.32 million and was required to be recovered from the consultant, which was not done.

Non-adherence to the rules/regulations of Authority resulted in non-recovery of interest on accounts of revolving fund during the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that as per special condition of contract "Crediting of any bank interest on the revolving fund by the consultants to the client would not be applicable". The reply was not tenable as the payment of interest was mandatory as per GCC.

The DAC in its meeting held on December 20-21, 2018 did not agree with the stance and directed the management to effect recovery within one month from the consultant and further directed not to include such clause in future contracts. Further progress was not reported till finalization of the report.

Audit recommends for expeditious recovery of interest from consultant.

(Draft Para No. 246/2018-19)

8.4.48 Loss due to award of contract at higher rates - Rs.4.16 million

As per contract agreement BOQ Item-7 "Gravel for civil works, execution, testing & commissioning of 220 KV Okara Grid Station made on October 14, 2010 the contractor M/s NEIE-AL-Hussain Traders (JV) Lahore had to supply 1700 cu.m of Gravel @ unit rate of Rs.1790 for supply and placing of gravel in switchyard area.

In EHV-I NTDC Lahore, a contract for provision of gravel required for the switchyard of 220 KV Okara Grid Station was awarded to the contractor M/s NEIE-Al-Hussain (JV) @ unit rate of Rs.1,790/- cu.m. The said contractor did not provide the item as per contract which was irregular and unjustified. The subject item was executed through calling of tenders and the contract was awarded to M/s Light Engineering Company at the unit rate of Rs.2,928.22/- cu.m. The unit rates were higher than that of original contract by Rs.1,138 (2928.22 – 1790), which resulted into loss of Rs.4.16 million (3654.1 x Rs.1,138.22) to the company.

Violation of the contract agreement resulted in loss of Rs.4.16 million due to award of contract at higher rates during the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in December, 2018. The management replied that M/s NEIE-Al-Hussain (JV) failed to perform the contractual obligation. Thereafter balance work was awarded to another contractor through open competitive bidding. However, claim of retention money equaling to 10% would be adjusted. The reply was not agreed to as contractor failed to supply the material as contractual obligations and was not penalized by the Company.

The DAC in its meeting held on December 20-21, 2018 directed the management to invoke penalty clause as per contract agreement upon M/s NEIE-Al-Hussain (JV). Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 1476/2018-19)

8.4.49 Undue financial benefit to the contractor by placing work order at higher cost - Rs.4.10 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subject 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 Lahore, a work order for construction of 220 KV Model Grid Station at TSG Training Centre New Kot Lakhpat was issued to the contractor M/s Zahid & Co. Lahore. The contractor offered bid amounting to Rs.43.83 million whereas work order was issued for contract cost amounting to Rs.47.93 million. Hence an amount of Rs.4.10 million was more than the contractor’s bid.

Non-adherence to the authority's instructions resulted in undue financial benefit of Rs.4.10 million to the contractor by placing work order at higher cost during the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that said work was awarded after completing all the codal formalities with the approval of the G.M (GSC). The reply was not agreed to as the work order was placed at excess amount than the offered bid.

The DAC in its meeting held on December 20-21, 2018 directed the management to conduct inquiry at PEPCO level and submit its reports to Audit. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 241/2018-19)

8.4.50 Loss due to non-completion of the work by the original contractor - Rs.3.58 million

As per Condition-III of work order bearing No. 170-73/XEN/EHV/WE-C2/ (9) dated February 4, 2016, the contractor was required to complete the work within 240 days from the date of commencement of work.

In EHV-I NTDC Lahore, a work order amounting Rs.7.84 million (21.06% below on BOQ cost) for construction of Triple Story Flats Cat-V (06 Nos.) Lot-II at 500/220 KV Grid Station New Lahore at Sarfraz Nagar was awarded to M/s Ali & Co on February 2, 2016. But the contractor refused to carry out the works vide letter dated March 15, 2016 due to non-handing over of site possession. Later on, fresh bids were called and work order was awarded to a single bidder M/s Fayyaz & Brothers at a very high price of Rs.11.421 million (14.95% above on BOQ cost) on July 7, 2016.

Non-adherence to Authority's instructions resulted into loss of Rs.3.56 million in shape of extra expenditure due to execution of the remaining work by the other contractor at higher rate.

The matter was taken up with the management in November, 2018 and reported to the Ministry in November, 2018. The management replied that quoted rates by the same bidder in previous bid was 16.78% below and at the time of rebidding for the same work, same contractor had quoted the rate 14.95% above, so it was beyond the reach of the employer to justify the reason. The reply was not tenable as no penal action under the contract agreement was taken against the defaulting contractor.

The DAC in its meeting held on December 20-21, 2018 directed the management to take action against the original contractor who was reluctant to carry out the work as per codal requirement in addition to black listing the firm. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 555/2018-19)

8.4.51 Unjustified payment of already executed work through main contract - Rs.2.77 million

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

In EHV-I NTDC Lahore, an amount of Rs.2.77 million was paid on account of civil work for foundation of 250 MVA transformer at 220 KV/132KV Grid station. The payment made on account of such work was irregular and unjustified as the scope of work already included in the main contract for construction of grid station at Toba Tek Sing awarded on 16.10.2017.

Non-adherence to General Financial rules resulted in unjustified payment on account of civil work amounting to Rs.2.77 million during the Financial Year 2017-18.

The matter was taken with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that work was not included in the main contract as it was required to complete the installation of new 250 MVA transformer to evacuate power from 1320 MW RLNG Power plant at Jhang. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce all relevant record for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 925/2018-19)

8.4.52 Loss due to contractual mismanagement / negligence – Rs.2.73 million

According to Rule-10 (i) of GFR, “every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money”.

In EHV-I NTDC Lahore, a work order amounting to Rs.9.51 million with 22.01% below the BoQ cost for construction of park, play ground, razor barbed wire on boundary wall, water supply & sewerage system at 220/132 KV Grid Station new Gujrat was awarded to M/s Chaudhry Brothers on December 05, 2014. The contractor had stopped the work due to change of site conditions by up-surged underground water table, non-availability of items of works i.e. wet sinking and de-watering in BOQ and their belated vetting by Manager Civil NTDC after expiry of completion period and increased rates of material & labour. Therefore, the said remaining works of septic tank and collecting tank was awarded at Rs.6.59 million (14.75% above BoQ) to another contractor. Had the site of work been handed over to the original contractor free from encumbrance after proper survey and vetting of rates, the loss on account of extra expenditure of Rs.2.73 could have been avoided.

Contractual mismanagement resulted in loss of Rs.2.73 million due to extra expenditure up to the Financial Year 2017-18.

The matter was taken up with the management in March, 2018 and reported to the Ministry in September, 2018. The management replied that site was handed over to contractor after doing proper survey. The reply was not tenable as no penal action was taken against the reluctant contractor as per contract agreement.

The DAC in its meeting held on December 20-21, 2018 directed the management to verify soil investigation report and criteria for designing upon water table. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 34/2018-19)

8.4.53 Loss on account of counsel fee regarding wasteful investment of Rs.100 million in a non-scheduled bank – Rs.1 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982

(amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subject 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 Lahore, an investment of Rs.100 million was made in a non-scheduled bank i.e. ‘Trust Investment Bank Ltd. during 2009. The said bank did not pay the interest on maturity nor returned the principal amount. Later on, a long litigation process started in 2013 and in 2016, the court case was entrusted to Mr. Ashar Elahi, Advoate with a payment of fee of Rs.1 million. Hence, a further loss in the shape of Counsel Fee was sustained by the Company. All this happened due to un-necessary and wasteful investment in a non-scheduled bank.

Financial mismanagement resulted in loss of Rs.1 million on account of counsel fee regarding wasteful investment of Rs.100 million in a non-scheduled bank up to the Financial Year 2017-18.

The matter was taken up with the management in December, 2017 and reported to the Ministry in November, 2018. The management replied that the case was subjudice.

The DAC in its meeting held on December 20-21, 2018 directed the management to pursue the case vigorously. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to inquire the matter for fixing responsibility regarding loss caused by wasteful investment in a non-scheduled bank besides pursuing the matter with NAB.

(Draft Para No. 458/2018-19)

8.4.54 Undue payment for earth filling along the boundary wall of grid station - Rs.0.95 million

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

In EHV-I NTDC Lahore, an amount of Rs.0.95 million was paid on account of earth filling along the boundary wall outside the Grid station at Quaid-e-Azam Solar Park. The terrain of the said grid station did not require earth filling, hence, an undue payment was made on account of such work, which was irregular and unjustified.

Non-adherence to General Financial rules resulted in undue payment on account of earth filling amounting to Rs.0.95 million during the Financial Year 2017-18.

The matter was taken with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that earth filling along boundary wall was removed due to heavy rain. Therefore, earth filling had to be carried out on emergent basis to secure the wall and to save expenditure that could have occurred due to collapse of wall. The reply was not tenable as the back filling of earth was the contractual obligations and allowing separate payment of earth filling around the boundary wall was doubtful.

The DAC in its meeting held on December 20-21, 2018 directed the management to conduct the inquiry at PEPCO level and reports thereof be submitted within a month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 952/2018-19)

CHAPTER-9

FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)

9. FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)

9.1 Introduction

Faisalabad Electric Supply Company (FESCO) is a subsidiary of PEPCO. The Company started its operations as a Public Limited Company registered in May, 1998 under Companies Ordinance 1984 (now Companies Act 2017). The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company purchases electricity from CPPA through NTDC system and sells it to various consumers within Bhakkar, Chiniot, Faisalabad, Jhang, Khushab, Mianwali, Sargodha and Toba Tek Singh Districts.

The operational activities are performed through four Operation Circles and Grid System Construction, Project Construction & Grid System Operation Circles.

9.2 Comments on Financial Statements

9.2.1 Objective of Financial Analysis

The objective of analysis of FESCO’s financial statements is basically to assess the financial health of the Company to bear its operational costs and to indicate the factors contributing to the piling up of huge circular debt.

For this purpose the horizontal and vertical trend analysis of Company’s financial statements for the years 2015-16 and 2016-17 have been conducted. Critical factors affecting the financial statements have also been highlighted. The financial statements for the year 2017-18 were not provided by the Company because the same were under finalization process till November 15, 2018.

9.2.2 Horizontal Analysis of Financial Statement

Horizontal analysis (also known as trend analysis) is a financial statement analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time. The statements for two or more periods are used in horizontal analysis. Financial statements of the Company for financial year 2016-2017 were used.

9.2.3 Profit and Loss Account
For the year ended June 30, 2017

(Rs. in billions)

	2016	% age Inc/(Dec)	2017
Sale of electricity – net	88.195	9.36	96.447
Tariff differential subsidy	10.661	29.03	13.756
Total Sale	**98.856**	**11.48**	**110.204**
Cost of electricity	100.427	9.57	110.041
Gross (loss)/profit	**(1.570)**	**(110.32)**	**0.162**
Amortization of deferred credit	1.164	8.08	1.258
	(0.406)	(450.00)	1.421
Operating Expenses:			
Distribution costs	11.969	12.57	13.473
Administrative expenses	2.070	1.25	2.096
Customer services costs	1.435	1.32	1.454
Provision / (Reversal) for doubtful debts	(0.648)	(110.49)	0.068
Total Operating Expenses	14.826	15.27	17.090
Other income	2.154	0.42	2.163
Operating loss	(13.078)	3.28	(13.507)
Finance costs	0.187	(19.79)	0.150
Loss before taxation	(13.265)	2.96	(13.657)
Taxation	0.045	1,151.11	0.563
Loss for the year	**(13.309)**	**6.84**	**(14.220)**

Source: Audited Financial Statements for year ended 30 June 2017.

9.2.4 Balance Sheet
As at June 30, 2017

(Rs. in billions)

	2016	% age Inc/(Dec)	2017
ASSETS			
Non-current assets			
Property, plant and equipment	85.569	5.58	90.340
Intangible assets	-		0.112
Long-term loans	0.107	(14.02)	0.092
Long-term deposits	0.002	50.00	0.003
	85.679	**5.68**	**90.547**
Current assets			
Stores, spares and loose tools	0.996	192.77	2.916
Trade debts	9.336	40.89	13.154
Current portion of long-term loans	0.051	9.80	0.056
Short-term advances	0.053	9.43	0.058
Interest accrued	0.021	328.57	0.090
Other receivables	43.593	(58.72)	17.995
Tax refunds due from the Government	7.966	0.35	7.994
Short-term investments	5.000	(0.60)	4.970
Bank balances	2.795	153.85	7.095
	69.810	**(22.18)**	**54.327**
TOTAL ASSETS	**155.489**	**(6.83)**	**144.874**
EQUITY AND LIABILITIES			
Share capital and Reserves			
Authorized capital			
5,000,000,000 (2016: 5,000,000,000) ordinary shares of Rupees 10/- each	50.000	-	50.000
Issued, subscribed and paid-up capital	0.000	-	0.000

Revenue reserve			
Accumulated profit	1.920	(931.72)	(15.969)
	1.920	(931.72)	(15.969)
Deposit for shares	18.676	-	18.676
Surplus on revaluation of operating fixed assets	27.591	(2.12)	27.005
Non-current liabilities			
Long-term financing	2.511	60.69	4.035
Long-term security deposits	5.153	15.45	5.949
Staff retirement benefits	45.539	12.79	51.363
Deferred credit	27.937	13.19	31.622
	81.140	14.58	92.968
Current liabilities			
Trade and other payables	25.289	(16.06)	21.227
Interest accrued on long-term financing	0.556	33.99	0.745
Current portion of long-term financing	0.316	(30.38)	0.220
	26.161	**(15.17)**	**22.193**
TOTAL EQUITY AND LIABILITIES	**155.489**	**(6.83)**	**144.874**

Source: Audited Financial Statements for year ended 30 June 2017.

9.2.5 Huge accumulated loss sustained By Company

The financial statements of the company as on June 30, 2017 shows that the Company has suffered accumulated loss of Rs.15.969 billion up to June 30, 2017 which has turned equity of the Company into negative and its current liabilities exceeded its current assets. Payable of the Company stood at Rs.21.227 billion (as on June 30, 2017) in shape of circular debt ultimately born by the public exchequer through government bailout.

9.2.6 Gap between Cost and Sales Revenues

Revenues from Sale of Electricity have increased by11.48% from 2016 to 2017 whereas the cost of electricity has increased at a rate of 9.57%. The Company was bearing gross loss in 2016 and due to minor control over cost and increase in sales which turned the gross loss in 2016 into gross profit in 2017 but there is still need to control the cost in order to increase the gross profit in coming years.

Decrease in cost was due to 0.87% decrease in average purchase rate whereas average sale rate decrease by 2.57% in 2017. This un-even decrease in ratios has also contributed to huge gap between sales revenue and cost of electricity.

(Rs. in billions)

	2016	**%age Inc / (Dec)**	**2017**
Sale of Electricity (Sales + Subsidy)	98.856	11.48	110.204
Units Sold (KWH)	10.700	7.47	11.499
Avg. rate (Rs per KWH)	12.460	(2.57)	12.140

Cost of Electricity	100.427	9.57	110.041
Unit Purchased (KWH)	11.920	7.87	12.858
Avg. rate (Rs per KWH)	9.150	(0.87)	9.070

9.2.7 Heavy cost of Salaries, Wages and Other Benefits

Operating expenses contributed to the massive losses faced by the company and there is increasing trend in year to year comparison.

	2016 (Rs.)	%age of Total OPEX 2016	2017 (Rs.)	%age of Total OPEX 2017
Salaries, wages and other benefits	11.27	90.74	12.44	89.56
Other Operating Cost	1.15	9.26	1.45	10.44
Total Operating Cost excluding Depreciation	**12.42**	**100.00**	**13.89**	**100.00**

Major operating expenses are salaries & wages (89.56% and 90.74%) of total Operating Expenses excluding Depreciation for 2017 and 2016 respectively whereas other operating expenses remained 9.26% and 10.44% during the year 2016 and 2017 respectively. There is need to rationalize its human resources.

9.2.8 Heavy Funds stuck in Trade debts

Trade Debts against sale of electricity has increased to Rs.13.154 billion in 2017 as compared to Rs.9.336 billion in 2016, showing 40.89% increase from 2016 to 2017.

9.2.9 Short Recoveries against amount billed

Recovery of amount billed by FESCO during FYs-2016-17 & 2017-18 against 100% target given by NEPRA has been analyzed as under:

(Rs in million)

Financial Year	Amount of Current Billing During the Year	Collection during the year			Short Fall of Recovery Against Current Billing	%age Of Recovery Against Current Billing	%age Of total Recovery shown during the year
		Against Current Billing	Against Arrear	Total			
1	*2*	3	4	5 (3+4)	6 (2-3)	7 (3/2*100)	8 (5/2*100)
2016-17	**139,584.96**	122,824.75	12,912.47	**135,737.22**	**16,760.21**	**87.99**	**97.24**
2017-18	**162,538.50**	143,206.34	15,961.83	**159,168.17**	**19,332.16**	**88.11**	**97.92**

(Source PITC Data)

Poor recovery %age of FESCO resulted in less recovery of revenue as Rs.16.76 billion during 2016-17 and Rs.19.33 billion in 2017-18.During 2016-17 FESCO's total recovery has been shown as 97.24 % against NEPRA's target of 100%, whereas the recovery against current billing was 87.99% and rest of recovery related to the arrear. Likewise in 2017-18 the total recovery was shown as 97.92 % but the factual recovery against current billing was 88.11%. Thus the percentage of the total recovery was not true representative of the billing during the respective financial years, which needs to be rationalized and justified.

9.2.10 Vertical Trend Analysis

A vertical analysis is used to show the relative sizes of the different accounts on a financial statement. Here while doing the vertical analysis of Profit & Loss Account, Sale of Electricity has been taken as 100%, and every other head of Profit & Loss Account has been shown as a percentage of the total sales number.

	%age of Total Sales 2016	**%age of Total Sales 2017**
Sale of electricity – Net	89.22	87.52
Tariff differential subsidy	10.78	12.48
	100.00	**100.00**
Cost of electricity	101.59	99.85
Gross (loss)/profit	**(1.59)**	**0.15**
Amortization of deferred credit	1.18	1.14
	(0.41)	**1.29**
Distribution costs	12.11	12.23
Administrative expenses	2.09	1.90
Customer services costs	1.45	1.32
Provision / (Reversal) for doubtful debts	(0.66)	0.06
Total Operating Expenses	*14.99*	*15.51*
Other income	2.18	1.96
Operating loss	**(13.23)**	**(12.26)**
Finance costs	0.19	0.14
Loss before taxation	**(13.42)**	**(12.39)**
Taxation	0.05	0.51
Loss for the year	**(13.46)**	**(12.90)**

Source: Audited Financial Statements for year ended 30 June 2017.

Vertical analysis of Profit & Loss account of FESCO shows a very dismal position. Cost of sales is 99.85% of the sales in 2017 and 101.59% in 2016 which indicates serious inefficiencies of business of the company.

Operating expenses are 15.51% of sales in 2017 and14.99% of sales in 2016 which are contributing to the increase the losses in both years.

9.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
FESCO	2016-17	01	-	**25** (Para No. 4.1.2, 4.1.4, 4.1.5, 4.1.7, 4.1.9, 4.1.11, 4.1.13 to 4.1.15, 4.1.17 to 4.1.21, 4.1.23, 4.1.25 to 4.1.34)	

Position of compliance with PAC directives is not satisfactory.

9.4 AUDIT PARA

9.4.1 Unjustified retention of distribution margin - Rs.2,775.68 million

According to G.M Finance PEPCO office letter dated August 22, 2014, "all the retentions are required to be fully explained in terms of NEPRA determinations and additional details may be attached".

In FESCO, an amount of Rs.13,586.53 million was retained as Distribution Margin (DM) against permissible limit of Rs.10,810.85 million. Thus, an amount of Rs.2,775.68 million was retained as DM in excess of permissible limit which was not justified.

Non-adherence to the NEPRA's instructions resulted in unjustified retention of distribution margin amounting to Rs.2,775.68 million than the permissible limit during the Financial Year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in November, 2018. The management replied that the distribution margin was within the permissible limit of NEPRA. The reply was not tenable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 296/2018-19)

9.4.2 Non-surrendering of unspent funds to the Government - Rs.515.67 million

As per instructions issued by the Prime Minister Secretariat Islamabad vide No. Prime Minister's Sectt. (Public)1(1)/Misc/PAW/2007 dated 09.03.2007, 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 Construction Circle FESCO, funds amounting to Rs.1,076.08 million were allocated through the Prime Ministers Directives for village electrification. Out of total funds, an amount of Rs.560.41 million were spent whereas the remaining funds to the tune of Rs.515.67 million were not utilized and remained unspent. The funds were required to be surrendered which was not done.

Non-adherence to Government instructions resulted in non-surrendering of funds Rs.515.67 million up to the Financial Year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in December, 2018. The management replied that the funds remained unspent due to ban imposed by the Election Commission of Pakistan. The reply was not tenable as the ban was imposed for schemes approved w.e.f. April 1, 2018 whereas most of the schemes were approved for execution prior to ban imposed.

The DAC in its meeting held on December 20-21, 2018 directed the management to get stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives and return unspent funds alongwith interest amount to the Government.

(Draft Para No. 1490/2018-19)

9.4.3 Extra expenditure due to doubtful variation order - Rs.265.50 million

As per Section-6 and Clause SI-01 of contract documents, the contractor shall be deemed to have inspected and examined the various sites and its surrounding and information available in connection therewith before submitting his/her bid. This includes but not limits to, the form and nature thereof, including the sub-surface conditions, the hydrological and climatic condition, the extent and nature of work, goods and material necessary for the completion of the work, the means of access to the site and the accommodation he may require and in general, shall be deemed to have obtained all necessary information, subject as above mentioned, as to risks, contingencies and all other circumstances which may influence or affect his bid.

In PMU FESCO, a work for construction of four (04) Transmission Lines under ADB Loan No. 2972 was awarded at the cost of US$ 1.58 million and Rs.323.38 million. Detail estimate of work as per site requirement was prepared and approved by the Competent Authority. However an expenditure of US$ 2.56 million & Rs.485.54 million was incurred resulting in extra expenditure of US$ 0.98 million and Rs.162.15 million due to change of scope. Later on, ADB conveyed its conditional concurrence that the revised cost value would be disbursed by FESCO through own sources.

Non adherence of to the contract clause resulted in increased in cost of the project through variation order amounting to Rs.265.50 million up to the financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that the variation in scope of work was made and its estimate was prepared as per site requirement. The variation was approved by BoD FESCO. The reply was not tenable as the site was supposed to be properly surveyed and scope of the work estimated as per site requirement prior to award of contract.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide the evidence of temporary diversion of the river and pile of construction data for its verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 884/2018-19)

9.4.4 Loss due to repair of damaged transformers - Rs.193.75 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of store, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

In M&T FESCO, 3850 distribution transformers of different capacities were brought in reclamation workshop by field staff for repair. An expenditure of Rs.193.75 million was incurred on account of cost of major/minor repair of these transformers. Neither the departmental inquiry committee was constituted to fix responsibility for damages nor recovery of repair cost made from operation divisions.

Non-adherence to the rules/regulations of the Authority resulted in loss due to damage of distribution transformer Rs.193.75 million during the Financial Year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in November, 2018. The management replied that theft cases were under investigation of departmental inquiry committee. The reply was not relevant as no inquiry of damages of transformers was conducted.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the proceeding of inquiry committee and submit its report to Audit within 30 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No.402/2018-19)

9.4.5 Non refund of saving amount against deposit works - Rs.115.89 million

According to Section-III-C(1) of WAPDA Book of Financial Powers, "deposit works shall be undertaken only after getting full amount of sanctioned work estimated deposits with WAPDA, with an undertaking from the depositor to meet any variation."

In Construction Circle FESCO, an amount of Rs.308.13 million was received as estimated cost of 91 deposit works which were completed with the cost of Rs.192.24 million resulting in saving of an amount of Rs.115.89 million. The amount of savings from these completed works was required to be refunded to the sponsor agencies which were not done.

Non-adherence to the rules resulted in non-refund of saving of deposit works amounting to Rs.115.89 million up to the Financial Year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to surrender the amount alongwith interest to the sponsors.

(Draft Para No. 1493/2018-19)

9.4.6 Excess expenditure on account of ERP project - Rs.99.71 million

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

In FESCO, a contract for implementation of Enterprise Resource Planning (ERP) project was awarded to M/s Abacus Consulting Technology at a contract price of Rs.110.32 million. However, the project was completed at a cost of Rs.210.03 million causing excess expenditure of Rs.99.71 million, which was unjustified.

Non-adherence to GFR rule resulted in excess expenditure of Rs.99.71 million on account of ERP project up to the Financial Year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in November, 2018. The management replied that expenditure of ERP was within the contract price. Hence, no excess expenditure was incurred. The reply was not tenable as original contract was abnormally increased to extend undue financial benefit to the contractor.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide relevant record along with BoD's approval to Audit 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 besides fixing responsibility.

(Draft Para No. 405/2018-19)

9.4.7 Deterioration of valuable panels lying in open yard – Rs.97.90 million

According to standard inventory management procure / stores Manual, "when required, goods and materials are stored in separate storage locations under appropriate environmental conditions (e.g. humidity, temperature, hazardous materials) suitable for their specific and unique characteristics. And items susceptible to adverse weather conditions are kept indoors."

In FESCO, fifty outgoing panels of 25 KVA, two 11 KV incoming panels, eleven RP-4, twenty three RP-3 and seven Bus coupler panels valuing Rs.97.90 million procured under ADB loan were lying in open yard and exposed to extreme weather conditions due to insufficient indoor storage capacity in warehouse. The panels were not yet allocated utilized in the Grid Stations as envisaged in PC-I under loan based procurement.

Poor inventory management resulted in jeopardizing of panels valuing Rs.97.90 million lying in open yard up to the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that efforts were made for utilization of panels as per requirement. The reply was not agreed to as the procurement was made in excess of actual requirement.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite utilization of panels and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 1275/2018-19)

9.4.8 Loss due to Spare Serviceable Power Transformers - Rs.80 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GSO FESCO, eight (08) power transformers of different capacity were lying spare at various grid stations of FESCO, which were not required in FESCO due to their low capacity. Neither these power transformers were disposed off to generate revenue nor transferred to other DISCOs for utilization. Due to lying in the open sky, heavy transformers were deteriorating day by day. Resultantly, the chances of loss of Rs.80 million could not be ruled out.

Non-adherence to the rules/regulations of the Authority resulted in loss of Rs.80 million due to spare serviceable power transformers during the Financial Year 2017-18.

The matter was taken up with the management August, 2018 and reported to the Ministry in December, 2018. The management replied that list of spare material was shared with other DISCOs for early utilization of material. The reply was not acceptable as no effective steps were taken for utilization of spare parts.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite pending actions and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends for expeditious utilization of spare serviceable power transformers.

(Draft Para No. 1233/2018-19)

9.4.9 Loss due to purchase of substandard energy and TOU meters - Rs.43.38 million

As per warranty certificate of PO, the supplier will be held responsible for all losses and un-acceptable goods shall be substituted with the acceptable goods at his expense and cost.

In FESCO, two purchase orders for the supply of 8050 Static 3-phase energy meters and 1750 TOU meters were issued to different contractors at a total price of Rs.43.38 million including 17% GST. All the ordered quantity of meters were inspected and accepted by FESCO store authorities. But Superintendent Engineer (TS), FESCO declared them substandard due to lack of some accessories causing problems for smooth working of TS Directorate of FESCO which caused a loss to the Company.

Non-adherence to clauses of PO resulted in loss of Rs.43.38 million due to supply of substandard meters during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that no complaint was received from field formations. The reply was not acceptable as the Technical Services Directorate had declared the TOU meters substandard.

The DAC in its meeting held on December 20-21, 2018 directed the management to conduct facts finding inquiry at PEPCO level 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 investigate the matter besides fixing responsibility.

(Draft Para No. 1471/2018-19)

9.4.10 Non-recovery of Grid O&M Charges from FIEDMC - Rs.41.79 million

According to clause (3) of the arrangement between FESCO and Faisalabad Industrial Estate Development and Management Co. (FIEDMC), "FIEDMC is bound to pay the salary along with allowance of prescribed FESCO staff deployed there and all operations and maintenance charges of the grid station on monthly basis."

In GSO Circle FESCO Faisalabad, an amount of Rs.41.79 million on account of operation and maintenance expenditure of two (02) 132 KV Grid Stations (M-3 Industrial Estate & VAC) was recoverable from FIEDMC. No strenuous effort was made to recover the said amount at higher level.

Non-adherence to clause of the agreement resulted in non-recovery of Rs.41.79 million from FIEDMC on account of O&M charges up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in December, 2018. The management replied that progress in the matter would be intimated after approval of competent authority. The reply was not tenable as recoverable amount was yet to be recovered.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the recovery and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends for expeditious recovery from FIEDMC besides fixing responsibility.

(Draft Para No. 1358/2018-19)

9.4.11 Non-recovery of arrears from industrial consumer – Rs.34.56 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject 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 Sargodha FESCO, an amount of Rs.34.56 million was outstanding against M/s Sally Textile Mills for a period of six months. The management did not show any interest to recover the huge amount from the consumer.

Non-adherence to above rules resulted in non recovery of arrears from an industrial consumer for Rs.34.56 million up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that the consumer had been permanently disconnected and security adjusted against arrears. Final notice for payment of arrears was issued on November 20, 2018 otherwise case would be sent to NAB. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide record relating to completed actions within 15 days and expedite the pending actions. Further progress was not reported till finalization of the report.

Audit recommends expeditious recovery from the consumer.

(Draft Para No. 696/2018-19)

9.4.12 Irregular installation of substandard material by the contractor - Rs.31.40 million

As per Section 4 of Supplementary information clause SI-04-1 sub clause (1)(2), all services in context of construction of 132KV AIS Grid Station control House Building, all type of foundations along with associated works shall comply with the requirements of the contract documents. All services, work or parts shall comply with the applicable standards, rules, codes and regulations of the internationally approved standardizing bodies. The intent of these specifications is that the services and workmanship of the work under this contract should be equal to or superior than those actually described herein.

In PMU FESCO, contractors had installed substandard / locally manufactured material valuing Rs.31.40 million at nine (09) under construction grids stations, which was irregular being against the provisions of contract agreement.

Non-adherence to contract clauses resulted in installation of substandard material valuing Rs.31.40 million up to the financial year 2017-18.

The matter was taken up with the Management in September, 2018 and reported to the Ministry in November, 2018. The management replied that contractor had agreed to replace substandard material in due course of time. The reply was not tenable as contract specification had been violated.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite replacement of substandard material and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 801/2018-19)

9.4.13 Overbilling of bulk supply power units from different grid stations - Rs.30 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 procedure".

In GSO Circle FESCO, 2.50 million units of energy valuing Rs.30 million were sent out to different operation divisions in excess of the units actually received on the power transformers of different grid stations. In this way fictitious supply of power was made to operation divisions. The unjustified load of electricity units billing was ultimately transferred to the end users / consumers which presents a negative picture of energy distribution system.

Non-adherence to commercial procedure resulted in overbilling of bulk supply units of Rs.30 million during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in December, 2018. The management replied that variation in units received and sent was within permissible limit. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter to justify the overbilling.

(Draft Para No. 1415/2018-19)

9.4.14 Non-augmentation / renovation of feeders with high voltage drop and technical losses- Rs.28.48 million

According to the policy of external electrification of housing schemes and commercial plazas circulated in October, 1998, the voltage drop and technical losses of the existing and proposed 11 KV feeder from which electrification is proposed should not exceed the limit of 5% and 3.5% respectively.

In FESCO, electrification of housing schemes / commercial plazas with estimated cost of Rs.28.48million were approved from the existing 11 KV feeders having voltage drop and technical losses beyond the permissible parameters of 5% and 3.5%. The said electrification cases were approved without bringing down the technical parameters to the specified limits either at the proportionate cost of the sponsors or from own sources. Non-rehabilitation / renovation of the feeders despite having recovered the rehabilitation and grid station cost from the respective sponsors was irregular.

Non-adherence to above instructions resulted into non-augmentation / renovation of feeders having high voltage drop and technical losses proposed for feeding the electrification works amounting to Rs.28.48 million up to financial year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in November, 2018. The management replied that rehabilitation / renovation would be carried out in due course of time. The reply was not tenable as technical parameters were not adhered before electrification.

The DAC in its meeting held on December 20-21, 2018 directed the management to complete the required action and to get the stance verified from Audit within 30 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 293/2018-19)

9.4.15 Loss due to non-indemnification of cost of damaged Power Transformer - Rs.24.08 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GSC FESCO, a break down occurred at 132 KV Grid Station Ludewala and in order to replace damaged power transformer a healthy power transformer was arranged from 132 KV Grid Station Tandlianwala with replacement cost of Rs.24.08 million without lodging insurance claim. No preliminary investigation to find out the cause of break down was conducted.

Non-adherence to above instructions resulted in loss of Rs.24.08 million due to non-indemnification of cost of transformer during financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management stated that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within 10 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to conduct departmental inquiry for fixing responsibility.

(Draft Para No. 1243/2018-19)

9.4.16 Loss due to less recovery of cost of deposit works - Rs.21.34 million

According to Section-III-C(1) of WAPDA Book of Financial Powers, "deposit works shall be undertaken only after getting full amount of sanctioned work estimated deposits with WAPDA, with an undertaking from the depositor to meet any variation."

In Construction Circle FESCO, 194 deposit works were completed and an excess expenditure of Rs.21.34 million incurred up to December, 2017. Excess expenditure was recoverable from the sponsoring agencies against the construction of HT / LT deposit works. Hence, loss of Rs.21.34 million occurred due to less recovery on account of cost of deposit works.

Non-recovery of excess expenditure on deposit works resulted in loss of Rs.21.34 million up to the Financial Year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in December, 2018. The management replied that 162 works were completed and for pending works required action would be completed in due course of time. The reply was not acceptable as the estimates were not made as per actual site requirements.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce the record of completed actions for verification within 15 days and complete the pending actions expeditiously. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 1487/2018-19)

9.4.17 Non-repair of damaged power transformer - Rs.14.22 million

According to Section-III (I) of WAPDA Guidelines for enforcing responsibility for losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to 1st June, 2001), “all losses whether of public money or of store, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved.”

In GSO FESCO, a damaged power transformer was lying at PTESU for repair since April, 2014. An estimate for repair charges amounting to Rs.14.22 million was prepared and consent to start repair work was sought by workshop. But no response in this regard was given by the management. Inordinate delay in repair or disposal of power transformer needs justification.

Non-adherence to the instruction of Authority resulted in non-repair of power transformers amounting to Rs.14.22 million up to the financial year 2017-18.

The matter was taken up with management in August, 2018 and reported to the Ministry in December, 2018. The management replied that transformer was shifted without repairing from PTESU to FESCO warehouse as per direction of competent authority. The reply was not tenable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to conduct facts finding in order to clarify their position within 7 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s directives besides fixing responsibility.

(Draft Para No. 1501/2018-19)

9.4.18 Non / less recovery of Punjab Sales Tax from contractors / consultant - Rs.11.16 million

According to Finance Department of Government of Punjab Notification No. SO(Tax)5-24/2016 dated October 05, 2016, the Punjab Revenue Authority levied Punjab Sales Tax on Services (PST) on such services, specified in the column 4 of the table 1 given in this notification, including services provided by contractors for construction of roads and bridges etc. on the rates specified in column 3 of the said table @ 1% on development works. As per endorsement of

O/o the District Collector, Faisalabad issued vide No.3060-DCR/HC(G) dated October 25, 2016, it is the responsibility of the withholding agent to deduct PST @ 16% on services provided for maintenance and repair of buildings including other similar services etc. As per 2nd Schedule (taxable services) of Punjab Finance Act 2017, services provided by contractor of buildings and similar of other works are chargeable of PST @ 5% w.e.f July 01, 2017.

In FESCO, PST of Rs.11.16 million was less recovered while making payments to the contractors / NESPAK on account of constructions works / consultancy services.

Non-adherence to the provisions of PST resulted in non / less recovery of PST amounting to Rs.11.16 million from the contractors / consultant during the year 2017-18.

The matter was taken up with the management in September & October, 2018 and reported to the Ministry in December, 2018. The management replied that PST would be recovered in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite recovery of PST and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends for expeditious recovery from the contractors / consultants.

(Draft Para No. 1228 & 1519/2018-19)

9.4.19 Irregular administrative and technical sanction of civil works – Rs.10.68 million

As per section –II clause 2.2.1&2.2.2 of the Book of the Financial Power of DISCOs, 2003 XEN & equivalent has monitory limit for administrative approval (1.000 million) and Technical sanction (2.000 million)

In FESCO civil works amounting to Rs.10.68 million were split for repair & maintenance of the office & residential buildings and renovation of floors of B-7 bungalow located in the same premises. The splitting was deliberately done just to avoid getting the work technically and administratively approved by the competent authority i.e. CEO and Technical Operation Director as per above mention clause which was irregular and unjustified.

Non adherence to clauses Book of Financial Power of DISCOs resulted in irregular administrative and technical sanction of civil works amounting to Rs.10.68 million during the financial year 2017-18.

The matter was taken up with the management during September & October, 2018 and reported to the Ministry in December, 2018. The management replied that works were approved by the competent authority. The reply was not tenable as the work was split up to avoid the approval of next higher authority.

The DAC in its meeting held on December 20-21, 2018 directed the management to conduct facts 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 implement DAC's directives.

(Draft Para No. 1383 & 1525/2018-19)

9.4.20 Non-return of replaced meters to M&T Lab - Rs.10.24 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 procedure".

In M&T FESCO, 6485 single phase and three phase meters costing Rs.10.24 million replaced by the field formations were not sent to M&T Lab. for detailed checking / data retrieval and charging of pending units. The replaced meter were required to be returned to store which was not done.

Non-adherence to Commercial Procedures resulted in non-return of meters Rs.10.24 million during the financial year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that meters were sent to M&T for data retrieval and charging pending units. The reply was not acceptable as no single replaced meter was returned to store.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to ensure early return of meters besides fixing responsibility.

(Draft Para No. 398/2018-19)

9.4.21 Loss due to non-recovery from the consumers on account of capital / security cost - Rs.8.75 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982

(amended up to June 01, 2001), "all losses whether of public money or of store, shall be subject 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.8.75 million was recoverable up to June, 2018 from consumers pointed out by Internal Audit FESCO through Inspection Reports and Summaries. No concrete efforts were made to effect the recovery from consumers.

Non-adherence to Authority's instructions resulted in loss of Rs.8.75 million due to non-recovery from the consumers on account of capital / security cost up to the Financial Year 2017-18.

The matter was taken up with management in September, 2018 and reported to the Ministry in December, 2018. The management replied that all the cases were under process for regularization of illegal load.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite actions required as per SOP and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends for expeditious recovery of capital cost / security deposit amount from the consumers.

(Draft Para No. 1325/2018-19)

9.4.22 Loss due to non-transferring of land by FDA - Rs.6 million

As per provisional Demand Notice terms & condition at serial No. 12 FDA will transfer 20 Marla (Kanal) plot free of cost in the name of FESCO for its utility services before executing the scheme.

In FESCO, 20 Marla piece of land valuing Rs.6 million for construction of two 132KV Grid Stations at FDA City was required to be transferred in favour of FESCO by sponsor. But neither any piece of land was transferred by FDA nor mutated in favour of FESCO.

Non-adherence to terms & conditions of provisional demand notice resulted in non-mutation of 20 Marla plot valuing of Rs.6 million in the name of FESCO by FDA during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that FDA agreed to provide possession of land as and when electrification work of FDA would be completed.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expedite the mutation of land.

(Draft Para No. 1323/2018-19)

9.4.23 Loss due to non deduction of stamp duties fee from FDA & PAEC - Rs.5.61 million

According to Schedule –I of the Stamp Duty Act 1899[at serial No.22-A(b)] contract, that is to say any instruments of the nature of the memorandum of agreement made or entered in to by contractor with Government, Corporation Local Bodies, Local Authority, Agency, Organization set up or controlled by the Federal or the Provincial Government (b) to procure stores and material (twenty five paisas for every one hundred rupees or part thereof the amount of the contract).

In FESCO, Stamp Duty Rs.5.61 million of the total amount of agreement for material and machinery to be procured and utilized on the execution of the works were not recovered.

Non-adherence to the Stamp Duty Act resulted in loss of Rs.5.61 million to the public exchequer due to non-deduction of stamp duty during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that there was no provision in SOP for charging of stamp duty. The reply was not tenable as the Stamp Duty was recoverable as per provision of the law.

The DAC in its meeting held on December 20-21, 2018 directed the management to get stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to recover the leviable stamp duty at the earliest.

(Draft Para No. 1274/2018-19)

9.4.24 Less recovery of capital cost from sponsors – Rs.5.11 million

As per Para C (i) of Deposit Work Procedure "Deposit work shall be undertaken only after getting full amount of sanctioned work. Estimate deposited with WAPDA, with an undertaking from the depositor to meet variation.

In GSC FESCO Faisalabad, deposit works were completed / in progress during 2017-18 but the cost was incurred over and above the estimated cost which lead to apprehension that estimates were not prepared according to site requirements and were unrealistic. Resultantly, capital cost was less recovered to the tune of Rs.5.11 million.

Non-adherence to deposit works procedure resulted in less recovery of capital cost of Rs.5.11 million during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that partial recovery was made from consumers and remaining would be completed in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide the record related to completed action within 15 days and expedite the pending action. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expedite the recovery at the earliest.

(Draft Para No. 1225/2018-19)

9.4.25 Irregular payment due to appointment of legal consultant - Rs.4.32 million

According to guidelines of establishment Division issued vide dated January 25, 2002 and dated June 21, 2005 for appointment of advisor/consultant "to ensure that the best persons are transparently and competitively appoint in cost effective manner, only when consciously and formerly identified need for advisor / consultant exist. The rules pertinently specifies that need for consultant should be assessed not for routine function of a organization

In FESCO Faisalabad, Mr. Abdur Razzaq Additional Director (L&L) was retired from service on July 4, 2013 after attaining the age of superannuation. He was engaged as a legal consultant in FESCO for a period of six months at a remuneration of Rs.80,000/- per month w.e.f April 1, 2014. His engagement was extended from time to time on six month basis with last extension w.e.f October 1, 2016 to March 31, 2017 without observing above rules. Hence, payment of lump sum remuneration of Rs.80,000/- per month was irregular.

Non-adherence to guide lines/rules resulted in irregular engagement of Legal Consultant and irregular expenditure of Rs.4.32 million up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that consultant was appointed after the approval of BoD. The reply was not tenable as the appointment was made in violation of Govt. rules.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 1326/2018-19)

9.4.26 Extra expenditure due to unjustified variation - Rs.4 million

As per Section-6 and Clause SI-01 of contract documents, the contractor shall be deemed to have inspected and examined the various sites and its surrounding and information available in connection therewith before submitting his/her bid.

In PMU FESCO, an expenditure of Rs.4 million was incurred through variation for construction of temporary earthen road in the bed of River Chenab at the location of tower No. 62. However, the contractor’s claim was not substantiated with documentary evidences in support of authenticity of incurred expenditure of Rs.4 million.

Non-adherence to contract clause resulted in extra expenditure of Rs.4 million on construction of temporary access earth road through turnkey contract during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that construction of temporary earth road was site requirement and work was executed after approval of competent authority. The reply was not tenable as contractor should have examined the site requirements before submission of bid.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide the evidence of temporary diversion of the river and pile construction data for its 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 responsibility.

(Draft Para No. 803/2018-19)

9.4.27 Non-reconciliation of electricity revenue collection - Rs.3.76 million

According to Financial & Accounting Policies and Procedures Manual of FESCO i) Finance director is responsible to oversee the overall accounting and financial aspects of the DISCO. ii) Assistant Manager (Customer Services) will oversee the activities carried out at the Revenue Office and to act as a liaison between the Revenue Office, MIS Department and the Finance Directorate. iii) Accounts Officer (Revenue Office) is responsible for review and verifies the daily scrolls collected from the banks, reconciliation of banks through CP-48 and CP-49, preparation of different CP forms for submission to the MIS Department and maintenance of cash book.

In FESCO, an amount of Rs.3.76 million was appearing as difference as the bank reconciliation statements (CP-48) and bank statements on account of electricity revenue collection. No efforts were made for reconciliation of the outstanding balance despite lapse of a considerable period.

Non-adherence to Financial & Accounting Policies and Procedures Manual resulted in non-reconciliation of electricity revenue collection of Rs.3.76 million up to the Financial Year 2017-18.

The matter was taken up with the management during July, 2018 and reported to the Ministry in November, 2018. The management replied that reconciliation would be made and produced for verification in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide reconciliation within 15 days to Audit. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s directives besides fixing responsibility.

(Draft Para No. 407/2018-19)

9.4.28 Irregular grant of honorarium to Power Division Staff - Rs.2.42 million

According to Para-11.4(B) Chapter-XI Financial Powers delegation to subordinate authorities of GFR, funds allotted to a Ministry/Division, its attached or subordinate offices are spent for the purpose for which they are allocated.

In FESCO, an amount of Rs.2.42 million equivalents to maximum 3 basic salaries was paid to officers / official working in Power Division Ministry of Energy as honorarium from FESCO funds.

Non-adherence to General Financial Rules resulted in irregular payment of honorarium Rs.2.42 million to employees of Power Division during the financial year 2017-18.

The matter was reported to the management in October, 2018. The management replied that payment of bonus was made under the approval of BoD. The reply was not tenable as Company's funds could not be used for Ministry's expenditure.

The DAC in its meeting held on December 20-21, 2018 did not agree with the management's stance and directed the management to effect recovery from concerned employees within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1357/2018-19)

9.4.29 Irregular handing over of material to the contractor on loan basis - Rs.0.50 million

As per Section 6 Clause SI-05 Note(I)(2) of the Contract Agreement, FESCO will not supply any material/goods, which is to be installed/erected at site and FESCO shall not give any equipment/T&P for survey, civil works and erection to the contractor for this project and the same shall have to be arranged by the contractor.

In PMU FESCO, material amounting to Rs.0.50 million was handed over to contractor on loan basis for early completion of work from ADB stock balance. However, date of return of material, period for which material was handed over on loan basis and terms & conditions was not forthcoming from the record.

Non-adherence to contract clause resulted in to irregular handing over of material on loan basis amounting to Rs.0.50 million during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that material was issued on loan basis to the contractor and would be received back in due course of time. The reply was not tenable as contract clause had been violated.

The DAC in its meeting held on December 20-21, 2018 did not agree with management's stance and directed that conduct an inquiry be conducted in the matter. DAC also directed to stop this practice in future. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 802/2018-19)

CHAPTER-10

GUJRANWALA ELECTRIC POWER COMPANY (GEPCO)

10. GUJRANWALA ELECTRIC POWER COMPANY (GEPCO)

10.1 Introduction

Gujranwala Electric Power Company (GEPCO) is a subsidiary of PEPCO. The Company started its operation as a Public Limited Company registered under Companies Ordinance 1984 (now Companies Act 2017) in May, 1998. The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company purchases electricity from CPPA through NTDC system and sells it to various consumers within Gujranwala, Gujrat, Mandi Bahaudin, Narowal, Hafizabad and Sialkot Districts.

The operational activities are performed through five Operation Circles and Grid System Construction, Project Construction & Grid System Operation Circles.

10.2 Comments on Financial Statements

10.2.1 Objective of Financial Analysis

The objective of analysis of GEPCO's financial statements is basically to assess the financial health of the Company to bear its operational costs and to indicate the factors contributing the accumulation of huge circular debt. For this purpose the horizontal and vertical trend analysis of Company's finances has been conducted. Critical factors affecting the financial statements have also been highlighted.

10.2.2 Horizontal Analysis of Financial Statement

Horizontal analysis (also known as trend analysis) is a financial statement analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time. The statements for two or more periods are used in horizontal analysis. Audit used financial statements for the year ended 30 June 2016 to 2018.

10.2.3 Profit and Loss Account
For the year ended June 30, 2016 to 2018

(Rs. in billions)

	2016	%age Inc/Dec	2017	%age Inc/Dec	2018
Sale of electricity	74.479	10.97	82.647	13.32	93.658
Subsidy from Government of Pakistan on sale	23.419	12.38	26.318	8.20	28.477
Total Sale	**97.897**	**11.31**	**108.966**	**12.08**	**122.135**
Cost of Electricity	(73.423)	17.96	(86.612)	27.36	(110.311)
Gross profit	**24.475**	**(8.66)**	**22.354**	**(47.11)**	**11.824**
Operating expenses excluding depreciation	(13.183)	0.61	(13.264)	15.26	(15.288)
Depreciation	(1.654)	8.58	(1.796)	8.91	(1.956)
Operating profit / (loss) before interest and tax	**9.637**	(24.31)	**7.294**	**(174.31)**	**(5.420)**
Amortization of deferred credit	0.714	8.12	0.772	7.77	0.832
other income	0.721	(30.23)	0.503	101.19	1.012
Total other income	**1.435**	(11.15)	**1.275**	**44.71**	**1.845**
Net profit /(loss) before interest and tax	11.072	(22.61)	8.569	(141.72)	(3.575)
Financing cost	(0.861)	24.85	(1.075)	35.53	(1.457)
Net profit /(loss) after interest	**10.212**	(26.62)	**7.494**	**(167.15)**	**(5.032)**
Taxation	(0.013)	(84.61)	(0.002)	50.00	(0.003)
Net profit/(loss) after tax	**10.199**	**(26.54)**	**7.492**	**(167.21)**	**(5.035)**

Source: Audited Financial Statements for the year ended 30 June 2017 and Un-audited Financial Statements for year ended 30 June 2018

10.2.4 Balance Sheet
As at June 30, 2016 to 2018

(Rs. in billions)

	2016	%age Inc/Dec	2017	%age Inc/Dec	2018
Issued, subscribed and paid up share capital	0.00001	-	0.00001	-	0.00001
Accumulated (losses) un-appropriated profit	0.449	(684.85)	(2.626)	398.09	(13.080)
Deposit for issuance of share	20.058	(5.56)	18.943	-	18.943
Total Share capital and reserve	**20.507**	**(20.43)**	**16.317**	**(64.07)**	**5.863**
Non-current liabilities					
Deferred credit	15.165	4.99	15.922	7.13	17.056
Long term financing –secured	7.033	8.60	7.638	0.68	7.690
Deferred liabilities	40.316	35.64	54.683	17.77	64.403
Security deposit	3.987	11.95	4.463	16.18	5.185
Total non-current liabilities	**66.501**	**24.37**	**82.707**	**14.06**	**94.334**
Current liabilities					
Trade and other payable	12.978	(15.22)	11.002	128.60	25.151
Interest accrued on long term financing	1.149	56.23	1.795	43.81	2.582
Current portion of long term financing	0.631	51.28	0.955	8.66	1.037
Total Current liabilities	**14.758**	(6.82)	**13.752**	109.20	**28.770**
Contingencies and commitments.					
Total liabilities	**101.766**	**10.82**	**112.775**	14.36	**128.967**
Non-Current Asset					
Property, plant and equipment	41.524	7.21	44.516	5.11	46.792
long term loan- considered good	0.491	11.60	0.548	6.18	0.582
Total Non-current assets	**42.015**	7.26	**45.064**	5.13	**47.374**
Current Asset					

Store and Spares	0.895	19.62	1.071	2.04	1.093
Trade debts	14.902	26.23	18.811	12.65	21.190
Short term loans and advances	0.213	(17.38)	0.176	22.73	0.216
Interest receivable accrued	0.026	57.69	0.041	46.34	0.060
Other receivable	41.728	6.38	44.392	23.71	54.916
Total Receivables	**56.869**	11.52	**63.419**	20.44	**76.383**
Short term investments	0.584	113.18	1.245	81.04	2.254
Cash and bank balances	1.403	40.91	1.977	(5.76)	1.863
Total Current Assets	**59.751**	13.32	**67.711**	20.50	**81.593**
Total Assets	**101.766**	**10.82**	**112.775**	**14.36**	**128.967**

Source: Audited Financial Statements for the year ended 30 June 2017 and Un-audited Financial Statements for year ended 30 June 2018

10.2.5 Huge accumulated loss sustained by Company

The financial statements of the company as June 30, 2018 shows that the Company has suffered accumulated loss of Rs.13.080 billion up to June 30, 2018 which has turned equity of the Company into negative and its current liabilities exceeded its current assets. Payable of the Company stood at Rs.25.151 billion (as on June 30, 2018) in shape of circular debt ultimately born by the public exchequer through government bailout. The Company has no strategic business plan to turnaround the Company into a viable and sustainable profit making entity.

10.2.6 Gap between Cost and Sales Revenues

Revenue from sale of electricity has increased by 11.31% and 12.08% in 2017 and 2018 whereas the cost of electricity has increased at a higher rate i.e. 17.96 % and 27.36 % in 2017 and 2018 respectively. This increase in revenues and exponential increase in cost does not supplement each other.

Increase in cost was due to 13.32% increase in average purchase rate whereas average sale rate was decreased by 0.48% in 2018. This un-even increase in rates has also contributed to huge gap between sales revenues and cost of electricity.

(Rs. in billion)

	2016	**% age Inc/(Dec)**	**2017**	**% age Inc/(Dec)**	**2018**
Sale of Electricity	**97.897**	**11.31**	**108.966**	**12.08**	**122.135**
Units Sold (Billion KWH)	**8.089**	**8.51**	**8.777**	**12.63**	**9.886**
Avg. Sale rate (Rs. per KWH	***12.10***	***2.56***	***12.41***	***-0.48***	***12.35***
Cost of Electricity (Rs. in billion)	**73.423**	**17.96**	**86.612**	**27.36**	**110.311**
Unit Purchased (Billion KWH)	**9.045**	**8.11**	**9.779**	**12.34**	**10.986**
Avr. Purchase Rate (Rs. per KWH)	***8.12***	***9.11***	***8.86***	***13.32***	***10.04***

Net profit of Rs.10.199 billion was earned in 2016 which decreased to Rs.7.492 billion in 2017 as compared to 2016. But loss of Rs.5.035 billion has been sustained in 2018.

10.2.7 Heavy HR cost

The gap between electricity cost and sales revenues trickles down in the whole financials leading to gross losses.

(Rs in billion)

	2016	**% age of total opex**	**2017**	**% age of total opex**	**2018**	**% age of total opex**
Salaries, wages and other benefits	11.354	86.12%	11.026	83.13%	13.302	87 %
Other operating expenses	1.830	13.88%	2.238	16.87%	1.986	13%
Total OPEX	**13.184**	100%	**13.264**	**100%**	**15.288**	**100%**

Source: Audited Financial Statements for the year ended 30 June 2017 and Un-audited Financial Statements for year ended 30 June 2018

During 2018 major operating expenses are salaries and wages (87%) of total operating expenses as compared to 83.13% and 86.12 % in 2017 and 2016 respectively. Although the management cut its staff cost in 2017, but these expenses again increased in 2018. There is need to further rationalize its human resources.

10.2.8 Heavy Funds stuck in Trade debts

Trade debts against sale of electricity has increased to Rs.21.190 billion in 2018 as compared to Rs.18.811 billion in 2017 and Rs.14.902 billion in 2016 showing an increase of 42.19% in three years. In 2018 total trade debts with the aging above six (6) months are Rs.13.523 billion out of which Rs.1.951 billion are related to private sector and Rs.11.572 billion to Government sector. Receivable from government sector includes Rs.11 billion from Government of Azad Jammu Kashmir (GoAJK). The accumulated balance of receivable from Government of AJK represents the difference between rates applies on electricity bills to Government of AJK based on tariff notified by GoP determined by the sub-committee. The dispute of tariff between GEPCO, GoP and AJK has not been cleared up till now.

(Rs. in million)

Category		**OVER 6 MONTHS & UPTO 1 YEAR**	**OVER 1 YEAR & UPTO 3 YEAR**	**ABOVE 3 YEARS**	**TOTAL**
GOVERNMENT CONSUMERS					
	RUNNING	175.17	665.74	10599.94	11569.65
	DEFAUTERS	0.81	1.15	3.31	2.71
Total		**175.98**	**666.89**	**10603.25**	**11572.36**

PRIVATE CONSUMERS					
COMMERCIAL & INDUSTRIAL	**RUNNING**	45.12	117.52	50.98	573.19
	DEFAUTERS	4.46	7.07	9.1	24.05
Sub Total		**49.58**	**124.59**	**60.08**	**597.24**
GENERAL CONSUMERS	**RUNNING**	0	0	0	1128.46
	DEFAUTERS	30.11	65.94	91.71	225.54
Sub Total		***30.11***	***65.94***	***91.71***	***1354***
Total private		**79.69**	**190.53**	**151.79**	**1951.24**
Total Amount Govt & private		***255.67***	***857.72***	***10,755.04***	***13,523.6***

(Source: - Age analysis provided by PITC)

Category wise age analysis of energy trade debtors as on 30.06.2018, shows that Rs.10.603 billion have been stuck with Government sector debtors which are more than 3 years old and Rs.0.211 billion are blocked by private sector debtors which are over 3 year. Audit is of the view that a major factor contributing in circular debt is non-recovery from trade debtors. It is recommended to recover these long outstanding dues immediately in order to improve the cash flows of the Company.

10.2.9 Heavy CPPA Payables

(Rs. in billion)

	2016	% age Inc/(dec)	2017	% age Inc/(dec)	2018
CPPA Payable	0	0	0	100	12.785

CPPA Payables are Rs.12.785 billion in 2018 as there was no payment due in 2017 and 2016. This shows an increase of 100% in 2018. Non-payment of CPPA's dues on time is the major cause of circular debt. It is recommended that in order to ensure timely payments of CPPA dues, the management of GEPCO should enhance its recovery/collection.

10.2.10 Short Recoveries against Amount Billed

Recovery of amount billed by GEPCO during FYs-2016-17 & 2017-18 against 100% target given by NEPRA has been analyzed as under:

(Rs in million)

Financial Year	Amount of Current Billing During the Year	Amount of Collection during the year			Short Fall of Recovery Against Current Billing	%age Of Recovery Against Current Billing	%age Of total Recovery shown during the year
		Against Current Billing	Against Arrear	Total			
1	*2*	3	4	5 (3+4)	6 (2-3)	7 (3/2*100)	8 (5/2*100)
2016-17	**105,814.92**	88,935.51	12,638.75	**101,574.26**	16,879.41	**84.05**	**95.99**
2017-18	**125,736.17**	106,384.76	14,408.84	**120,793.60**	19,351.41	**84.61**	**96.07**

(Source PITC Data)

Poor recovery %age of GEPCO resulted in less recovery of revenue as there was a shortfall of Rs.16.88 billion during 2016-17 and Rs.19.35 billion in 2017-18. During 2016-17 GEPCO's total recovery has been shown as 95.99% against NEPRA's target of 100%, whereas the recovery against current billing was 84.05% and rest of recovery related to the arrear. Likewise in 2017-18 the total recovery was shown as 96.07 % but the factual recovery against current billing was 84.61%. Thus the percentage of the total recovery was not true representative of the billing during the respective financial years, which needs to be rationalized and justified.

10.2.11 Non-recognition of long term liability for circular debt Retirement and markup

The Central Power Purchasing Agency (CPPA) entered into a multi-parties agreement for financing of Rs.335 billion in 2017 (under agreement executed between Power Holding (Pvt.). Limited "PHPL" and syndicate Bank for the purpose of funding repayment of liabilities of DISCOs against cost of electricity purchased. The syndicate financing has been arranged by PHPL and GoP in order to reduce a portion of "circular Debt" on markup basis. Accordingly the Company has received credit notes aggregating to Rs.21,534 million (2017 : 21,534 million) from the CPPA to recognize this as a loan from the payable balance to CPPA. The re-lending agreement between the Company and PHPL is not finalized as of the reporting date. The management of the Company believes that the Company's obligation under the arrangement will arise once the relending agreement between the company and PHPL is finalized. Accordingly, loan related liabilities have not been recorded in these financial statements.

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
GEPCO	2002-03	01	-	-	**01** (Para No. 5)
	2016-17	01		**18** (Para No. 4.1.1, 4.1.2, 4.1.7, 4.1.13 to 4.1.21, 4.1.24, 4.1.26, 4.1.27, 4.1.30, 4.1.31, 4.1.33)	

Position of compliance with PAC directives is not satisfactory.

10.4 AUDIT PARAS

10.4.1 Non-recovery from Government of Azad Jammu Kashmir on account of billing and late payment surcharge - Rs.9,444 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 procedure".

In GEPCO, an amount of Rs.9,444 million was recoverable from Government of Azad Jammu Kashmir on account of electricity bills and late payment surcharge. Strenuous efforts were not made to recover the huge amount.

Non-adherence to the Commercial Procedure and Management's instructions resulted in non-recovery of dues from Government of Azad Jammu & Kashmir amounting to Rs.9,444 million up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management replied that the matter was still under consideration at GoP level through high level committee.

The DAC in its meeting held on December 20-21, 2018 directed the management to pursue the matter at Government level. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 976/2018-19)

10.4.2 Unjustified utilization of consumers' security deposits - Rs.5,185.03 million

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

In GEPCO, consumers' security deposits valuing Rs.5,185.03 million were lying under non-current liabilities at close of financial year. But scrutiny of bank statements of Security Deposit Accounts showed that there was insufficient cash balance in these accounts, which indicated that the amount received against the head "Security Deposit" had been utilized somewhere else.

Non-adherence of above rules resulted in unjustified utilization of consumer's security deposits amounting to Rs.5,185.03 million up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that the payment was remitted to CPPA(G) on loan basis after obtaining approval of BoD. The reply was not tenable as the NEPRA's directions were violated

The DAC in its meeting held on December 20-21, 2018 directed the management to recover the amount from CPPA(G) for which expeditious efforts were required. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives and stop the practice of using consumer security deposit.

(Draft Para No. 1457/2018-19)

10.4.3 Loss due to less claim of Tariff Differential Subsidy (TDS) - Rs.1,182.04 million

As per S.R.O.960(I)/2008 dated September 5, 2008 notified by the Government of Pakistan, Ministry of Water & Power "The difference between the relevant rates determined by NEPRA as per Schedule-I and the rates charged from the consumers as per Schedule-II shall be paid by the Federal Government of Pakistan".

In GEPCO, TDS claims for Rs.18,816.48 million were lodged by the Company in Domestic Category of tariff. Whereas according to tariff schedule I & II issued along with SRO referred above, claims for Rs.19,998.52 million was required to be lodged. This difference of Rs.1,182.04 million was due to application of wrong slabs which was yet to be recovered.

Non-adherence of above rule resulted in loss of Rs.1,182.04 million due to less claims of tariff differential subsidy up to financial year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within 10 days. Further progress was not reported till finalization of the report.

Audit recommends for expeditious recovery of less claimed TDS from Government.

(Draft Para No. 986/2018-19)

10.4.4 Irregular expenditure on purchase of material under ADB Loan Tranche-II – Rs.320.93 million

According to PC-I of Power Distribution Enhancement project Tranche-II, "the Scope of work for all project components for GEPCO was given in table 1 & 2(tables attached)". As per clause 2.13 of loan agreements Except as ADB may otherwise agree, each DISCO shall apply the proceeds of loan to the financing of expenditure on the project in accordance with the provisions of the Loan agreement and this Project Agreement, and shall ensure that all items of expenditure financed out of the proceeds of the loan are used exclusively in the carrying out the project.

In PMU GEPCO, a contract for supply of 920 distribution transformers of 200 KVA was awarded to M/s South China Electric (Quanzhou) Company at a contract price of Rs.320.93 million (US$ 3.014 million) under ADB Loan-2727 Tranche-II. The said work was neither included in PC-I nor covered under loan agreement. The expenditure was incurred without getting approval from the competent forum viz. ECNEC.

Non-adherence PC-I clause resulted into irregular expenditure on purchase of material under ADB loan Tranche-II Rs.320.93 million during the Financial Year 20-17-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that ADB allowed utilization of saving of loan and works were awarded after the approval of BoD. The reply was not tenable as violation of PC-I was made.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce relevant record to Audit for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the violation of PC-I for fixing the responsibility.

(Draft Para No. 426/2018-19)

10.4.5 Loss due to issuance of variation order to favor private housing scheme – Rs.50.66 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of store, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

In PMU GEPCO, a contract for construction of five (05) 132 KV transmission lines was awarded to M/s ICC Pvt. Lahore on Turnkey basis (EPC). However, Sahowala - Pasrur 132 KV transmission line could not be completed. Subsequently, a variation order amounting to Rs.50.66 million for change of route of the transmission line was approved by the BoD. Since, the route was changed to accommodate a Housing Scheme, hence, the additional cost of Rs.50.66 million was required to be recovered from sponsor, which was not done.

Non-adherence to the above rules resulted into irregular issuance of supply order valuing Rs.50.66 million during financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that the variation order was issued in order to resolve RoW problem. The reply was not agreed to as variation order was approved to accommodate a housing scheme.

The DAC in its meeting held on December 20-21, 2018 directed the management to refer the case to BoD and settle the issue of RoW within 15 day. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter at appropriate level besides fixing responsibility.

(Draft Para No. 315/2018-19)

10.4.6 Non-utilization of electrical material procured under ADB loan - Rs.45.88 million

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

In PMU GEPCO, electrical material worth Rs.45.88 million procured under ADB Loan (Tranche-IV) was lying in store un-issued since 2014. Neither the material was allocated nor utilized to the project envisaged in PC-I causing not only delay of the project but also bearing interest charges on procurement without reaping any benefits thereof.

Non-adherence to Authority's instructions resulted in non-utilization of electrical material / equipment valuing Rs.45.88 million procured under ADB loan up to the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that material was strategic spare parts and could be utilized in due course of time. The reply was not tenable as the projects were not completed within stipulated time.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter for inordinate delay besides fixing responsibility.

(Draft Para No. 322/2018-19)

10.4.7 Non-execution of deposit work as per specification of work – Rs.45.23 million

"Deputy Manager GEPCO Wazirabad letter No. 12316-19/ dated 20.11.2017".

In Construction Circle GEPCO, an amount of Rs.45.23 million was incurred on the deposit work for extension of load. The work was completed but operation management refused to take over the work and raised various objections on the specification of the material.

Non-adherence to above rules resulted in non execution of deposit work as per specification up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within 10 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 920/2018-19)

10.4.8 Loss due to non-charging of late payment surcharge - Rs.36.81 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 procedure".

In Operation City Circle GEPCO Gujranwala, due dates of energy bills of thirty three (33) industrial consumers were extended without charging of late payment surcharge (LPS) amounting to Rs.36.81 million.

Non-adherence to commercial procedure resulted in loss of Rs.36.81 million due to non-charging of late payment surcharge during the Financial Year 2017-18.

The matter was taken up with the management during July, 2018 and reported to the Ministry in October, 2018. The management replied that record relating to all cases was ready for verification. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit 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 responsibility besides making good the loss.

(Draft Para No. 116/2018-19)

10.4.9 Irregular electrification of housing societies and commercial plazas - Rs.28.74 million

As per policy of external electrification of housing schemes and commercial plazas circulated in October, 1998, the voltage drop and technical losses of the existing and proposed 11 KV feeder from which electrification is proposed should not exceed the limit of 5% and 3.5% respectively.

In GEPCO, electrification of eight (08) housing schemes with estimated cost of Rs.28.74 million was approved against the existing 11 KV feeders beyond the permissible technical parameters of 5% and 3.5%. These cases were approved without bringing down the technical parameters to the specified limits to the proportionate cost of the sponsor. Hence, electrification of housing societies by sanctioning the load from heavy losses feeders was not justified.

Non-adherence of above mentioned policy resulted in irregular electrification of housing societies valuing Rs.28.74 million during the Financial Year 2017-18.

The matter was taken up with management in October, 2018 and reported to the Ministry in November, 2018. The management replied that no housing scheme was electrified however, LV proposal was executed for upkeep of voltage under maintenance head. The reply was not tenable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to conduct facts 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 implement DAC's directives besides fixing responsibility.

(Draft Para No. 1047/2018-19)

10.4.10 Unjustified excess charging of overheads - Rs.27.51 million

As per General Manager Operation's instructions issued vide office letter No.6555-74 dated July 01, 2002, installation charges at the rate of 8% on cost of material will be applied while preparing the estimates by field formations.

In GSC GEPCO, overhead charges of Rs.27.51 million ranging from 29.22% to 94.83% were charged against material cost of Rs.59.17 million on five (05) works. Resultantly, overheads of Rs.27.51 million were charged beyond the fixed limit of 8% which was irregular and unjustified.

Non-adherence to the Authority's instructions resulted in unjustified excess charging of overheads amounting to Rs.27.51 million up to the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within 10 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding excess charging of overheads besides fixing responsibility.

(Draft Para No. 1019/2018-19)

10.4.11 Irregular electrification of industries from overloaded power transformers - Rs.24.07 million

As per diagnostic analysis of existing network of GEPCO 132 / 66 KV Lines / Circuits, percentage loading of more than 80% is also cause of poor Performance Standards set by NEPRA.

In GEPCO, industrial connections (B-3) with estimated cost of Rs.24.07 million were approved against the existing 11 KV feeders already running on overloaded power transformers ranging from 83.96% to 99.62%. Hence, undue favour was given to the consumers.

Non-adherence to above instructions resulted in irregular electrification of industries costing Rs.24.07 million from overloaded power transformers during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in December, 2018. The management replied that the electrification was made as per SOP. The reply was not tenable as the transformers were overloading beyond 80%.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide copy of SOP and get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1498/2018-19)

10.4.12 Loss due to extra favor to the contractor - Rs.22.77 million

As per Clause-2.13 of loan agreement except as ADB may otherwise agree, each DISCO shall apply the proceeds of loan to the financing of expenditure on the project in accordance with the provisions of the Loan agreement, and shall ensure that all items of expenditure financed out of the proceeds of the loan are used exclusively in the carrying out of the project.

In PMU GEPCO, material worth Rs.37.94 million was procured by GEPCO for the project Tranche-II but issued to contractor M/s ICC on loan basis during the year 2013. This material was returned by the contractor in 2017. The contractor utilized the material for 4 years. On the other side, the company had to pay Rs.22.77 million for interest @15% per annum to ADB.

Non-adherence to loan agreement clause resulted into loss due to extra favor to the contractor for Rs 22.77 million during the Financial Year 20-17-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that the material was given to the contractor to energize the grid station in least time so no payment of interest was involved. The reply was not acceptable as it was the responsibility of the contractor to arrange and install material on his own resources for completion of the project.

The DAC in its meeting held on December 20-21, 2018 did not agree with management's stance and directed the management to conduct inquiry within one month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 427/2018-19)

10.4.13 Non-recovery of income tax from industrial consumers - Rs.19.59 million

According to Section-153(1) of Income Tax Ordinance, "every prescribed person making a payment in full or part including a payment by way of advance to a resident person or permanent establishment in Pakistan of a non-resident person - a) for the sale of goods; b) for the rendering of or providing of services; c) on the execution of a contract, other than a contract for the sale of goods or the rendering of (or providing of) services, shall at the time of making the payment, deduct tax from the gross amount payable at the rate specified in Division-III of Part-III of the First Schedule".

In Operation Circle Cantt GEPCO, two (02) industrial consumers were enjoying the electricity facility without paying the income tax Rs.19.59 million to FBR, after the rejection of their applications. Neither the income tax was recovered from them nor the disconnected the electricity connections.

Non-adherence to Income Tax Ordinance, 2001 resulted in non-recovery of income tax amounting to Rs.19.59 million from the industrial consumer during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that matter was subjudice in High Court.

The DAC in its meeting held on December 20-21, 2018 directed the management to pursue the court case vigorously. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 497/2018-19)

10.4.14 Loss due to discrepancies pointed out by Vigilance Team of PEPCO - Rs.13.42 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GEPCO, vigilance team of PEPCO pointed out several cases of discrepancies regarding theft, misuse of tariff and non-installation of independent transformer through different reports. Neither any action was taken against delinquents nor recovery of amount involved in these cases of Rs.13.42 million on account of cost of transformers and difference of tariff was made so far.

Non adherence to above instructions resulted in loss of Rs.13.42 million due to discrepancies pointed out by vigilance PEPCO during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management replied that actions in all cases as per recommendation of inquiry committee were under process. The reply was not satisfactory as internal controls were not given due consideration.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the actions against delinquents and intimate final status to Audit within 30 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1046/2018-19)

10.4.15 Undue favour extended to the consumers by installing more than one industrial connection on the same premises - Rs.11 million

The connection having load more than 1000 KW is required to be energized from independent feeder.

In GEPCO, two industrial connections with sanctioned load 495 KW + 490 KW was running at the premises of M/s Master Sanitary Fittings in March, 2018 as pointed out by Vigilance Directorate. The consumer had applied for amalgamation of load of two connections in April, 2018. The applications were processed in Chief Engineer (P&E) GEPCO and it was pointed out that the consumer was already using load more than 1104 KW. The situation showed that undue favour was extended to consumer by sanctioning two (02) connections at the same premises to save the consumer from independent feeder cost of Rs.11 million.

Non-adherence of above rules resulted into extra favour of Rs.11 million to consumer up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within 10 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to conduct an inquiry in the matter and fix responsibility against those who sanctioned two connections on the same premises.

(Draft Para No. 1459/2018-19)

10.4.16 Irregular extension of load by installing higher capacity of transformer - Rs.9.36 million

As per approval of Extension of Load (EOL), "the capacity of transformer(s) shall be restricted".

In GEPCO, two consumers applied for extension of load which was approved by the Chief Executive Officer GEPCO with the condition that the capacity of new transformer(s) would be restricted, so that consumer cannot extend his load illegally. But these consumers installed transformers of capacity more than permitted valuing Rs.9.36 million irregularly.

Non-adherence to instruction of authority resulted in irregular extension of load by installing higher capacity of transformers valuing Rs.9.36 million during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within 10 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to conduct the inquiry into the matter and fix responsibility on those who allowed installation of transformers more than the permissible capacity.

(Draft Para No. 1460/2018-19)

10.4.17 Overbilling on the distribution system - Rs.8.81 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 procedure".

In GSO GEPCO, energy units 73411 amounting to Rs.8.81 million were sent out to operation system, in excess of units actual received. It was not only the fictitious supply of electricity, but also the extra burden in the shape of overbilling to the consumers.

Non-adherence to Authority's instructions resulted in over billing amounting of Rs.8.81 million by the GSO Circle during the financial year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that difference in units received and units sent was due to accuracy classes. However, reconciliation of difference was under process.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reconciliation of units and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 232/2018-19)

10.4.18 Non-recovery of energy charges from the consumers - Rs.6.67 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 procedure".

In Operation Sialkot Circle GEPCO, 218 consumers were involved in stealing of energy since long. Circle Team lodged FIRs and proposed detection units to be charged against the culprits. Resultantly, an amount of Rs.1.09 million was recovered against Rs.7.76 million leaving a balance amounting to Rs.6.67 million.

Non adherence to the rules resulted into non-recovery of energy charges from the consumers- Rs.6.67 million during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in December, 2018. The management replied that an amount of Rs.1.09 million had been recovered while efforts were being made to recover remaining arrears. The reply was not tenable as the management delayed action of application of Commercial Procedure.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide record relating to completed actions and expedite the pending actions within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 1461/2018-19)

10.4.19 Loss due to encroachment of GEPCO's Land - Rs.4 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GEPCO, land measuring 32 Kanal situated in Mauza Aduray Qila Nohid Sing adjacent to City Housing Scheme was purchased by GEPCO during May 2014 and also mutated in the name of GEPCO. But City Housing Scheme had converted this property valuing Rs.4 million into part of their scheme by taking illegal possession of this land which was a loss to the Company.

Non-adherence to above instructions resulted in loss of Rs.4 million due to encroachment of company's property up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management replied that land was donated by sponsor free of cost and even expenses of mutation were also borne by sponsor. The reply was not agreed to as GEPCO did not get the encroached land vacated from City Housing Scheme.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1039/2018-19)

10.4.20 Non-execution of deposit works – Rs.3.89 million

According 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 GEPCO, an amount of Rs.3.89 million was received from the sponsoring agencies for construction of various works. No expenditure was incurred against these works which showed that no steps were taken to execute these works. By this way, the Company was deprived of envisaged benefits which required justification.

Non-adherence to rehabilitation guidelines resulted in non-execution of works valuing Rs.3.89 million up to the Financial Year 2017-18.

The matter was taken up with management in October, 2018 and reported to the Ministry in November, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expedite the completion of deposit works besides fixing responsibility.

(Draft Para No. 989/2018-19)

10.4.21 Loss due to inordinate delay in completion of work - Rs.2.87 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GSC GEPCO, a work for construction of 5000 gallon capacity over head tank was awarded to M/s Islam & Company on April 9, 2013 at a contract price of Rs.6.50 million to be completed in 120 days. The contractor could not complete the work even after lapse of 5 years. Final bill of the contractor for Rs.9.37 million was paid in August, 2018 resulting excess payment of Rs.2.87 million. Hence, inordinate delay in completion of work resulted in loss to the stated extent which needed justification.

Non-adherence to instruction of authority resulted in loss amounting to Rs.2.87 million due to inordinate delay in completion of work up to the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that maximum penalty for late completion of projects was 10% of contract price which had been deducted. The reply was not tenable as management failed to explain the reasons for excess payment.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to inquire the matter as to why penalty clause was not invoked.

(Draft Para No. 1023/2018-19)

10.4.22 Loss due to misconduct of employees - Rs.2.75 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GEPCO, as a result of investigation conducted by Manager (S&I) two officers / officials were found guilty of misconduct for external electrification of an illegal housing scheme causing a loss of Rs.2.75 million. The management neither initiated any action against them nor regularized the illegal electrification by recovery of Rs.2.75 million.

Non-adherence of above instruction resulted in loss of Rs.2.75 million due to misconduct of employees during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management stated that revised reply was submitted to Audit in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the finalization of disciplinary action against those who found guilty of providing illegal electrification to Housing Schemes besides recovery from sponsors. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 983/2018-19)

10.4.23 Undue favor given to commercial consumers due to non-providing of independent substation - Rs.2.61 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of store, shall be subject 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 Sialkot GEPCO, seventeen (17) commercial consumers relating to plazas, markets, marriage halls & big premises were using energy from general duty transformers. Whereas, these consumers were required to be provided independent substation after recovering the cost of Rs.2.61 million.

Non-adherence to above instructions resulted in undue favor given to commercial consumers due to non-providing of independent substation Rs.2.61 million during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in December, 2018. The management replied that regularization of all the cases were under process. The reply was not tenable as management had delayed recovery of cost from the consumer.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite regularization of extended load after recover cost from consumers and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

(Draft Para No. 1385/2018-19)

10.4.24 Loss due to non-extension of contract of newly appointed SDOs - Rs.2.24 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GSO GEPCO, an amount of Rs.2.24 million was paid to four SDOs after the expiry of contract agreement which was irregular & un-justified. Neither the contract agreement was renewed, not the irregular payment was recovered from the concerned officers.

Non-adherence to the guidelines of the Authority resulted in irregular payment of Rs.2.24 million to the officers, during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that the contract period of the officers had been extended by CEO GEPCO. The reply was not tenable as the payment was made to officers after expiry of contract agreement, which was not justified.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 202/2018-19)

10.4.25 Loss due to non-bifurcation of 11 KV Ikhlaspur Feeder - Rs.1.75 million

As per policy of external electrification of housing schemes and commercial plazas circulated in October, 1998, the voltage drop and technical losses of the existing and proposed 11 KV feeder from which electrification is proposed should not exceed the limit of 5% and 3.5% respectively.

In GEPCO, voltage drop and annual energy loss at 11 KV Ikhlaspur Feeder was 35% and 14.79% against the permissible limit of 5% and 3.5% respectively. A work order for bifurcation of this feeder was issued to Construction Circle. The work could not be executed even after lapse of more than one year. Resultantly, Company sustained a loss of Rs.1.75 million annually due to non-attaining of envisaged benefits.

Non-adherence to above policy resulted into loss of Rs.1.75 million to Company due to non-bifurcation of feeder during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's and initiate the work of bifurcation of feeder to prevent annual loss to the company besides fixing responsibility of delay.

(Draft Para No. 988/2018-19)

10.4.26 Loss due to non-recovery of cost of damaged tower - Rs.1.67 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (as amended up to January, 2001), "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 GSC Circle GEPCO, one tower (ZM-30) of 132kv transmission line was collapsed during windstorm on 26.05.2018. An inquiry was conducted in the matter and it was concluded that tower was collapsed due to less depth of foundation and not following the proper design as per site requirement which was the fault of the contractor. Damaged tower was erected by some other contractor with a cost of Rs.1.67 million and no cost was recovered from defaulting contractor. Hence, loss of Rs.1.67 million was sustained due to non-recovery of cost incurred on the erection of collapsed tower.

Non-adherence of rule resulted into loss of Rs.1.67 million due to non-recovery of cost of erection of collapsed tower during the financial year 2017-18.

The matter was taken up with management in September, 2018 and reported to the Ministry in December, 2018. The management replied that the contracting firm had been barred for participation in civil works tendering for three years and disciplinary actions had been initiated against SDO and XEN.

The DAC in its meeting held on December 20-21, 2018 directed the management to finalize disciplinary proceedings and recover the loss suffered by the Company. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1021/2018-19)

10.4.27 Non-recovery from permanent disconnected consumers - Rs.0.88 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 procedure".

In Operation City Circle GEPCO, 04 Nos. connections were permanently disconnected from 57 months, but running at site. The cost of material and arrears amounting to Rs.0.88 million was not recovered till now.

Non-adherence to Authority's instructions resulted in non-recovery of Rs.0.88 million from permanent disconnected consumers during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in October, 2018. The management replied that concerned field formations were directed to produce relevant record to Audit. The reply was not tenable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the recovery of amount and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 168/2018-19)

CHAPTER-11

HYDERABAD ELECTRIC SUPPLY COMPANY (HESCO)

11. HYDERABAD ELECTRIC SUPPLY COMPANY (HESCO)

11.1 Introduction

Hyderabad Electric Supply Company (HESCO) is a subsidiary of PEPCO. The Company started its operations as a Public Limited Company during July, 1998 and registered under Companies Ordinance 1984 (now Companies Act 2017) as a public limited company. The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company purchases electricity from CPPA through NTDC system and sells it to various consumers within thirteen districts of Sindh Province.

The operational activities are performed through four Operation Circles and Grid System Construction, Project Construction & Grid System Operation Circles.

11.2 Comments on Financial Statements

11.2.1 Financial Audit Findings

The financial statements up to the year 2016-17 were audited by the Chartered Accountants and management accounts for the year 2017-18 were included in the financial analysis. The financial results of the Company for the year 2017-18 as compared to the previous years' 2015-16 & 2016-17 are tabulated below:

12.2.2 Balance Sheet
As at June 30, 2018

(Rs. in billion)

	2017-18	% Inc/(Dec)	2016-17	% Inc/(Dec)	2015-16
EQUITIES AND LIABILITIES:					
Share capital and reserve:					
Authorized share capital:					
1000(2016 :1000) ordinary shares of Rupees 10 each	0.00001	0	0.00001	0	0.00001
issued subscribed and paid capital:	0.00001	0	0.00001	0	0.00001
Accumulated loss	(181.695)	14.08	(159.274)	20.79	(131.864)
	(181.695)	**14.08**	**(159.274)**	**20.79**	**(131.864)**

Deposit for issue of share capital	71.521	0	71.521	0	71.521
Deferred Credit	17.494	3.9	16.837	8.05	15.582
NON CURRENT LIABILITIES:					
Long term financing	5.89	27.21	4.63	14.6	4.04
Consumer security deposit	1.841	10.97	1.659	10.45	1.502
Receipt against deposit work	2.965	(0.37)	2.976	(3.5)	3.084
Staff retirement benefits	25.49	3.27	24.682	8.17	22.818
Total non-current liabilities	**36.185**	**6.59**	**33.947**	**7.96**	**31.444**
CURRENT LIABILITIES:					
Creditor, accrued and other liabilities	9.61	69.25	5.678	(4.78)	5.963
Accrued mark up	5.735	16.71	4.914	28.64	3.82
Due to associated undertaking	187.749	32.24	141.972	23.31	115.132
Current and overdue portion of long term financing	2.441	4.99	2.325	20.59	1.928
Total current liabilities	**205.534**	**32.7**	**154.889**	**22.11**	**126.843**
Contingencies and commitments	-		-		-
Total equity and liabilities	**149.039**	**26.39**	**117.921**	**3.87**	**113.525**
ASSETS:					
NON CURRENT ASSETS:					
Property, plant & equipment	39.549	7.97	36.628	10.08	33.274
Long term loans	0.0112	(25.33)	0.015	(21.05)	0.019
long term deposits	-		0.551		-
Total non-current assets	**39.561**	**6.36**	**37.194**	**11.72**	**33.293**
CURRENT ASSETS:					
Stores, spares and loose tools	2.691	(1.32)	2.727	17.44	2.322
Trade debts	37.469	36.26	27.499	(8.4)	30.021
Loan and advances	1.446	97	0.734	19.74	0.613
Due from associated undertakings	42.252	43.93	29.356	12.96	25.989
Other receivables	18.842	19.39	15.782	(7.79)	17.116
Advance income tax	0.754	10.56	0.682	(20.42)	0.857
Accrued markup	0.008	(60.00)	0.02	233.33	0.006
Cash and bank balances	6.016	53.2	3.927	18.68	3.309
Total current assets	**109.478**	**35.62**	**80.727**	**0.62**	**80.233**
Total assets	**149.039**	**26.39**	**117.921**	**3.87**	**113.526**

11.2.3 Profit and Loss Account
For the year ended June 30, 2018

(Rs. in billion)

	2017-18	% Inc/(dec)	2016-17	% Inc/(dec)	2015-16
Sale of electricity	37.718	5.35	35.802	5.87	33.816
Cost of electricity	63.18	20.97	52.229	25.94	41.471
Gross profit/(loss)	(25.462)	55	(16.427)	114.59	(7.655)
Operating expenses excluding depreciation	10.785	(30.91)	15.609	(33.45)	23.454
Operating profit/(loss) before depreciation, interest and tax	(36.247)	13.14	(32.036)	2.98	(31.109)
Depreciation	1.398	1.6	1.376	11.42	1.235
Operating profit/(loss) before interest and tax	(37.645)	12.67	(33.412)	3.3	(32.344)
Subsidy from Government of Pakistan on sale of electricity	13.434	186.44	4.69	20.57	3.89
Rental and service income	-	-	-	-	-
Amortization of deferred credit	0.391	(47.45)	0.744	10.39	0.674
Misc. other income	1.696	(4.23)	1.771	(2.75)	1.821
Total other income	15.521	115.42	7.205	12.84	6.385
Net profit /(loss) before interest and tax	(22.124)	(15.58)	(26.207)	0.96	(25.959)
Financial expenses	0.003	(99.59)	0.734	1.52	0.723
Net profit /(loss) before tax	(22.127)	(17.87)	(26.941)	0.97	(26.682)
Taxation	0.294	(20.33)	0.369	-	-
Net profit/(loss) after tax	**(22.421)**	**(17.9)**	**(27.31)**	**2.35**	**(26.682)**

11.2.4 Accumulation of Heavy Losses

The Company suffered a net loss of Rs.26.682 billion during the year 2015-16, which rose to Rs.27.310 billion in 2016-17 showing an increasing trend of 2.35%. However, the net loss for the year 2017-18 was declined by 17.90% to Rs.22.421 billion. Due to increase in net losses on yearly basis resulted in accumulation of losses of the Company to the tune of Rs.181.695 billion up to the year ended June 30, 2018. This cast a significant doubt about the Company’s ability to continue as going concern.

11.2.5 Deteriorated Liquidity Position

The current ratio of the Company declined from 0.63:1 in 2015-16 to 0.52:1 in 2016-17 and nominal increase to 0.53:1 in 2017-18. Furthermore, the current liabilities exceeded current assets by Rs 96.055 billion as on June 30, 2018. This indicated very poor liquidity position which is very alarming. The overall financial state of affairs of the Company further deteriorated, as it was unable to pay its creditors or provide sufficient resources for its operations. These conditions indicated the existence of material uncertainty, which may cause significant doubt about the Company's ability to continue as a going concern. The Company should try to improve its current ratio to 2:1 (prescribed international standard). Likewise, the Company was suffering consistent losses over the years, which reflect inefficiency and mismanagement of the affairs of the company, which needed serious attention.

11.2.6 Imbalance in Sales and Cost of Sales

The sales of the Company slowly increased to Rs.37.118 billion in 2017-18 showing an increase of 5.35% over the previous year (Rs.35.802 billion : 2016-17), whereas cost of sales of the company was Rs.63.180 billion registering an increase of 20.97% (Rs.52.229 billion : 2016-17). This resulted in Gross loss of Rs.25.462 billion in 2017-18 as against Rs.16.427 billion in 2016-17 showing an increase of 55.00% which was abnormally increased by 114.59% in 2015-16 to Rs.7.655 billion. The above imbalance means that the Company was unable to recover even its cost of electricity purchased from CPPA despite subsidy provided by GoP, which is very alarming.

11.2.7 Long Outstanding Trade and Other Receivable

Trade and other receivables of the Company rose to Rs.53.310 billion in 2017-18 as against Rs.43.281 billion in 2016-17 registering an increase of 30.10%. Further, an amount of Rs.19.232 billion was receivable from Government of Pakistan against tariff differential subsidy and Rs.8.134 billion from other Associated Companies.

Aging of Trade debts as on 30.06.2018 shows that Government has to pay Rs.3.190 billion to HESCO out of which Rs.2.511 billion are pending over three years. In order to stream line the Company's cash flows these debts may be immediately paid to HESCO.

Private Sector Receivables' status is also very alarming. As on 30.06.2018, Rs.54.040 billion is stuck with private customers. An alarming point to note is receivables from active consumers which are Rs.35.453 out which 18.138 billion are recoverable for over three years. Justification is needed for non-recovery of dues from active consumers for last three years.

	6 Months to one year	Over 1 Year	Over 3 Year	Total
Government				
Active	649.51	708.05	2,251.51	3,040.28
Disconnected	27.60	4.96	259.85	149.29
Total	**677.11**	**713.01**	**2,511.36**	**3,189.57**
Other Private				
Active	2,456.95	8,082.73	18,138.00	**35,453.33**
Disc.	320.75	2,375.35	15,474.05	**18,587.13**
Total Private	**2,777.70**	**10,458.08**	**33,612.05**	**54,040.46**
Total – Debtors	**3,454.81**	**11,171.09**	**36,123.41**	**57,230.03**

Special attention is needed to recover the private sector trade debts. Non-collection from trade debts contribute to building up of circular debt. Huge balance of receivables depicts the poor recovery efforts of the Company, which needed justification. Huge balance of receivables depicts the poor recovery efforts of the Company, which needed justification.

11.2.8 Non-Clearance of Trade and Other Payables

Trade and other Payables of the company were increased by 69.25% from Rs.5.678 billion to Rs 9.610 billion in 2016-17. Likewise, a huge amount was due to associated undertakings, which rose to Rs.187.749 billion in 2017-18 from Rs.141.972 billion in 2016-17 registering an increase of 32.24%. The major amount of Rs.187.240 billion was payable to CPPA on account of purchase of electricity which indicated the poor liquidity position of the company and needed attention.

11.2.9 Excessive Provision/Write-offs in Trade Debts/Receivables

A huge amount of trade debts and other receivables were written off and further provision was accounted for in the financial statements as detailed below:

	2017-18 (Rs.)	2016-17 (Rs.)	2015-16 (Rs.)
Provision made against trade debts	1,946,053,336	7,050,592,918	15,321,961,860
Provision made against other receivables	173,418,342	698,274,861	6,365,545,314
Trade Debts written off	Nil	15,554,381,538	3,571,364,829
Other receivables written off	Nil	2,942,099,778	1,395,241,983
Total provision and write-offs	**2,119,471,678**	**26,245,349,095**	**26,654,113,986**

It is clear from above table that an amount of Rs.31.556 billion was provided for doubtful debts during 2016-18. Furthermore, trade debts amounting to Rs.23.463 billion were written off during 2016-18 which is on higher side. The extra-ordinary increase in provision for doubtful debts and subsequent write-offs needs justification. It is also highlighted that an amount of Rs.21.651 billion was overdue over three years as on June 30, 2017 (Rs.11.495 billion from active consumers and Rs.10.156 billion from disconnected consumers) which is very alarming and needs to be addressed.

11.2.10 Cost Per Unit Comparison of Cost of Sales and Sales of Electricity

The comparison of per unit cost of electricity purchased and sold as available in financial statements for 2015-18 is as under:

	2017-18	**% Inc/(Dec)**	**2016-17**	**% Inc/(Dec)**	**2015-16**
Units Purchased (Kwh)	5,740,300,000	7.11	5,359,289,478	5.40	5,084,657,483
Avg purchase rate per unit(Rs.)	11.01	12.94	9.75	19.49	8.16
Total Purchase cost (Rs.)	**63,179,643,942**	20.97	**52,228,884,823**	25.94	**41,471,288,321**
Units Sold (Kwh)	4,026,900,000	8.49	3,711,705,562	(0.73)	3,739,173,483
Avg sale rate per unit(Rs.)	9.37	(2.89)	9.65	6.66	9.04
Total Electricity sales (Rs.)	**37,718,036,419**	5.35	**35,802,100,544**	5.87	**33,816,417,777**
Avg sale rate notified by NEPRA (Rs.) per Kwh	21.14	-	21.14	40.19	15.08
Difference in avg sale rates (F.S. vs NEPRA)	11.77	2.44	11.49	90.23	6.04
Tariff notified by GoP	13.00	0.00	13.00	0.00	13.00

Source: Annual Accounts of HESCO for the F.Y 2017-18, Annual Progress report of HESCO, NEPRA & HESCO information for the F.Y 2016-17)

As per above data analysis it is clear that cost of electricity purchased did not match the sale of electricity. The average purchase price per unit was higher than the average sale price in last two years i.e. 2016-17 and 2017-18. Furthermore as per comparison of NEPRA average rates and rates calculated in financial statements of the Company were not matched. It was further elaborated that rates notified by GoP were also below the tariff approved by NEPRA yet the average sale rate of electricity actually sold was far below GoP rate as well. This is mainly due to variances in actual sales mix and mismanagement of application of other allied costs associated with it (i.e. Tariff subsidy, Distribution margin, Govt. taxes and duties and fuel price adjustments etc), which needs to be addressed.

11.2.11 Non-Conducting of Physical Verification of Distribution Equipment

Property and equipment included distribution equipment having net book value of Rs.21.684 billion as on June 30, 2017 were not physically verified since the formation of the Company in 1998. Comprehensive physical verification is required in order to agree and reconcile the items and their cost with the financial statements of the Company. The Chartered Accountants also qualified their opinion in the financial statements.

11.2.12 Non-Reconciliation/Verification of Assets and Liabilities Transferred to SEPCO under Business Transfer Agreement (BTA)

As per Supplementary Business Transfer Agreement (SBTA) between the Company (HESCO) and SEPCO dated 26 December 2012, 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 SBTA. Out of total stated amount, projects valuing Rs.927.521 million have not yet been acknowledged by SEPCO. The recoverability from SEPCO in this regard is considered as doubtful due to the pending acknowledgement. As further mentioned in note 1.3 to the financial statement further adjustments for the transfer of business under Business Transfer Agreement (BTA) between these two companies were to be incorporated up to 30 June 2013. During the year 2016-17, SEPCO issued a credit note of Rs.1,558.264 million to the company on the account of adjustment under BTA. However, no jointly engaged independent consultant was hired to identify and determine the adjustments to be incorporated in the books of both companies. In view of pending determination of adjustment and non-closure of BTA presently, the Chartered Accountants were not able to determine the amount of possible adjustment that may be required in financial statements.

11.2.13 Abnormal Increases in Operating Expenses

The analysis of abnormal increase in some heads of operating expenses is as under:

(Rs. in million)

	2017-18	% inc/(dec)	2016-17
Office supplies and other expenses	54.273	32.12	41.079
Legal & Professional charges	28.239	67.70	16.839
Advertisement charges	24.261	113.66	11.355
Collection charges	40.583	42.15	28.55
Supervisory charges to PEPCO	110.295	12505.14	0.875
Postage and telephone	28.689	58.49	18.102
Others expenses	52.353	112.33	24.656
Total	**338.693**	**139.43**	**141.456**

It is clear from the above table that there was an abnormal increase in operating expenses by more than 100% that further contributed to the accumulation of losses of the Company as a whole and this needs to be checked prudently.

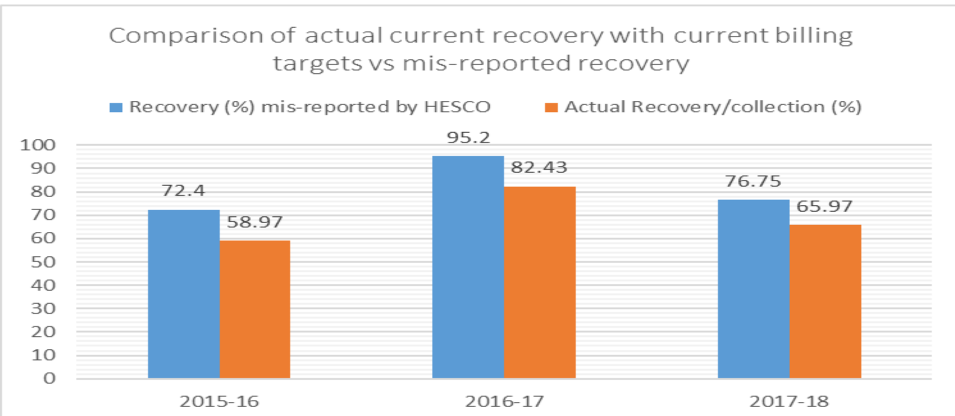
11.2.14 Declining Trend of Recovery (%)

The recovery position of billed amount to consumers showed a decreasing trend over the years as detailed below:

(Rs. in million)

Year	Current year billing	Collection			%age of current Recovery
		Current year recovery	Recovery of arrears from defaulters	Total Recovery	
2015-16	49,009	28,900	6,431	35,331	58.97
2016-17	48,253	39,776	5,515	45,291	82.43
2017-18	53,612	35,368	5,059	40,427	65.97

	2015-16	2016-17	2017-18
Recovery (%) mis-reported by HESCO	72.4	95.2	76.75
Actual Recovery/collection (%)	58.97	82.43	65.97



The above data clearly indicated that the recovery position over the years is not satisfactory which needs to be addressed. It is elaborated that the total amount recovered by the Company included arrears of previous years and recovery of current billing which is mis-matched with current year billings in order to calculate the achievement of 100% targets set by NEPRA. But due to additions of previous period arrears, actual recovery target achieved was overstated. This reporting mechanism is required to be re-addressed in order to show the factual recovery position.

11.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
HESCO	2016-17	01	-	**20** (Para No. 4.1.2 to 4.1.4, 4.1.9 to 4.1.11, 4.1.13 to 4.1.15, 4.1.17, 4.1.19 to 4.1.21, 4.1.23, 4.1.25, 4.1.26, 4.1.27, 4.1.30, 4.1.32, 4.1.33)	

Position of compliance with PAC directives is not satisfactory.

11.4 AUDIT PARAS

11.4.1 Accumulation of receivables due to lower percentage of recovery - Rs.64,435.20 million

As per Commercial Procedure Para 1.3 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, average recovery percentage of private consumers of the company remained 92.4% during the year 2017-18. Hence, recovery position of HESCO was very poor as compared to other DISCOs. As a result, the receivables of the company were accumulated as Rs.64,435.20 million up to June, 2018. However, no efforts were made by the management to accelerate the recovery from dead defaulters.

Non-adherence to the Commercial Procedure resulted in accumulation of company's dues amounting to Rs.64,435.20 million up to the years 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within 10 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides expediting recovery from electricity defaulters to improve recovery.

(Draft Para No. 1428/2018-19)

11.4.2 Non-recording of loan and interest in Financial Statements by HESCO - Rs.62,106.17 million

According to the International Accounting Standards 1.112, i) Present information about the basis of preparation of the financial statements and the specific accounting policies used; ii) disclose the information required by IFRS that is not presented elsewhere in the financial statements and iii) Provide information that is not presented elsewhere.

In HESCO, loan of Rs.62,106.17 million was received from CPPA proportionately against the PEPCO loan of Rs.431,474.09 million w.e.f. 2012-13 to 2016-17. HESCO, however did not record the transactions in respect of this borrowing. Hence, the financial statement did not reflect the loan share of the company due to non-recognition of loan amount alongwith interest by HESCO.

Non-adherence to Authority's instructions resulted in unauthorized borrowing of Rs.62,106.171 million during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that the matter was referred to PEPCO for guidance which was still awaited. The reply was not tenable as the International Accounting Standards rules were violated.

The DAC in its meeting held on December 20-21, 2018 directed the management to pursue the matter with PEPCO vigorously and provide final status to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 1479/2018-19)

11.4.3 Non-maintenance of fixed assets inventory / register - Rs.22,978.46 million

As per Section-230 of the Companies Act 2017; every company to keep proper books of accounts with respect to all assets of the company. Adequate itemized record of fixed assets should be maintained.

In HESCO, proper books of accounts and fixed assets register for assets valuing Rs.22,978.46 million was not being maintained as required under rules which was violation of the Companies Act-2017. Non-maintenance of fixed asset registers might result in misappropriation of valuable assets.

Non-adherence to Authority's instructions resulted in non-maintenance of fixed assets register for assets worth Rs.22,978.46 million.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that proper books of accounts and fixed asset register had been maintained, although not in accordance with TR-6, which was only possible through implementation of ERP. The reply was not tenable as no documentary evidence to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide relevant record to Audit for examination within 10 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1433/2018-19)

11.4.4 Wasteful expenditure incurred on investment project - Rs.4,243.93 million

As per Para 11.11 of Tariff Determination 2017-18, regarding investment projects to be completed by June, 2018 with actual amount invested and the actual reduction in T&D losses achieved against the claimed results, NEPRA targeted HESCO to execute its development / investment plan in the areas of distribution of power (DOP), energy loss-reduction (ELR), Power Distribution Enhancement and Investment Program, Enterprise Resources and consumer financing projects.

In HESCO, NEPRA allowed/ approved investment plan for an amount of Rs.5,500 million for various projects to reduce line losses. However, the actual losses were decreased from 30.7% in the financial year 2016-17 to 29.8% in the financial year 2017-18. Slight decrease in line losses i.e. 0.9% at the cost of Rs.4,243.93 million was not a prudent decision. Hence, the investment made during the year failed to achieve its desired objectives.

Non-adherence to the direction of NEPRA resulted in wasteful expenditure of Rs.4,243.93 million incurred on investment project during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within 10 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to find out as to why despite heavy investment, losses could not be reduced to a marked extent.

(Draft Para No. 1432/2018-19)

11.4.5 Recoverable amount from power producers – Rs.1,942.91 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

In HESCO, an amount of Rs.1,942.91 million was recoverable from six (06) power producers (NCPPs/SPPs) on account of difference of tariff as approved by NEPRA and allowed by the Company. In this respect, no concrete efforts were made by the management to accelerate the recovery from the concerned power producers.

Non-adherence to Authority’s instructions resulted in recoverable amount of Rs.1,942.91 million from power producers during the Financial Year Rs.2,658.91 million.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that an amount of Rs.495 million had been recovered and remaining amount would be recovered from forthcoming invoices of power producers. The reply was not tenable as Company allowed tariff to power producer which had not been approved by NEPRA.

The DAC in its meeting held on December 20-21, 2018 directed the management to recover the amount from power producers immediately and produce the record to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to conduct an inquiry as to why power producer was allowed tariff other than approved tariff and fix responsibility.

(Draft Para No. 1398/2018-19)

11.4.6 Non-utilization of investment of ADB – Rs.1,325.56 million

An agreement of US $ 24.50 million was signed between ADB and HESCO for Power Distribution Enhancement Investment Project (Tranche-III) on September 9, 2013.

In PMU HESCO, a contract agreement of US$ 24.50 million was signed between ADB and HESCO for Power Distribution Enhancement Investment Project (Tranche-III) but contracts of US$ 13.64 million only were awarded to the contractors for execution against total investment leaving a balance of US$ 10.86 million. Neither unspent balance was utilized nor surrendered to the ADB. The energy sector loans had been extended to strengthen Pakistan's energy supply chain. Despite an urgency to improve electricity generation and transmission networks, Project Manage Unit was unable to utilize US$ 10.86 million equalent to Pak Rupees 1,325.56 million ADB Loan. The Company paid commitment charges to the ADB on undisbursed amount of loan. Poor utilization of loan proceeds needed justification.

Non-adherence to the Loan agreement provisions resulted in non-utilization of loan amounting to Rs.1,325.56 million due to purchase of electrical material up to the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that only US$ 4.81 million was not utilized due to non-qualification of bidder. The reply was not acceptable as Company was unable to utilize the loan amount.

The DAC in its meeting held on December 20-21, 2018 did not agree with the management's stance and directed the CEO to explain such negligence along with conducting inquiry. DAC also directed the management to clarify as to what accounting treatment was given to unspent balance within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1074/2018-19)

11.4.7 Non-management of load on transformers causing transformation losses and investment - Rs.768.15 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982

(amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In HESCO, twenty five (25) transformers were consistently overloaded which caused not only damage to the transformers but also increased transformation losses besides the repair and maintenance expenditure on transformers. The situation was alarming and a potential threat / risk to the installations/investment of Rs.768.15 million. A proper load management was required to be taken to control the overloading of transformers in the best interest of HESCO.

Non-adherence to Authority's instructions resulted in non-management of load on transformers causing transformation losses and putting investment of Rs.768.15 million at risk during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within 10 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1429/2018-19)

11.4.8 External electrification of housing schemes / shopping plazas without considering technical parameters of 11 KV feeders - Rs.626.54 million

As per policy circulated in October, 1998 for external electrification of housing schemes and commercial plazas, the voltage drop and technical losses of the existing and proposed 11 KV feeder from which electrification is proposed, should not exceed the limit of 5% and 3.5% respectively.

In HESCO, electrifications of housing schemes / commercial plazas with estimated cost of Rs.626.541 million were approved against the existing 11 KV feeders emanating from the grid stations with technical parameters beyond the permissible limit 5% and 3.5%. These cases were approved without bringing into the technical parameters to the specified limits either on the proportionate cost of the sponsors or from their own sources.

Non-adherence to the authority instructions resulted in external electrification of housing schemes / shopping plazas with estimated cost of Rs.626.54 million without considering technical parameters of 11 KV feeders during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that load flow studies would be provided to Audit. The reply was not acceptable as the technical parameters were not observed before sanctioning the connections.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the pending actions and provide load flow studied to Audit for examination within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1397/2018-19)

11.4.9 Avoidable transformer repairing cost and non-repairing of damaged transformers due to non-functioning of transformer reclamation workshop - Rs.89.11 million

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

In HESCO, an amount of Rs.77.66 million was paid to private firms / workshops on account of repair cost of 408 damaged transformers of different capacities. This expenditure could have been avoided by updating / upgrading of Transformer Reclamation Workshop (TRW) already established in HESCO. Moreover, sixty (60) transformers valuing Rs.11.45 million could not be repaired and returned to store due to non-availability of the required material in TRW.

Non-adherence to General Financial Rules resulted in avoidable transformer repairing cost and non-repairing of damaged transformers amounting to Rs.89.11 million due to non-functioning of transformer reclamation workshop up to the financial year 2018-19.

The matter was taken up with the management during July & October, 2018 and reported to the Ministry during September & December, 2018. The management replied that proposal for establishing the complete workshop was under process and the matter would be presented before BoD. The reply was not tenable as the Company had delayed the process of establishing transformer reclamation workshop.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the establishment of workshop and to intimate final status to Audit. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 45 & 1411/2018-19)

11.4.10 Non-return of repaired transformer from workshop - Rs.46.38 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GSO HESCO, two (2) damaged Power Transformers of 10/13MVA valuing Rs.46.38 million were shifted to Power Transformer Engineering Services Unit (PTESU) Lahore for repair but were not received back.

Non-adherence to Authority's instructions resulted in non-return of repaired transformersRs.46.38 million during the financial year 2017-18.

The matter was taken up with the management on July, 2018 and reported to the Ministry in November, 2018. The management replied that efforts were being made to get repaired these transformers from PTESU workshop. The reply was not tenable as the Company should have got the transformers back after repair.

The DAC in its meeting held on December 20-21, 2018 directed the management to conduct facts finding for inordinate delay 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 implement DAC's directives besides fixing responsibility.

(Draft Para No. 360/2018-19)

11.4.11 Non-recovery of arrear against RO Plant connections - Rs.37.44 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 procedure”.

In Operation Circle Mirpurkhas HESCO, two (02) Reverse Osmosis Plants having arrears of Rs.37.44 million were disconnected due to non-payment. The same were reconnected after the recommendations of Deputy Commissioner Tharparkar Mithi with the understanding to clear the arrear. However, the amount was not recovered from the concerned consumers.

Non-adherence to the Commercial Procedures resulted in non-recovery of energy dues amounting to Rs.37.44 million during the Financial Year 2017-18.

The matter was taken up with the management in November, 2018 and reported to the Ministry in November, 2018. The management replied that efforts were being made to recover the arrears. The reply was not acceptable as bill collection should have been carried out as per commercial procedure.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the recovery of arrears and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s directives and ensure recovery of arrears against RO Plant.

(Draft Para No. 1110/2018-19)

11.4.12 Loss due to abnormal tripping on Grid stations - Rs.16.19 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

In GSO HESCO, malfunctioning of operational system resulted in abnormal tripping ranging from one hour to nineteen hours at 66/132KV transmission lines during the year which showed that proper patrolling and maintenance of operational system was not carried out. Abnormal tripping caused non-provision of electricity to consumers and billing amounting to Rs.16.19 million.

Non-adherence to Authority’s instruction resulted in loss of Rs.16.19 million due to tripping during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that in coastal area tripping was due to climatic effect. However, efforts were made to minimize abnormal tripping. The reply was not tenable as lack of proper maintenance resulted in abnormal tripping.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit justification for tripping on case to case basis with reference to coastal area within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to take appropriate measures to prevent abnormal tripping so that consumers did not face unscheduled outages.

(Draft Para No. 533/2018-19)

11.4.13 Irregular award of contract without obtaining Performance Security - Rs.5.13 million

According to Clause-01(x) Performance Bond equal to 5% of the total value of Purchase order including 17% GST must reach this office within 07 (Seven) days of issue of this purchase order. The same shall be valid for 12 months from the date of completion of supplies.

In HESCO, purchase orders for procurement of electrical material amounting to Rs.102.580 million were awarded to two (02) contractors for execution. But Performance Security @ 5% of bid cost amounting to Rs.5.13 million was not obtained from the contractors which was irregular.

Non adherence to clause of tender resulted in irregular award of work amounting to Rs.5.13 million without obtaining performance security up to the financial year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that 5% performance security amounting to Rs.4.91 million had already been deducted from the firm’s bill. The reply was not tenable as no documentary evidence to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 did not agree with the management and directed that an inquiry be held to find out those responsible for not taking performance security from the contractor. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility and stop the practice of favoring the contractor at the cost of the Company.

(Draft Para No. 1408/2018-19)

11.4.14 Abnormal delay in taking punitive action against the contractor due to non-completion / starting of civil works - Rs.3.43 million

As per Conditions of Contract Clause 12.1 Default by Contractor in Compliance, "in case of default on the part of the Contractor if the contractor has not taken all practicable steps to remedy the default within fourteen (14) days after receipt of the Employer's notice, the employer may be a second notice given within a further twenty one (21) days, terminate the contract. The contractor shall then demobilize from the site leaving behind any Contractor's Equipment which the Employer instructs, in the second notice, to be used for the completion of the Works at the risk and cost of the Contractor".

In HESCO, a work order for Special repair & maintenance of four (04) Complaint Center was awarded to M/s. Saeed Jatoi & Co in June 2015 for completion within 110 days i.e. up to October 7, 2015 but contractor failed to complete the work within stipulated period. To date the contractor has not yet started the work. In this scenario the work order was required to be terminated, forfeited performance security forfeited alongwith recovery of liquidated damages. Furthermore the work was required to be got done at the risk and cost of defaulted contractor alongwith recommendation of punitive actions against him with the PEC but the same was not done.

Non-adherence to contract clause resulted into non-completion of work amounting to Rs.3.43 million at risk and cost of the contractors up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that the cancellation of contract was in process and call deposit of Rs.52,000 would be forfeited.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the cancellation of contract, forfeit performance security and take actions as per penal clauses of the contract within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility on those who delayed taking timely action against the contractor and not forfeiting performance security.

(Draft Para No. 1399/2018-19)

11.4.15 Abnormal increase in AT&C losses causing heavy loss to operation circle

MD PEPCO on January 8, 2018 has directed all Chief Executive Officers (CEOs) of distribution companies (DISCOs) to prepare robust proposals for reducing the power distribution losses including, aggregate technical and commercial losses (AT&C), immediately. Moreover, it was also directed that progress of DISCOs would be monitored in monthly review meetings.

In Operation Circle Mirpurkhas HESCO, in June, 2018 Aggregate of Technical and Commercial (AT&C) losses were 53.5% in respect of operational sub-division Satellite Town. In this context it is worth mentioning here that AT&C losses of all operational divisions remained in between the range of 26% to 47% during the Financial Year 2017-18. Such a huge substantial increase in AT&C losses showed weak internal controls regarding control over technical and commercial losses of the Mirpurkhas Circle. But no action was taken against those responsible.

Non-adherence to Authority's instructions resulted in increase in AT&C losses during the Financial Year 2017-18.

The matter was taken up with the management in November, 2018 and reported to the Ministry in December, 2018. The management replied that all out efforts was made in order to reduce the AT&C losses. The reply was not tenable as increase in AT&C losses despite losses reduction measures was incomprehensible.

The DAC in its meeting held on December 20-21, 2018 directed the management to share the results of efforts within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1245/2018-19)

11.4.16 Non-installation of AMR/AMI meters at Government of Sindh connections

According to ECC decision dated 25.11.2016, an automatic meter reading system (AMR/AMI) would be installed on all connections owned by GoS by 31.12.2016, 50% of the cost of which would be borne by GoS.

In HESCO, Hyderabad, out of total 14,354 connections of Government of Sindh, 3,364 connections were running without AMR/AMI meters. Due to non-completion of work of installation of Automatic Meter Reading (AMR)/ Advance Metering Infrastructure (AMI) meters, all the GoS connections were billed on average basis. This state of affairs also contributed to energy / revenue losses of the company.

Non-adherence to the ECC decision resulted in non-installation of AMR/AMI meters at Government of Sindh connections up to the financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that the project of installation of AMR was completed and training of field officers was in process. The reply was not tenable as documentary evidence was not provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit on case to case basis within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s directives besides fixing responsibility.

(Draft Para No. 1297/2018-19)

CHAPTER-12

ISLAMABAD ELECTRIC SUPPLY COMPANY (IESCO)

12. ISLAMABAD ELECTRIC SUPPLY COMPANY (IESCO)

12.1 Introduction

Islamabad Electric Supply Company (IESCO) is a subsidiary of PEPCO and started its operations as a Public Limited Company, registered in May, 1998 under Companies Ordinance 1984 (now Companies Act 2017). The Company has obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The Company purchases electricity from Central Power Purchasing Agency (CPPA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. 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 CPPA(G) through NTDC system and sells it to various consumers within its service territory i.e. Islamabad, Rawalpindi, Attock, Jehlum and Chakwal Districts**.** The Company distributes electricity to consumers at the tariff notified by NEPRA.

The operational activities are performed through five Operation Circles, one Grid System Construction Circle, and one Project Construction Circle and one Grid System Operation Circle.

12.2 Objective of Financial Analysis

The objective of analysis of IESCO's financial statements is basically to assess the financial health of the Company to bear its operational costs and to indicate the factors contributing the accumulation of huge circular debt. For this purpose the horizontal and vertical trend analysis of the Company's financial statements has been conducted.

12.2.1 Horizontal Analysis of Financial Statement

Horizontal analysis (also known as trend analysis) is a financial statement analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time. The statements for two or more periods are used in horizontal analysis. Audit used financial statements for financial years ended 30 June 2016 to 2018.

12.2.2 Profit and Loss Account
For the year ended June 30, 2016 to 2018

(Rs. in billions)

	2016	% age Inc/(dec)	2017	% age Inc/(dec)	2018
Sale of Electricity	68.326	14.39	78.161	23.08	96.197
Subsidy from Government of Pakistan on sale of Electricity	6.502	30.78	8.503	31.49	11.181
Sale of Electricity including subsidy	**74.829**	**15.82**	**86.664**	**23.90**	**107.378**
Cost of Electricity	(72.478)	16.32	(84.308)	36.77	(115.304)
Gross Profit/(Loss)	**2.350**	**0.26**	**2.356**	**(436.42)**	**(7.926)**
Amortization of deferred Credit	1.156	6.14	1.227	7.42	1.318
	3.506	**2.20**	**3.583**	**(284.45)**	**(6.609)**
Operating Expenses	(13.598)	6.56	(14.490)	34.60	(19.503)
Loss from operations	(10.092)	8.08	(10.907)	139.41	(26.112)
Misc. Other Income	1.222	(8.76)	1.115	67.53	1.868
Financial Expenses	(1.176)	16.84	(1.374)	35.95	(1.868)
Loss before Taxation	(10.046)	11.14	(11.165)	133.87	(26.112)
Taxation	-	-		-	-
Current	(0.683)	1.76	(0.695)	76.26	(1.225)
Deferred	2.983	(100.00)	-	-	-
	2.300	(130.22)	(0.695)	76.26	(1.225)
Net Profit/(Loss) after Tax	**(7.746)**	**53.11**	**(11.860)**	**130.50**	**(27.337)**

Source: Audited Accounts for the year ended 30 June 2017& Un-audited Accounts for the year 2017-18

12.2.3 Balance Sheet
As at June 30, 2016 to 2018

(Rs. in billions)

	2016	% age Inc/(dec)	2017	% age Inc/(dec)	2018
Equity & Liabilities					
Issued, subscribed and Paid up Share Capital	5.798	-	5.798	-	5.798
Deposit for issue of Share Capital	20.113	-	20.113	(0.41)	20.030
Surplus on Revaluation	33.804	(3.50)	32.620	(3.68)	31.420
Accumulated Losses	(2.156)	799.86	(19.401)	119.84	(42.652)
Shareholders' Equity	**57.559**	**(32.02)**	**39.129**	**(62.70)**	**14.597**
Long term Loans	5.564	3.29	5.747	10.51	6.351
Staff retirement benefits	31.639	26.68	40.080	0.11	40.123
Long term security deposits	4.582	9.73	5.028	10.74	5.568
Deferred Credit	23.080	3.53	23.894	5.29	25.159
Total Non-current Liabilities	**64.865**	**15.24**	**74.749**	**3.28**	**77.201**
Trade & Other Payables	44.122	55.37	68.552	52.46	104.511
Interest accrued on long-term loans	6.218	24.11	7.717	20.38	9.290
Current portion of long term debt	2.861	22.09	3.493	19.75	4.183

Total Current Liabilities	**53.201**	**49.93**	**79.762**	**47.92**	**117.984**
Total Equity & Liabilities	**175.624**	**10.26**	**193.640**	**8.34**	**209.782**
Assets					
Property Plant & Equipment	86.431	3.75	89.672	4.44	93.657
Long Term Loans	0.060	-	0.060	48.33	0.089
Long term deposits	0.002	2,150.00	0.045	64.44	0.074
Total Non-Current Assets	**86.492**	**3.80**	**89.777**	**4.50**	**93.820**
Stores, spares & loose tools	0.605	9.92	0.665	44.06	0.958
Trade Debts against sale of Electricity	55.980	17.47	65.761	27.88	84.098
Current portion of long term debt	0.020	35.00	0.027	22.22	0.033
Loans & Advances	0.256	(19.14)	0.207	77.78	0.368
Receivables from Govt of Pakistan	7.769	90.59	14.807	(60.42)	5.860
Other Receivables	9.393	(46.55)	5.021	(54.51)	2.284
Recoverable from tax authorities	13.657	8.83	14.863	35.48	20.137
Receivable from TIBL	0.081	(61.73)	0.031	-	0.031
Total Receivables	87.156	15.56	100.718	12.01	112.810
Accrued Interest	0.001	-	0.001	500.00	0.006
Cash & Bank Balances	1.355	78.08	2.413	(12.06)	2.122
Total Current Assets	**89.116**	**16.47**	**103.797**	**11.66**	**115.896**
Non-Current Assets held for sale	0.016	312.50	0.066	-	0.066
Total Assets	**175.624**	**10.26**	**193.640**	**8.34**	**209.782**

Source: Audited Accounts for the year ended 30 June 2017& Un-audited Accounts for the year 2017-18

12.2.4 Huge accumulated loss sustained By Company

The financial statements of the company as June 30, 2018 shows that the Company has suffered accumulated loss of Rs.42.652 billion up to June 30, 2018 which has turned equity of the Company into negative and its current liabilities exceeded its current assets. Payable of the Company stood at Rs.104.511 billion (as on June 30, 2018) in shape of circular debt ultimately born by the public exchequer through government bailout.

12.2.5 Gap between Cost and Sales Revenues

Revenue from Sale of Electricity is Rs.86.664 billion in 2017 and Rs.107.378 billion in 2018 which have increased by 15.82% in 2017 and 23.90% in 2018 whereas the cost of electricity is Rs.84.308 billion in 2017 and Rs.115.304 billion in 2018 which have increased at a higher rate i.e. 16.32% and 36.77% in 2017 and 2018 respectively. This increase in revenues and exponential increase in cost does not supplement each other.

In 2018, increase in cost of electricity was 36.77% due to 24.00% increase in average purchase rate whereas average sale rate was increased by 3.38% only in 2018. This un-even increase in rates has also contributed to huge gap between sales revenues and cost of electricity.

(Rs. in billions)

	2016	% Inc / (dec)	2017	% Inc / (dec)	2018
Sale of Electricity (Rs. in billion)	74.829	15.82	86.664	23.90	107.38
Units Sold (Billion KWH)	8.774	9.73	9.628	10.16	10.606
Avg. rate (Rs. per KWH	8.528	11.04	9.470	3.38	9.790
Cost of Electricity (Rs. in billion)	72.478	16.32	84.308	36.77	115.304
Unit Purchased (Billion KWH)	9.650	9.67	10.583	10.29	11.672
Avr. Rate (Rs. per KWH)	7.511	6.07	7.966	24.00	9.879

Source: Statistics of Energy Purchased and Sold by the Company

Islamabad Electric Supply Company (IESCO) has been sustaining losses over the years and these losses are increasing every year. In 2016, the net loss was 10.35% of the sales which increased to 13.69% of sales in 2017 and 25.46% of sales in 2018.

12.2.6 Heavy HR cost

The gap between electricity cost and sales revenues trickle down in the whole financials leading to gross losses. Operating expenses contribute to mass up the losses.

	2016	% age of total opex	2017	% age of total opex	2018	% age of total opex
Salaries, wages and other benefits	9.403	81.39	10.243	83.40	12.556	82.32
Other operating expenses	2.150	18.61	2.039	16.60	2.697	17.68
Total OPEX Excluding Dep.	**11.553**	**100.00**	**12.282**	**100.00**	**15.253**	**100.00**

Source: Audited Accounts for the year ended 30 June 2017& Un-audited Accounts for the year 2017-18

Major operating expenses are salaries, wages & other benefits (81.39% to 83.40%) and other operating expenses excluding depreciation were (16.60% to 18.61) during the last three years. Although the management has cut its staff cost in 2018, there was need to further rationalize its human resources while increasing efforts to enhance recovery of doubtful debts.

12.2.7 Delay in Tariff Differential Subsidy payment / adjustment by Government

The subsidy from GoP on sale of electricity represents a difference between electricity rates determined by NEPRA and rates notified by the Federal Government. This subsidy was being paid by the GoP to the DISCOs.

In 2017-18, an amount of Rs.5.859 billion was receivable from Government on account of subsidy. During the last three years Rs.22.856 billion was claimed as subsidy by IESCO. Out of which an amount of Rs.22.737 billion was received / adjusted against payables to Government through a Credit Note from CPPA. Out of receivable amount Rs.5.859 billion, an amount of Rs.2.814 billion relates to previous financial years for the period from August 2011 to March 2013 in respect of Fuel Price Adjustment to domestic consumers, having consumption of units from 51 to 350 units, pursuant to the determination of IESCO's tariff by the NEPRA, duly notified by the GoP vide SRO NO. 701 dated August 05, 2013 and SRO No. 914 October 11, 2013. A period of more than five years has been lapsed but the company was not able to recover the amount.

The management needs to make serious efforts for recovery of outstanding dues against subsidy from federal government for timely payment against its liabilities.

12.2.8 Heavy Funds stuck in Trade debts

Trade Debts against sale of electricity has increased to Rs.84.098 billion in 2018 as compared to Rs.65.761 billion in 2017 and Rs.55.980 billion in 2016 showing an increase of 50.23% in three years. In 2018 total trade debts are Rs.84.098 billion out of which Rs.16.659 billion are related to private sector and Rs.68.003 billion to Government sector (Note No. 35.1.b of Balance Sheet as on June 30, 2018)). Trade debts include an amount of Rs.67.321 billion receivable from the Government of Azad Jammu and Kashmir (GoAJK), representing the differential of the amount billed to GoAJK on tariff notified by Government of Pakistan (GoP) and the tariff approved by the sub-committee constituted at the time of a presentation given to the Chief Executive of Pakistan (Note No. 9.1 of Balance Sheet as on June 30, 2018).

(Rs. in billions)

	2016	**%Incr/(dec)**	**2017**	**%Incr/(dec)**	**2018**
Trade Debts against sale of Electricity	55.980	17.47	65.761	27.88	84.098

Source: Audited Accounts for the year ended 30 June 2017& Un-audited Accounts for the year 2017-18

(Rs. in millions)

		6 Months to one Year	**Over 1 Year**	**Over 3 Year**	**Total**
Govt. Consumers					
	Running	355.410	3600.640	63754.310	67710.360
	Defaulters	0.010	0.010	0	0.020
Sub-Total		**355.420**	**3600.010**	**63754.310**	**67710.380**

Private Consumers					
Commercial & Industrial	Running	2.890	16.50	2.930	22.320
	Defaulters	9.340	10.630	25.810	45.780
General Consumers	Running	0.010	0.010	0	0.020
	Defaulters	33.210	45.690	45.130	124.030
Sub-Total		**45.450**	**72.830**	**73.870**	**192.150**
Grand Total		**400.870**	**3672.840**	**63828.180**	**67902.530**

(Source:- Age analysis provided by PITC)

Category wise age analysis of energy trade debtors as on 30 June 2018, shows that Rs.73.870 million have been stuck with private sector debtors and Rs.63,754.310 million relates to Government sector which are more than 3 years old and Rs.72.830 million are blocked by private sector debtors and Rs.3,600.010 million by Government sector which are over 1 year and up to 3 years old. Audit is of the view that a major factor contributing in circular debt is non-recovery from trade debtors. It is recommended to recover these long outstanding dues immediately in order to improve the cash flows of the Company.

12.2.9 Huge recoverable from tax authorities

Analysis of financial statements shows that a huge amount of Rs.20.136 billion was recoverable as on 30th June 2018 from tax authorities on account of sales tax and amount deducted by taxation authorities alleging that the Company, in the current or prior years, has either failed to recover sales tax from various customers or have adjusted incorrect input tax in its returns related to subsidy provided by GoP to IESCO.

(Rs. in billions)

Description	2016	% age Inc/(dec)	2017	% age Inc/(dec)	2018
Recoverable from tax authorities	13.657	8.84	14.863	35.48	20.137

Source: Note No. 13 of Un-audited Financial Statement for the year ended 30 June 2018.

An increasing trend can be seen from above table. There was substantial increase of 47.45% in this amount from 2016 to 2018. Management need to take up the matter with tax authorities for recovery of huge amount on this account under initiation to Audit.

12.2.10 Heavy CPPA Payables

(Rs. in billions)

	2016	%Inc/(dec)	2017	%Inc/(dec)	2018
CPPA Payable	-	-	-	-	72.138

Source: Annual Financial Statements

CPPA Payables are Rs.72.138 billion in 2018 as compared to nil payables in 2017 and 2016 showing a substantial increase in 2018. This amount relates to debit notes received from CPPA to make adjustments in certain account heads related to CPPA payables i.e. tariff rationalization surcharge and finance cost. Non-payment of CPPA's dues on time is the major cause of circular debt. It is recommended that in order to ensure timely payments of CPPA dues, the management of IESCO should enhance its recovery/collection.

12.2.11 Short Recoveries against Amount Billed

Recovery of amount billed has been analyzed. IESCO has a recovery rate of 81.54% against current billing in 2016-17 and 80.58% against current billing in 2017-18 of amount billed as against target of 100% given by NEPRA. Whereas its recovery rate against total billing (Current + Arrears) is 91.13% during the year 2016-17 and 89.75% against total billing during the year 2017-18.

(Rs. in billions)

Financial Year	Amount of Current Billing During the Year	Amount of Collection during the year			Short Fall of Recovery Against Current Billing	%age Of Recovery Against Current Billing	%age Of total Recovery shown during the year	NEPRA Target % age	Breach of Target Against current billing	Breach of Target Against Total Billing During the Year
		Against Current Billing	Against Arrear	Total						
1	2	3	4	5 (3+4)	6 (2-3)	7 (3/2*100)	8 (5/2*100)		(10-7)	(10-8)
2016-17	**125.394**	102.251	12.017	114.268	23.143	81.54	91.13	100	18.46	8.87
2017-18	**144.079**	116.095	13.221	129.316	27.984	80.58	89.75	100	19.42	10.25

Source: PITC Data

12.2.12 Financial Impact of short-collection

Year	Billing (Rs. in billions)	Collection (Rs. in billions)	Un-Collected (Rs. in billions)
1	2	3	4=(2-3)
2016-17	**125.394**	**102.251**	**23.143**
2017-18	**144.079**	**116.095**	**27.984**

Source: PITC Data

Poor recovery %age of IESCO resulted in less recovery of revenue of Rs.23.143 billion during 2016-17 and Rs.27.984 billion in 2017-18. Poor recovery from energy consumer ultimately increased company receivables and less remittance to CPPA on account of cost of electricity purchased.

12.2.13 Non-recognition of long term liability for Circular Debt Retirement and markup

In order to curb the circular debt the Federal Government through Power Holding Private Limited (PHPL) has injected money from time to time through borrowing from commercial banks. The amount was ultimately transferred to distribution companies on the basis of outstanding payables towards CPPA. Total unrecorded loans and related markup as at June 30, 2018 are Rs.25,399 million and Rs.974 million respectively. Had these amounts been accounted for in Company's books the long term liability would increase amounting to Rs.25,399 million and expenditure with Rs.974 million. A period of almost five years passed but the fate of these claims was not decided by the stakeholders i.e. DISCOs, CPPA, MoP and PHPL.

The detailed terms and conditions of this investment may be provided to Audit for further scrutiny.

(Source: Note No. 24.2.1 of Un-audited Financial Statements for the year ended 30 June 2018)

12.2.14 Un-recognized Supplemental charges and other amounts – Rs.12.761 billion

The management of IESCO had not been recognizing supplemental charges amounting to Rs.7.395 billion in 2017-18 (2017: Rs.7.134 billion) and Rs.5.366 on account of O&M Cost of PEPCO, Advertisement charges, Use of system charges and other charges. The supplemental charges represented the delayed payment charges for Power Producers and were charged by CPPA. The management was of the opinion that supplemental charges were the liability of CPPA. Due to non-accounting for these expenses, the accumulated losses had been under stated by an amount of Rs.12.761 billion.

12.2.15 Vertical Trend Analysis

A vertical analysis is used to show the relative sizes of the different accounts on a financial statement. While doing the vertical analysis of Profit & Loss account Sale of Electricity has been taken as 100%, and every other head of Profit & Loss account has been shown as a percentage of the total sales number.

Year	***2016***	***2017***	***2018***
	%age of Sale	***%age of Sale***	***%age of Sale***
Sale of Electricity including subsidy	100.00	100.00	**100.00**
Cost of Electricity	(96.86)	(97.28)	(107.38)
Gross Profit/(Loss)	3.14	2.72	(7.38)
Amortization of deferred Credit	1.54	1.42	1.23
Operating Expenses	(18.17)	(16.72)	(18.16)
Loss from operations	(13.49)	(12.58)	(24.32)
Misc. Other Income	1.63	1.29	1.74
Financial Expenses	(1.57)	(1.58)	(1.74)

Loss before Taxation	(13.42)	(12.88)	(24.32)
Taxation	-	-	-
Current	(0.91)	(0.80)	(1.14)
Deferred	3.99	-	-
	3.07	(0.80)	(1.14)
(Loss) after tax	**(10.35)**	**(13.69)**	**(25.46)**

Vertical analysis of Profit & Loss account of IESCO shows a very dismal position. Cost of sales is 107.38% of the sales in 2018, 97.28% in 2017 and 96.86% in 2016 which has increased over time indicating serious inefficiencies of business of the company. The company was not able to recover even its cost of electricity purchased in 2018 eventually suffering gross loss of Rs.7.926 billion. Operating expenditures are 18.16% of sales in 2018 as compared to 16.72% of sales in 2017 and 18.17 % in 2016 which are contributing to enhance the losses.

12.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
IESCO	2016-17	01	-	**19** (Para No. 4.1.2, 4.1.4, 4.1.5, 4.1.7, 4.1.9, 4.1.13 to 4.1.17, 4.1.19 to 4.1.22, 4.1.26 to 4.1.29, 4.1.33)	

Position of compliance with PAC directives is not satisfactory.

12.4 AUDIT PARAS

12.4.1 Loss due to non-utilization of loan – Rs.154.52 + CN¥ 4.17 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

In PMU IESCO, a tender under ADB Loan-2972-Pak for procurement of plant, design, supply installation, testing, commissioning and civil works of three (03) grid stations alongwith residential colonies was opened on September 09, 2013 but the contract was signed on October 12, 2015 i.e. after lapse of more than two years. The work was not started due to abnormal delay by the management. Resultantly, the company sustained a loss of Rs.154.52 million + CN¥ 4.171 million in the shape of interest.

Non-adherence to the rules resulted in loss of Rs.154.52 + CN¥ 4.17 million due to non-utilization of loan during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that the payment of interest was inevitable due to terms and condition of loan. The reply was not tenable as the Company had to bear interest payment for delayed time.

The DAC in its meeting held on December 20-21, 2018, DAC did not agree with the management's stance and directed to conduct inquiry for inordinate delay in awarding contract within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1495/2018-19)

12.4.2 Recoverable amount due to non-functioning of equipments at 11 KV Jhawra – Rs.112.82 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 Operation Rawalpindi Circle IESCO, Rawalpindi, an amount of Rs.112.82 million (Rs.33.08 million + Rs.79.735 million) was recoverable from the consumer under reference No.27-14365-7340802 at the Qasim Aviation Base. The management took no action to remove equipment from the site to disconnect the energy connection.

Non-adherence to Commercial Procedure Manual resulted in non-recovery of Rs.112.82 million during the Financial Year 2017-18.

The matter was taken up with the management on October, 2018 and reported to the Ministry in November, 2018. The management replied that the consumer made the payment partially so disconnection was not possible. The reply was not tenable as documentary evidence was not provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the recovered amount verified from Audit within 15 days and make efforts to recover the balance amount. The management was also asked to take up matter at a higher level through Ministry. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives and recover the amount from the consumers.

(Draft Para No. 867/2018-19)

12.4.3 Illegal resale of electricity by bulk supply consumers – Rs.76.48 million

NEPRA vide its letter No. NEPRA/CAD/TDC 02/4932-33 dated April 10, 2014 "directed IESCO to investigate and report violation of NEPRA directives regarding illegal / exorbitant charging of high rates and resale of electricity by bulk supply consumers of high rise buildings / complexes / housing societies."

In Operation Circle Islamabad IESCO, thirteen (13) bulk supply consumers of high rise buildings / complexes / housing societies were involved in illegal resale of electricity which was in contravention to NEPRA directives. Despite clear cut directions of NEPRA no action has since been taken against the delinquents.

Non-adherence to NEPRA's directions resulted in illegal resale of electricity by bulk supply consumers amounting to Rs.76.48 million during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that efforts were being made to bring all the consumers under proper agreement as required under NEPRA rules. The reply was not agreed to as resale of electricity was in contravention to NEPRA directives.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the action as per NEPRA and conduct fact finding inquiry with 30 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 880/2018-19)

12.4.4 Loss due to electrification of private housing scheme from public funds - Rs.23.17 million

As per Prime Minister Secretariat Circular No. JS(P)ELC/NA-66/1543/23PB(S11) dated 18.08.2008 for new developer colonies, the respective developer would be responsible to provide electricity to the area.

In Construction Circle IESCO, an expenditure amounting to Rs.23.17 million was incurred on the electrification of a private developed housing scheme under system augmentation program in violation of rules.

Non-adherence to the rules/regulations of the Authority resulted in loss due to electrification of private housing colony amounting to Rs.23.17 million up to the Financial Year 2017-18.

The matter was taken up with management in August, 2018 and reported to the Ministry in December, 2018. The management replied that no housing scheme was electrified however, Low Voltage proposal was executed for upkeep of voltage under maintenance head. The reply was not tenable as housing scheme was responsible for all types of electrification works.

The DAC in its meeting held on December 20-21, 2018 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 implement DAC's directives besides fixing responsibility.

(Draft Para No. 1379/2018-19)

12.4.5 Irregular procurement of heavy electrical equipment from black listed firm – Rs.15.30 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In PMU IESCO, a purchase order valuing US$ 0.15 million equivalent of Paki Rs.15.30 for procurement of five power transformers was awarded to M/s Chint Electric Co., China. The said firm was black listed by African Development Bank therefore, the procurement was irregular.

Non-adherence to above instructions resulted in irregular procurement of electrical equipment valuing Rs.15.30 million from a black listed firm during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that the contract with M/s Chint was signed much earlier before it was black listed by

African Development Bank. The reply was not acceptable as all type of business was to be discontinued with blacklisted firm.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1322/2018-19)

12.4.6 Violation of NEPRA directions due to non-disclosure of consumer financed spare parts and stores in financial statements - Rs.15.05 million

According to NEPRA's summary of directions the Petitioner (IESCO) was directed to give clear disclosures in its Financial Statements with respect to the consumer financed spares and stores, work in progress and cash & bank balance.

In Operation Circle Islamabad IESCO, seventeen (17) consumers got installed self financed spares i.e. transformers of various capacities at their premises. The disclosures of the said spares valuing Rs.15.05 million were not forthcoming in the financial statements.

Violation of NEPRA's directive resulted in non-disclosure of consumer financed spare parts and stores valuing Rs.15.05 million in the financial statements during Financial Year 2017-.18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that as per Clause-8 of WAPDA Act 1958, all apparatus installed by the consumer would remain property of the Authority. However, if Act would be amended to this effect, a separate accounting for the cost paid equipment may be adopted. The reply was not tenable as directives of the Regulator were not adhered to.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding non observance of NEPRA's directives besides fixing responsibility.

(Draft Para No. 908/2018-19)

12.4.7 Loss due to non-construction of new transmission lines towers - Rs.13.15 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In Grid System Construction (GSC) Circle, IESCO, a new132KV Bagh-Hattian Transmission line was to be constructed on turnkey basis under ADB Loan however, four (04) towers of existing (132KV Hattian - Bagh) transmission line were utilized instead of construction of new towers. Resultantly over/excess payment of Rs.13.15 million was made to the contractor which needs justification.

Non-adherence to Authority's instructions resulted in irregular excess expenditure amounting to Rs.13.15 million during the Financial Year 2017-18.

The matter was taken up with the management in September 2018 and reported to the Ministry in December, 2018. The management stated that due to space problem new towers could not be installed however a revised reply would be submitted in due course of time. The reply was not tenable as the tender was floated which included construction works of new towers.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within 10 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1367/2018-19)

12.4.8 Undue favour to the consumers due to non-providing of transformers - Rs.6.16 million

As per PEPCO letter No. 1065-74/CE(O) Stat-187 Dated 30.06.2018, where the load of shopping plazas, shopping centers and other places is more than 10 KV the mandatory independent transformer will be installed.

In Operation Circle Jhelum IESCO, the load of commercial consumers was sanctioned from 5 KW to 10 KW, only to avoid the cost of Independent Transformers of Rs.6.16 million. Afterwards they extended their connected load without authorization which was undue favour to consumers.

Non-adherence to the instructions of PEPCO resulted in undue favour to Rs.6.16 million given to the consumers during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that notices were already served to the consumers for regularization of extended load. The reply was not tenable as unauthorized load was allowed by IESCO to consumers.

The DAC in its meeting held on December 20-21, 2018 directed the management to disconnect the consumer if they did not install an independent transformer and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's.

(Draft Para No. 454/2018-19)

12.4.9 Unjustified recovery from consumers on account of consultancy charges - Rs.4.63 million

As per Authority's letter dated January, 2002 "installation charges were levied to the extent of 20% of the cost of material".

In Construction Circle IESCO, an amount of Rs.4.63 million was paid to consultants of Barqab and ENMAS on account of supervision of works. This amount was recovered from consumers and sponsoring agency through estimates by charging over and above from prescribed amount i.e. 20% of material cost which needs to be justified.

Non-adherence to instruction of Authority resulted in unjustified recovery from consumers amounting to Rs.4.63 million on account of consultancy charges up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in December, 2018. The management replied that payment was made to consultant as per SOP of the Company. The reply was not tenable as the amount was charged over and above 20% of material cost.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit on case to case basis within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 1473/2018-19)

12.4.10 Non-recovery of fixed charges from consumers - Rs.2.04 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 Operation Circle Islamabad, IESCO, twenty five (25) industrial consumers got sanctioned their load under Tariff B-I but their connected load was to be charged under Tariff B-II. Hence, fixed charges amounting to Rs.2.04 million were required to be charged which could not be recovered.

Non-adherence to commercial procedure resulted in non-recovery of fixed charges amounting to Rs.2.04 million from the consumers during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that notices were issued to the consumers for regularization of tariff. The reply was not tenable as the said consumers were sanctioned under incorrect tariff.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the recovery of amount and take action as per NEPRA's provisions within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 877/2018-19)

12.4.11 Unjustified payment on account of cash award – Rs.1.86 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In PMU IESCO, an amount of Rs.1.86 million was paid to all employees on account of cash award without approval of Ministry of Power. Moreover, the amount was paid to employees who did routine work during the whole period and also draw two times bonus / award in the same year. Hence, the amount of cash award paid to employees was unjustified.

Non-adherence to above instructions resulted in unjustified payment of Rs.1.86 million on account of cash award to employees during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that cash award was given under the approval of competent authorities to employees for their extra ordinary work during whole year. The reply was not agreed to as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 did agree with management's stance and directed to submit revised reply in the light of criteria made for cash award within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No.1365/2018-19)

12.4.12 Less recovery of security from consumer - Rs.1.83 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 Operation Rawalpindi Circle IESCO, Executive Engineer (E) IESCO Tariqabad Division pointed out an amount of Rs.1.83 million against Garrison Engineering (Army) M.E.S Rawalpindi. Despite the fact that the dues had not been paid by the consumer, the management did not issue any DCO/ERO.

Non-adherence to Commercial Procedure Manual resulted in less recovery of security from consumer of Rs.1.83 million during the Financial Year 2017-18.

The matter was taken up with the management on October, 2018 and reported to the Ministry in November, 2018. The management replied that efforts were being made to recover the amount and Audit would be informed accordingly. The reply was not acceptable as provision of Commercial Procedure was violated.

The DAC in its meeting held on December 20-21, 2018 directed the management to take up the matter with the head of organization and share the efforts made with Audit. Further recovery be expedited within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

(Draft Para No. 856/2018-19)

12.4.13 Less recovery of capital cost from consumers due to inclusion of lower capacity transformers in estimates - Rs.1.69 million

As per sanction order to Technical Directorate IESCO, transformers shall not be loaded beyond 80% of its rated capacity.

In Operation Circle Jhelum IESCO, fourteen (14) connections were installed without the recovery cost of transformer, or the cost of low capacity transformers, in the sanctioned estimates amounting to Rs.1.69 million from the consumers.

Non-adherence to instructions of Authority resulted into non-recovery of Rs.1.69 million as transformer cost from the consumers in the financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that recoveries would be made after consulting the record.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expedite the recovery of capital cost from consumers besides fixing responsibility.

(Draft Para No. 455/2018-19)

12.4.14 Loss due to non-provision of Spare Circuit Breakers - Rs.1 million

As per clause 16.1 of Specification No.P-193:2010, "if any set consist of more than 02 circuit breakers bidder was asked to provide spares for that set as well, as the bidder has to provide 12 No circuit breakers so it is agreed that bidder might provide spares for 02 set of Circuit Breakers.

In GSC IESCO, two (02) spare circuit breakers were to be provided by the supplier against a purchase order for supply of 132 KV breakers but spare circuit breakers were not provided by the supplier. Due to non-provision of spare equipment the company sustained a loss of Rs.1 million.

Non-adherence to contract agreements resulted in non-provision of circuit breakers amounting to Rs.1 million during the Financial Year 2017-18.

The matter was taken up with the management in September 2018 and reported to the Ministry in December, 2018. The management stated that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within 10 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to forfeit the performance guarantee of the contractor for non-completion of the contract.

(Draft Para No. 1404/2018-19)

12.3.15 Irregular/unjustified payment of project allowance - Rs.0.41 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In PMU IESCO, an amount of Rs.0.41million was paid to the employees on account of project allowance posted in Chief Engineer PMU, Islamabad. Furthermore, the employees were also drawing head office allowance being part of Chief Executive IESCO. The payment of project allowance to the staff of Chief Executive IESCO, Islamabad posted at Chief Engineer PMU is not justified.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that the project allowance was sanctioned by WAPDA / PEPCO. The reply was not tenable as employees of PMU were getting head office allowance and were doing desk job and not working as project site.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide PEPCO's notification for verification to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives and get concurrence from Ministry of Finance for drawing this double benefit.

(Draft Para No. 1520/2018-19)

CHAPTER-13

LAHORE ELECTRIC SUPPLY COMPANY (LESCO)

13. LAHORE ELECTRIC SUPPLY COMPANY (LESCO)

13.1 Introduction

Lahore Electric Supply Company (LESCO) is a subsidiary of PEPCO. The Company started its operation as a Public Limited Company registered in July, 1998 under Companies Ordinance 1984 (now Companies Act 2017). The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company purchases electricity from CPPA through NTDC system and sells it to various consumers within Kasur, Lahore, Okara, Nankana Sahib and Sheikhupura Districts. LESCO receives electricity supply from NTDC on 220 KV Grid Stations at Bund Road, Ravi Road, Sarfraz Nagar, New Kotlakhpat, Kala Shah Kaku and 11 private power producers.

The operational activities are performed through seven Operation Circles and Grid System Construction, Project Construction & Grid System Operation Circles.

13.2 Comments on Financial Statement

13.2.1 Objective of Financial Analysis

The objective of analysis of LESCO's financial statements is basically to assess the financial health of the Company to bear its operational costs and to indicate the factors contributing the accumulation of huge circular debt.

For this purpose the horizontal and vertical trend analysis of Company's financial statements of three years up to 2016-17 has been conducted because financial statements for the 2017-18 have not yet been finalized. Critical factors affecting the financial statements have also been highlighted.

13.2.2 Horizontal Analysis of Financial Statement

Horizontal analysis (also known as trend analysis) is a financial statement analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time. It is a useful tool to evaluate the trend situations. The statements for two or more periods are used in horizontal analysis. Audit used financial statements for financial year 2015-16 & 2016-17.

13.2.3 Profit and Loss Account
For the year ended June 30, 2015 to 2017

(Rs. in billions)

	2015	Inc./Dec %age	2016	Inc./Dec %age	2017
Sale of electricity	173.374	(15.78)	146.017	2.36	149.460
Subsidy from Government of Pakistan on sale of electricity	18.395	(24.57)	13.875	52.03	21.094
Total Sale	**191.769**	**(16.62)**	**159.892**	**6.67**	**170.555**
Cost of electricity	(177.233)	(13.53)	(153.259)	16.98	(179.278)
Gross profit/(loss)	**14.536**	**(54.37)**	**6.633**	**(231.53)**	**(8.724)**
Amortization of deferred credit	1.096	0.82	1.105	14.63	1.267
	15.633	**(50.50)**	**7.738**	**(196.37)**	**(7.457)**
Operating Costs:	-				-
Distribution expenses	(22.950)	7.02	(24.560)	9.33	(26.852)
Administrative expenses	(4.216)	20.49	(5.080)	9.33	(5.554)
Customer services	(2.435)	(9.65)	(2.200)	9.32	(2.405)
Total Operating expenses	***(29.602)***	***7.56***	***(31.840)***	***9.33***	***(34.811)***
Operating (loss)	**(13.969)**	**72.54**	**(24.102)**	**75.37**	**(42.268)**
Other income	5.519	(12.71)	4.818	1.76	4.903
Income before interest	**(8.450)**	**128.22**	**(19.284)**	**93.76**	**(37.365)**
Financing cost	(0.438)	16.89	(0.512)	(99.22)	(0.004)
Loss before taxation	(8.888)	122.73	(19.796)	88.77	(37.370)
(Loss) for the year	**(8.888)**	**122.73**	**(19.796)**	**88.77**	**(37.370)**

Source: Un-audited Financial Statements for the year ended 30 June 2015 to 2017.

13.2.4 Balance Sheet
As at June 30, 2015 to 2017

(Rs. in billions)

	2015	% age Inc/Dec	2016	% age Inc/Dec	2017
Share of Rs. 10 each	50.000	-	50.000	-	50.000
Issued, subscribed and paid up share capital	6.738	-	6.738	-	6.738
Accumulated (losses) un-appropriated profit	(30.095)	96.23	(59.053)	63.28	(96.423)
	(23.357)	**123.98**	**(52.315)**	**71.43**	**(89.685)**
Deposit for issuance of share	37.969	-	37.969	(2.14)	37.155
Non-current liabilities	-				-
Deferred credit	23.900	5.27	25.160	9.61	27.577
Long term security deposit	8.939	11.15	9.936	13.77	11.304
Employee retirement benefit	70.731	34.28	94.975	15.22	109.427
Long term financing	3.355	44.62	4.852	63.75	7.945
Total noncurrent liabilities	***106.925***	***26.18***	***134.922***	***15.81***	***156.253***
Current liabilities	-				-
Trade and other payable	19.876	194.34	58.502	56.00	91.263
Receipt against deposit work	8.099	30.09	10.536	3.48	10.903
Accrued interest	1.005	67.96	1.688	(11.79)	1.489
Book overdraft	0.568	(49.12)	0.289	353.64	1.311
Provision for taxation	0.102	-	0.102	-	0.102
Current maturity of long term financing	0.892	13.23	1.010	(100.00)	-
Total Current liabilities	***30.542***	***136.16***	***72.127***	***45.67***	***105.069***

TOTAL LIABILITIES	**152.080**	**26.71**	**192.703**	**8.35**	**208.793**
Non-Current Asset	-				-
Property, plant and equipment	47.887	9.51	52.439	13.45	59.491
Operating fixed asset	7.351	23.06	9.046	5.19	9.516
Capital work in progress	55.237	11.31	61.486	12.23	69.006
Long term loan	0.367	65.12	0.606	(4.29)	0.580
Long term deposit	0.001	-	0.001	-	0.001
Total non-current Assets	***55.605***	***11.67***	***62.093***	***12.07***	***69.587***
Current Asset	-				-
Store and Spares	1.670	(0.96)	1.654	(4.05)	1.587
Trade debts	31.336	16.93	36.641	15.03	42.147
Advances	0.086	1.63	0.087	2.29	0.089
Interest receivable accrued	0.126	19.84	0.151	-	0.151
Other receivable	44.258	65.17	73.100	(14.95)	62.171
Current portion of long term loans	0.042	61.90	0.068	(100.00)	-
Tax refund due from the government	3.505	(60.52)	1.384	658.95	10.504
Short term investment	12.391	23.40	15.291	14.83	17.559
Bank balance	3.061	(27.02)	2.234	123.73	4.998
Total Current Asset	***96.475***	***35.38***	***130.610***	***6.58***	***139.206***
TOTAL ASSETS	**152.080**	**26.71**	**192.703**	**8.35**	**208.793**

Source: Un-audited Financial Statements for the year ended 30 June 2015 to 2017.

13.2.5 Huge accumulated loss sustained By Company

The financial statements of the company as on June 30, 2017 shows that the Company has suffered accumulated loss of Rs.96.423 billion up to June 30, 2017 which has turned equity of the Company into negative and its current liabilities exceeded its current assets. Payable of the Company stood at Rs.91.263 billion (as on June 30, 2017) in shape of circular debt ultimately born by the public exchequer through government bailout.

13.2.6 Gap between Cost and Sales Revenues

Revenues from sale of electricity decreased by (16.62) % in 2016 however increased 6.67% in 2017 as compared to 2016. The cost of electricity decreased (13.53) % in 2016 but increased to 16.98% in 2017. This increase in revenues and exponential increase in cost does not supplement each other.

Increase in cost was due to 14.19 % increase in average purchase rate whereas average sale rate was increased only 4.02 % in 2017. This un-even increase in rates has also contributed to huge gap between sales revenues and cost of electricity.

(Rs. in billion)

	2015	**% age Inc/(Dec)**	**2016**	**% age Inc/(Dec)**	**2017**
Sale of Electricity	191.769	(16.62)	159.892	6.67	170.555

Units Sold (Billion KWH)	16.328	6.21	17.342	2.55	17.784
Avg. rate (Rs. per KWH	***11.75***	**(21.45)**	***9.22***	**4.02**	***9.59***
Cost of Electricity	177.233	(13.53)	153.259	16.98	179.278
Unit Purchased (Billion KWH)	19.009	6.01	20.152	2.33	20.622
Avg. Rate (Rs. per KWH)	***9.33***	**(18.44)**	***7.61***	**14.19**	***8.691***

13.2.7 Heavy HR cost and Provisions for Doubtful debts

The gap between electricity cost and sales revenues trickles down in the whole financials leading to gross losses.

(Rs. in billion)

	2015	**% age of total opex**	**2016**	**% age of total opex**	**2017**	**% age of total opex**
Salaries, wages and other benefits	9.097	33.40%	10.018	34.30%	11.084	34.14%
Postretirement benefit	15.917	58.44%	18.065	61.84%	18.065	55.65%
Sub total	*25.013*	91.84%	*28.083*	96.14%	*29.149*	89.79%
Other operating expenses	2.225	8.16%	1.127	3.86%	3.314	10.21%
Total OPEX excluding depreciation	27.238	100%	29.210	100.00%	32.463	100%

Source: Un-audited Financial Statements for the year ended 30 June 2015 to 2017.

Major operating expenses are salaries & wages and post retirement benefits, these are 89.79% of total operating expenses in 2017. Although the management has cut its staff cost in 2017, there is need to further rationalize its human resources.

13.2.8 Heavy Funds stuck in Trade debts

Trade Debts against sale of electricity has increased to Rs.42.147 billion in 2017 as compared to Rs.36.641 billion in 2016 and Rs.31.336 billion in 2015 showing a vertical increase of 34.500% in three years. In 2017 total trade debts are Rs.42.147 billion out of which Rs.11.128 billion relates to the period above 06 months. The further breakup showed that Rs.9.734 billion is related to the private sector and Rs.1.394 billion to Government sector.

(Rs. in million)

LESCO		**OVER 6 MONTHS & UPTO 1 YEAR**	**OVER 1 YEAR & UPTO 3 YEAR**	**ABOVE 3 YEARS**	**TOTAL**
GOVERNMENT CONSUMERS					
	RUNNING	153.44	501.99	475.89	1131.32
	DEFAUTERS	1.64	59.25	202.02	262.91
Total Government consumer		**155.08**	**561.24**	**677.91**	**1394.23**
PRIVATE CONSUMERS					
COMMERCIAL &	**RUNNING**	316.34	1291.05	1122.76	2730.15
INDUSTRIAL	**DEFAUTERS**	100.62	253.96	476.95	831.53
		416.96	**1545.01**	**1599.71**	**3561.68**
GENERAL	**RUNNING**	48.69	20.62	2.16	71.47

CONSUMERS	**DEFAUTERS**	699.25	1909.83	3491.73	6100.81
		747.94	**1930.45**	**3493.89**	**6172.28**
Total private consumer		1164.9	3475.46	5093.6	**9733.96**
Total consumer		**1319.98**	**4036.7**	**5771.51**	**11128.19**

Source: - Age analysis provided by PITC

Category wise age analysis of energy trade debtors in 2017 showed that Rs.5.10 billion have been stuck with private sector debtors which are more than 3 years old and Rs.0.677 billion are blocked by Government sector debtors which are over 3 year. Audit is of the view that a major factor contributing in circular debt is non-recovery from trade debtors. It is recommended to recover these long outstanding dues immediately in order to improve the cash flows of the Company.

13.2.9 Delay in Tariff Differential Subsidy adjustment by Government

The subsidy from GoP on sale of electricity represents a difference between electricity rates determined by NEPRA and rates notified by the Federal Government. This subsidy is being paid by the GoP to the DISCOs. In 2016-17, an amount of Rs.9.085 billion was receivable from Government on account of Tariff Differential Subsidy as on June 30, 2017. This showed that weak controls over timely adjustment/recovery of subsidy resulting in accumulation of Company's receivable and ultimately affecting the Company's ability to discharge its liabilities against payables.

The management needs to make serious efforts for recovery of outstanding dues against subsidy from federal government for timely payment against its liabilities.

(Source: Data received from LESCO)

13.2.10 Short Recoveries against Amount Billed

Recovery of amount billed by LESCO during FYs-2016-17 & 2017-18 against 100% target given by NEPRA has been analyzed as under:

(Rs in million)

Financial Year	**Amount of Current Billing During the Year**	**Amount of Collection during the year**			**Short Fall of Recovery Against Current Billing**	**%age Of Recovery Against Current Billing**	**%age Of total Recovery shown during the year**
		Against Current Billing	**Against Arrear**	**Total**			
1	*2*	3	4	5 (3+4)	6 (2-3)	7 (3/2*100)	8 (5/2*100)
2016-17	**230,050.83**	191,848.42	33,387.17	**225,235.59**	**38,202.41**	**83.39**	**97.90**
2017-18	**282,587.96**	230,518.28	40,574.01	**271,092.29**	**52,069.68**	**81.57**	**95.93**

Source: PITC Data

Poor recovery %age of LESCO resulted in less recovery of revenue as Rs.38.20 billion during 2016-17 and Rs.52.07 billion in 2017-18. LESCO's total recovery has been shown as 97.90 % against NEPRA's target of 100%, whereas the recovery against current billing was 83.39 % and rest of recovery related to the arrear. Likewise in 2017-18 the total recovery was shown as 95.93 % but the factual recovery against current billing was 81.57 %. Thus the percentage of the total recovery was not true representative of the billing during the respective financial years, which needs to be rationalized and justified.

13.2.12 Vertical Trend Analysis

A vertical analysis is used to show the relative sizes of the different accounts on a financial statement. Here while doing the vertical analysis of Profit & Loss account sale of electricity has been taken as 100%, and every other head of Profit & Loss account has been shown as a percentage of the total sales number.

	% age of Sale 2015	**% age of Sale 2016**	**% age of Sale 2017**
Sale of Electricity	90.41	91.33	87.63
Subsidy From Government Of Pakistan On Sale Of Electricity	9.59	8.68	12.37
Total Sale	**100**	**100**	**100**
Cost of Electricity	(92.42)	(95.85)	(105.12)
Gross Profit/(loss)	**7.58**	**4.15**	**(5.12)**
Amortization Of Deferred Credit	0.57	0.69	0.74
	8.15	4.84	(4.37)
Operating Costs:	-	-	-
Distribution Expenses	(11.96)	(15.36)	(15.74)
Administrative Expenses	(2.19)	(3.18)	(3.26)
Customer Services	(1.27)	(1.38)	(1.41)
Total Operating Cost	***(15.43)***	***(19.91)***	***(20.41)***
Operating (Loss) /Profit	**(7.28)**	**(15.07)**	**(24.78)**
Other Income	2.87	3.02	2.87
Income before interest	**(4.41)**	**(12.06)**	**(21.91)**
Financing Cost	(0.23)	(0.32)	(0.02)
Loss Before Taxation	**(4.64)**	**(12.38)**	**(21.91)**
Taxation	-	-	-
Loss after Taxation	**(4.64)**	**(12.38)**	**(21.91)**

Source: Un-audited Financial Statements for the year ended 30 June 2015 to 2017.

Vertical analysis of Profit & Loss account of LESCO shows a very dismal position. Cost of electricity is 105.12% of the sales in 2017 as compared to 95.85% in 2016 which indicates inefficiencies of business of the company.

Operating expenditures are 20.41% of sales in 2017 and 19.91% of sales in 2016 which is contributing to enhance the losses. Operating losses are 24.78% of sales in 2017 as compare to 15.07% in 2016 and 7.28% in 2015 which indicates in-efficient operational management.

13.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
LESCO	2015-16	1	-	**01** (Para No. 14.4.46)	
	2016-17	1		**28** (Para No. 4.1.1 to 4.1.5, 4.1.7 to 4.1.10, 4.1.13, 4.1.14, 4.1.16 to 4.1.26, 4.1.29 to 4.1.34)	

Position of compliance with PAC directives is not satisfactory.

13.4 AUDIT PARAS

13.4.1 Non-installation of electrical material against L.T proposals – Rs.4,503.91 million

According to Para-2.2 (Section-8) of Distribution Stores Manual, sub-divisions must not draw the materials until they are needed. They are not allowed to hold any material which cannot be used immediately. As per Para-4.5 (Section-9) of Distribution Stores Manual, “the Line Superintendent will use the materials on the job for which he drew and will record the consumption in his Electrical Measurement Book (EMB) / Material at Site Register (MSR) showing any materials left after the work has been completed”.

In LESCO, electrical material valuing Rs.4,503.91 million was drawn by the field staff for installation against different L.T proposals but the same was not installed at sites. Non-utilization of electrical material drawn from store was irregular, which may cause misappropriation of the same.

Non-adherence to the Distribution Stores Manual resulted in non-installation of electrical material valuing Rs.4,503.91 million against L.T proposals up to the financial year 2017-18.

The matter was taken up with the management during October & November, 2018 and reported to the Ministry during November & December, 2018. The management responded that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply along with justification on case to case basis to Audit for examination within 10 days. No progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility and ensuring either installation or return of material to store.

(Draft Para No. 971 & 1142/2018-19)

13.4.2 Illegal distribution / resale of power (electricity) by Housing Societies - Rs.1,236.94 million

As per NEPRA letter dated May 11,2015 the entities who have obtained bulk supply connections prior to grant of distribution license to LESCO and are involved in resale/distribution of electricity are required to apply to NEPRA for grant of distribution license and tariff.

In LESCO, five (05) housing societies were involved in the illegal practice of resale of electricity purchased from LESCO amounting to Rs.1,236.94 million. Such practice not only put the company into loss in the shape of difference of rate but also burdened the general public due to charging of electricity at higher rates by the Housing societies.

Non-adherence to NEPRA's instruction resulted in irregular resale of electricity amounting to Rs.1,236.94 million during the Financial Year 2017-18.

The matter was taken up with the management in November, 2018 and reported to the Ministry in December, 2018. The management replied that new tariff "J" and same category would be applicable on all connections after observing SOP of NEPRA. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days and provide copy of NEPRA's SOP. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1182/2018-19)

13.4.3 Un-utilized balance of ADB loans - Rs.873.13 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In PMU LESCO, projects valuing US$ 22.47 million were awarded under ADB loans from March 2012 to August 2016 for construction of grids stations. However, till June, 2018 only amount of US$ 15.31 could be utilized against these works leaving an unspent balance of US$ 7.15 million. The closing dates of loans also expired on 30th June, 2018. A dedicated project management unit was established to deal with such projects and effective utilization of loans and a huge amount of interest/commitment charges was also due against loan amounts.

Non-adherence to the instructions of Authority resulted in non-utilization of loan amount Rs.873.13 million up to the financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that the sponsor had stopped the work at site on the direction of court therefore, LESCO could not make any more payment. The reply was not tenable as the unspent balance of loan was required to be surrender alongwith justification to avoid levy of interest / commitment charges.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1152/2018-19)

13.4.4 Loss due to purchase of substandard material -Rs.492.33 million

According to section 22.1 (a) general condition of contract the supplier shall ensure the Goods and Related Services comply with the technical specification and other provisions of the contract.

In PMU LESCO, a contract was awarded for supply of 200 KVA pole mounted transformer as per NTDC Specification. During the visual inspection it was found that the HV & LV bushes on transformer were of ENC China make instead of COMMON SPA Italy make. The installed bushes were low quality as per cost analysis made by the formation. Supplier was pressing very hard to accept the purchase order and 80% payment of the purchase order had been made. The acceptance of low quality/ substandard transformers put the authority into a loss to the stated extent.

Non adherence of contract provisions resulted in loss due substandard purchase of material amounting to Rs.492.33 million up to the financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that as all relevant tests were made therefore this could not be ascertained that the material was substandard. The reply was not tenable as no action was taken for fulfilling the contract clause.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to ensure healthy procurement and initiate action for not fulfilling contractual obligation against the reluctant evaluated bidder.

(Draft Para No. 981/2018-19)

13.4.5 Irregular appointment of consultants through private firm – Rs.257.22 million

According to Para-2 & 4 of SL No.17 of Civil Establishment Code specifying the guidelines for appointment of Consultants in all Ministries/ Divisions and organization under their administrative control, a need identification is pre-requisite for any organization planning to obtain services of consultants, advertisement of consultancy will indicate the range of compensation package, including various facilities depending on the nature of work involved. The applicants will be short listed and prioritized by an in-house Committee of the client organization.

In LESCO Lahore, thirty three (33) Consultants were appointed for legal, audit, accounts, finance, commercial, IT, AMI project and Company Secretary office etc. through a private recruiting firm i.e. Sidat Hyder Morshed Associates (Pvt) Ltd under an agreement dated February 10, 2009. The agreement with the said firm was irregular as neither advertisement was made for the selection of the said firm nor the agreement extended further from 2010-11 to onward. Moreover, the firm was hired for appointments of consultants to improve ERP system but appointments were made against regular posts of other fields. The appointments of consultants were made without advertisement and adherence to recruitment rules of WAPDA / PEPCO & Federal Government, hence, appointment of consultants through the said firm and payment of salary of Rs.257.22 million to them was irregular.

Non-adherence to the recruitment rules resulted in irregular appointments of consultants through recruiting firm and payment of salary of Rs.257.22 million to them up to the Financial Year 2017-18.

The matter was taken up with the management during June & November, 2018 and reported to the Ministry during October & December, 2018. The management replied that the consultants were appointed on the recommendation of Sidat Hyder Morshed Associates in accordance with agreement. The reply was not tenable as the recruitment rules were violated in hiring the services of recruiting firm and consultants.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the matter inquired at Ministry level and effect recovery from responsible persons within 30 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 73 & 1222/2018-19)

13.4.6 Non-checking/preparation of data retrieval reports of defective removed meters - Rs.119.36 million

As per practice in vogue retrieval of data of display washed single and three phase static energy meters at data retrieval labs for downloading of high inflow of the removed meters by the M&T formations and dispatch results to concerned formations for compliance.

In, LESCO, 49213 single / three phase meters valuing Rs.119.36 million were replaced against defective ones by the field formations and removed / defective meters were sent to M&T formations for downloading and preparation of data retrieval reports. However, the meters were not checked and data retrieval reports could not be prepared, which needed to be justified.

Non-adherence to data retrieval procedure resulted in non-checking / preparation of data retrieval reports of defective removed meters valuing Rs.119.36 million during the financial year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry during October & November, 2018. The management replied that most of the meters were checked and 12.01 million units were retrieved. The reply was not agreed to as reply regarding recovery of cost of retrieved units was not given.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide the record relating to retrieval along with recovery of cost of retrieved units to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends expeditious recovery of cost of retrieved units from the consumers.

(Draft Para No. 178 & 288/2018-19)

13.4.7 Loss due to purchase of sub-standard/unspecified material - Rs.119.34 million

According to the advertisement in the daily News paper dated June 21, 2017 the description of HT Steel Structure against tender No.1977 mentioned was 36 feet.

In LESCO, a purchase order valuing Rs.119.34 million was awarded to MS Khalifa Sons Pvt. Ltd., against tender No. 1977 for supply of HT Galvanized Steel structures 34 feet-8 inches instead of HT steel structure 36 feet as advertised in the Newspaper. Moreover the store also informed falsely to the Company Secretary about material received by showing the receipt of HT steel structure 36 feet instead of HT Galvanized Steel structures 34 feet - 8 inches. This state of affairs showed that the substandard/unspecified material was purchased from the contractor irregularly.

Non-adherence to specifications advertised resulted in loss of Rs.119.34 million due to purchase of substandard / unspecified material during the Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in October, 2018. The management replied that there was no difference in the item quoted in the advertisement and mentioned in the purchase order. The reply was not tenable as newspaper advertisement for 36-feet HT structure and PO was for 34-feet 8-inch.

The DAC in its meeting held on December 20-21, 2018 directed the management to get record verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s directives besides fixing responsibility.

(Draft Para No. 102/2018-19)

13.4.8 Unjustified recovery of contingency and transportation charges - Rs.96.05 million

As per General Manager Operation’s instruction issued vide letter No.6555-71 dated 1 July, 2002, 20% installation charges will be applied while preparing the estimate by field formation.

In Construction Circle LESCO, an amount Rs.96.05 million as contingency charges recovered in excess of 20% installation charges which were unjustified.

Non-adherence to the rules/regulations of the Authority resulted in unjustified recovery of Rs.96.05 million on account of contingency charges during the Financial Year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in October, 2018. The management replied that the observation had been taken in DP-749/2016-17. The reply was not acceptable as the recurrence of irregularity made by the management and contingency charges were increased yearly.

The DAC in its meeting held on December 20-21, 2018 did not agree with the management’s stance and directed to submit proper reply to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s directives besides fixing responsibility.

(Draft Para No. 127/2018-19)

13.4.9 Irregular expenditure due to break down grid station - Rs.47.41 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores,

shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GSC LESCO, 132 KV Grid Station was burnt and expenditure of Rs.47.41 million was incurred for replacement of power transformer. Neither any inquiry was conducted nor responsibility fixed to recover the huge loss of the company.

Due to negligence of staff non-adherence to authority's instructions the company sustained a loss of Rs.47.41 million during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that matter was under investigation of departmental inquiry committee.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the proceedings of the inquiry committee and submit its report to Audit within 30 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 527/2018-19)

13.4.10 Non-recovery of electricity dues from iron steel mill - Rs.30.03 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, "Revenue Officer and Assistant Manager are responsible for implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company efficient application of billing and collection procedures".

In GSO LESCO, electricity dues of Rs.30.03 million were recoverable from M/s United Iron Steel Mill. Though the connection was disconnected but the amount could not be recovered. The said consumer had filed a suit in court for release of possession of the property of grid station or to pay the cost of property.

Non-adherence to commercial procedure resulted in non-recovery of electricity dues of Rs.30.03 million from iron steel mill up to the Financial Year 2017-18.

The matter was taken up with the management during August, 2018 and reported to the Ministry in October, 2018. The management replied that the consumer's connection had been disconnected due to non-payment of dues. The reply was not tenable electricity dues had accumulated due to violation of commercial procedure

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite recovery from the consumers and report to Audit within 10 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 103/2018-19)

13.4.11 Recoverable amount on account of irregular payments to the employees - Rs.29.09 million

Finance Division Regulation Wing O.M No. F.11(4)R-2/2013-1427 Dated 22nd October, 2013 clarified that the pre-mature increment is admissible in case of steno typist and stenographer only whose posts have been up-graded. The post of private secretary have not been up graded rather they have been granted time scale on completion of prescribed length of service, therefore they are not entitled to pre-mature increment.

In LESCO, an amount of Rs.29.09 million was paid to various employees of the Company as arrear of Pre-Mature Increment on Time Scale Up-Gradation. As the payments were in contravention to Govt. rules so the said amount was required to be recovered from concerned employees but the same was not recovered so for.

Non-adherence to the Government Rules resulted in recoverable amount on account of time scale up-gradation amounting to Rs.29.09 million to the company during the Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in October, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply along with documentary evidence of recovery to Audit for examination within 15 days. Further progress was not reported till finalization of the report.

Audit recommends expeditious recovery from employees.

(Draft Para No. 152/2018-19)

13.4.12 Loss due to purchases of transformers at higher rates - Rs.28.73 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In PMU LESCO, a tender for procurement of 4 Power Transformers under ADB Tranche-IV was opened on November 30, 2016 and M/s China Energy Equipment Co. quoted the lowest rate. Out of seven, two bidders were evaluated as qualified. The 1st and 2nd lowest bidder gave clarification of all the discrepancies pointed out in the evaluation report and confirmed to provide the transformers according to the specification and requirement. The 1st lowest bidder had also provided the same type of transformers to IESCO. Being the lowest bidder the performance of the transformers should have been verified from IESCO. But the same was not done and the supply order was given to the 3rd lowest bidder due to which company sustained a loss of Rs.28.73 million.

Non-adherence of authority's instructions resulted in loss due to purchase of material at higher rates amounting to Rs.28.73 million up to the financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that the contract was awarded to M/s Chint after receiving NOC from ADB on the recommendation of bid evaluation committee.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide relevant record along with bid evaluation report to Audit for examination within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 931/2018-19)

13.4.13 Recoverable amount of bonus - Rs.14.88 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982

(amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

In LESCO, bonus was approved for the officers and staff of Ministry of Water and Power despite the fact that the Ministry had its own budget. Moreover, the payment of bonus of Rs.14.88 million was not made through staff’s bank accounts. Since payment record was incomplete, chances of embezzlement could not be ruled out.

Non-adherence to the above rules resulted in recoverable amount of Rs 14.88 million paid to Ministry`s employees on account of bonus during the year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in October, 2018. The management replied that payment of bonus was made under the approval of BoD. The reply was not tenable as bonus payment to staff of Ministry through LESCO’s budget was irregular.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified in the light of attachment of staff from Audit within 15 days and stop the practice of paying bonus of Ministry’s staff from DISCOs budget. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s directives.

(Draft Para No. 76/2018-19)

13.4.14 Irregular payment of special allowance to the non-cadres staff - Rs.13.34 million

As per PEPCO letter No.GM(HR)/HRD/A-332/6823-53 dated December 05, 2008, PEPCO Management has been pleased to accord approval for grant a special allowance at uniform rate of Rs.10,000/- per month to the Officers in BPS-17 & above working in Finance, Accounts, Costing & Audit Cadres w.e.f September 01, 2009. This is subject to the condition that allowance in question shall be admissible only to those officers who possess the minimum qualification required for initial appointment in BPS-17 respective cadre i.e. MBA/MPA/M.Com/M.A Economics/CA (inter)/ICMA (Inter)/Master of Administrative Sciences (MAS) Degrees from HEC recommended.

In LESCO, special allowance amounting to Rs.13.34 million was granted to the non-cadre employees in contravention of above mentioned rule as the special allowance was allowed only to the employees working in Finance, Accounts, Costing & Audit and engineering cadres holding requisite qualification w.e.f September 01, 2009.

Non-adherence to PEPCO's instructions resulted in irregular payment of special allowance amounting to Rs.13.34 million to non-cadre staff during the financial year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in November, 2018. The management replied that special allowance was allowed to employees under approval of BoD. The reply was not tenable as LESCO had violated PEPCO's direction.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the concurrence of Finance Division (GoP). Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

(Draft Para No. 541 & 1058/2018-19)

13.4.15 Non-recovery of grid operation & maintenance charges from consumers – Rs.11.02 million

According to Memorandum of Understandings (MoUs) signed among LESCO and consumers for operation and maintenance of consumers' grid stations, the salaries, wages, benefits and allowances of LESCO staff deputed for the consumers' gird stations will be calculated on the basis of maximum of pay scales admissible to such officials as per present and future LESCO rules and regulations will be remitted by the consumer party to LESCO in advance for a period of 03 months within 15 days on receipt of invoices.

In GSO LESCO, an amount of Rs.11.02 million was recoverable from the consumers on account of salaries, allowances, bonus, benefits and fixed charges for operation & maintenance of consumers' grid stations, which was not recovered.

Non-adherence to MoU resulted in non-recovery of grid operations & maintenance charges of Rs.11.02 million from consumers up to the Financial Year 2017-18.

The matter was taken up with the management during August, 2018 and reported to the Ministry in October, 2018. The management replied that an amount of Rs.1.59 million had been recovered while remaining recovery was in process. The reply was not averted as recovery from consumer was not carried out efficiently as per MoU

The DAC in its meeting held on December 20-21, 2018 directed the management to provide record relating to completed actions and expedite the pending actions within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

(Draft Para No. 68/2018-19)

13.4.16 Unjustified expenditure on appointment of officers - Rs.10.72 million

According to office memorandum of Finance Division dated June 26, 1999, revision of Pay Scales / Salaries / Allowances in Corporations, Autonomous / Semi Autonomous bodies will require clearance from the Finance Division to ensure a rational basis and a degree of uniformity in such revision.

In LESCO, an amount of Rs.10.72 million was paid to three (03) officers on account of pay and other facilities during 2017-18. The officers were appointed on exorbitant rate without considering Government of Pakistan pay scales. The package of pay and allowances was not got cleared from the Finance Division, which was unjustified.

Non-adherence to GoP's instructions resulted in unjustified expenditure of Rs.10.72 million on account of appointment of officers up to the Financial Year 2017-18.

The matter was taken up with the management in November, 2018 and reported to the Ministry in December, 2018. The management replied that requisite expertise of these officers could not be compared with company employees. The reply was not acceptable as pay package of these officers was approved from Finance Division GoP.

The DAC in its meeting held on December 20-21, 2018 did not agree with management's stance and directed to get pay package vetted from Finance Division GoP within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1147/2018-19)

13.4.17 Loss due to illegal repair of transformers at private workshop recovered by FIA - Rs.8.41 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In LESCO, thirty one (31) transformers were recovered by FIA from an illegal workshop. The recovery of these transformers valuing Rs.8.41 million from the private work shop was an alarming situation and the chances of misappropriation could not be ruled out. No disciplinary/administrative action was taken against the responsible officer/officials.

Non-adherence to the Authority's instructions resulted in illegal repair of transformers amounting to Rs.8.41 million during the Financial Year 2017-18.

The matter was taken up with the management in November, 2018 and reported to the Ministry in December, 2018. The management replied that final outcome of the FIA inquiry was still awaited.

The DAC in its meeting held on December 20-21, 2018 directed the management to pursue the matter with FIA vigorously and to share final outcome with Audit. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives fixing responsibility.

(Draft Para No. 1146/2018-19)

13.4.18 Loss due to defective parts of 20/26MV power transformer - Rs.7.50 million

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

In GSC Circle LESCO, Lahore, material amounting to Rs.7.50 million was issued vide allocation order No. 7550-58/Dev/Proc-II/204 dated 29.05.2017. After inspection of material it was found that some parts of material issued were defective and as a result transformers were not working properly and could not be installed. Resultantly Company sustained a loss due to installation of defective material.

Non adherence to rules resulted in loss due to defective material amounting to Rs.7.50 million during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that discrepancies had been attended to and record was ready for verification. Matter was also under investigation. The reply was not tenable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide final outcome of inquiry along with record relating to rectification of defects to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expedite the inquiry proceedings besides fixing responsibility.

(Draft Para No. 538/2018-19)

13.4.19 Irregular excess expenditure on re-conducting of 11 KV line bay - Rs.4.20 million

As per Clause-2.1.1 Section-2 of Book Of Financial Powers for Distribution companies wherein Board of Directors (BoD) are fully empowered to accord administrative approval of works, and Chief Executive of Technical sanction of works.

In GSC Circle, LESCO Lahore, an estimate of Rs.24.03 million was prepared for construction of different works, which was revised for Rs.28.23 million and excess expenditure of Rs.4.20 million was incurred against subject works. Neither allocation of funds against excess expenditure was made nor revised estimates approved by the Board of Directors.

Non-adherence to rules resulted in irregular excess expenditure of Rs.4.20 million during financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that both the works had been completed and energized. Now revised estimates were prepared and approved. The reply was not tenable as prior written approval was required to allow variation in quantities as per site requirement.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit on case to case basis within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 520/2018-19)

13.4.20 Unjustified payment of bonus to the consultants hired by third party - Rs.3.08 million

According to Claus-5 of Agreement with Sidat Hyder Morshed Associates Pvt. Ltd (SHMA), LESCO had agreed to pay SHMA lump sum salary package including any other payment under the employment Agreement which SHMA incur.

In LESCO, Lahore, services of M/s Sidat Hyder Morshed Associates (Pvt) Ltd were hired for recruitment of consultants under lump sum package. Since, all the persons recruited by the said firm were not LESCO employees and they were getting their salaries from their company, hence, they were not entitled to any benefits from LESCO. Hence, bonus of Rs.3.08 million paid to the said consultants was unjustified.

Non-adherence to Service Agreement clause resulted in unjustified payment of bonus of Rs.3.08 million to the consultants hired by third party during the Financial Year 2017-18.

The matter was taken up with the management in November, 2018 and reported to the Ministry in December, 2018. The management replied that payment of bonus was made under the approval of BoD. The reply was not accepted as bonus by the Company to other than LESCO's employees was irregular.

The DAC in its meeting held on December 20-21, 2018 did not agree with the management's stance and directed the management to effect recovery from concerned employees within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1224/2018-19)

13.4.21 Loss to government exchequer due to less recovery of stamp duty and registration fee from the private housing scheme – Rs.3.03 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In LESCO, 32 kanal land of 132 KV Grid Station Paragon Housing Society Lahore handed over to LESCO. The management of Paragon Housing Society paid stamp duty and shifted ownership to LESCO department. Manager Civil LESCO headquarter Lahore intimated that the Paragon city management paid less registration fee and stamp duty during the transfer of land amounting to Rs.3.03 million.

Non-adherence to the Authority's instructions resulted in a loss of Rs.3.03 million due to less payment of registration fee and stamp duty to government exchequer during the Financial Year 2017-18.

The matter was taken up with the management in Jun, 2018 and reported to the Ministry in October, 2018. The management replied that less recovery of stamp duty was the duty of sponsor and sponsors had taken up the case with FBR. The reply was not agreed to as the stamp duty was less recovered.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 71/2018-19)

13.4.22 Irregular expenditure due to hiring of retired army officer - Rs.2.20 million

As per Establishment Division (Government of Pakistan) letter No.2/10/2007/E-1 dated December, 04, 2007, re-employment is subject to following conditions: i) Non availability of suitably qualified or experienced officers to replace the retiring officer. ii) The officer is highly competent person with distinction in his profession/field iii) The re-employment does not cause promotion blockage, iv) Retention of retiring officer for a specified period is in public interest. Moreover, According to Establishment Division (Government of

Pakistan) letter No. 10/67/20004-R.2 dated 21st June, 2005, "Engagement of retired officers as Consultant/Advisors etc shall require prior permission of the government, invariably i.e. Establishment Division in case of retired civilian officers, Defence Division in case of retired defense officers, and Law Justice and Human Rights Division/Supreme Court/High Court in case of retired judiciary Officers".

In LESCO, Major Retired Aurangzaib Tanvir was engaged as Deputy Manager Public Relation Officer in contravention to the rules. The retiring officer was not indispensable because most of, in service, employees of the company could perform a duties of a Public Relation Officer as they possessed the requisite qualification and expertise. Moreover, defense Division's permission to appoint a retired Army Officer was necessary which was not taken. The appointment of retired army officer was an extra burden for the company.

Non-adherence to the above rule resulted in irregular expenditure of Rs.2.20 Million due to hiring of retired army officer.

The matter was taken up with the management in June, 2018 and reported to the Ministry in October, 2018. The management replied that the incumbent was employed against vacant post after fulfilling all requirements. The reply was not tenable as Establishment Division's re-employment conditions had been violated.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply after getting clarification from Establishment Division to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 93/2018-19)

13.4.23 Irregular reimbursement on account of vehicle monetization allowance to company secretary - Rs.1.25 million

According to Appointment Letter of Company Secretary, "A Company maintained car shall be admissible. No other benefit of facility will be provided by the Company". According to Cabinet Secretariat instructions issued vide letter No.6/7/2011-CPC Islamabad dated June 11, 2012, "BS-19 Officers performing duties against the posts in BS-20 under Section-10 and on current charge basis are not entitled to Transport Monetization allowance but they will continue to avail the existing facilities of the post, as admissible under the rules. However, those Civil Servants of BPS-20 who are appointed on acting charge basis after due process on the recommendation of the Selection Board and approval of the Prime Minister or competent authority of the post and not through local arrangements are entitled to the "Car Monetization allowance".

In LESCO, Lahore, the Company Secretary was claiming vehicle monetization allowance @ Rs.85,000/- per month from July 10, 2017 instead of using the company provided vehicle in contravention to the terms specified in his appointment letter, which was irregular. Moreover, the reimbursement was being claimed without production of any documents.

Non-adherence to the terms & conditions of appointment and Cabinet Secretariat instructions resulted in irregular reimbursement of Rs.1.25 million on account of vehicle monetization allowance to the company secretary during the Financial Year 2017-18.

The matter was taken up with the management in November, 2018 and reported to the Ministry in December, 2018. The management replied that amount paid to company secretary was according to decision of BoD. The reply was not tenable as the terms of appointment were not adhered to.

The DAC in its meeting held on December 20-21, 2018 did not agree with management's stance and directed to discontinue the practice after recovery of reimbursement within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1223/2018-19)

13.4.24 Irregular appointment of consultant/advisor - Rs.0.92 million

As per Establishment Division (Government of Pakistan) letter No.2/10/2007/E-1 dated December 04 2007, re-employment is subject to following conditions; (i) Non availability of suitably qualified or experienced officers to replace the retiring officer. (ii)The officer is highly competent person with distinction in his profession/field. (iii) The re-employment does not cause promotion blockage. (iv) Retention of retiring officer for a specified period is in public interest.

In LESCO, Mr. Khalid Mehmood, (Retired Customer Service Director) was appointed as consultant for commercial department at a monthly gross package of Rs.95,000 with vehicle and 400 liter fuel per month after retirement contrary to above rules which caused an irregular expenditure of Rs.0.92 million. Moreover, procedure prescribed in the above mentioned establishment division letter to be adopted for initiating a proposal for re-employment was also not forthcoming into record.

Non- adherence of the Establishment Division instructions resulted into an irregular appointment of consultant/advisor amounting to Rs.0.92 million during the Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in November, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit for examination within ten days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

(Draft Para No. 885/2018-19)

CHAPTER-14

MULTAN ELECTRIC POWER COMPANY (MEPCO)

14. MULTAN ELECTRIC POWER COMPANY (MEPCO)

14.1 Introduction

Multan Electric Power Company (MEPCO) is a subsidiary of PEPCO. The Company started its operations as a Public Limited Company in May, 1998 and registered under Companies Ordinance 1984 (now Companies Act 2017). The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company purchases electricity from CPPA through NTDC system and sells it to various consumers within Multan, Khanewal, Sahiwal, Vehari, Bahawal Pur, Lodhran, Bahawal Nagar, Rahim Yar Khan, D.G Khan and Muzzafar Garh Districts.

The operational activities are performed through nine Operation Circles and Grid System Construction Circle, Project Construction & Grid System Operation Circles.

14.2 Comments on Financial Statements

14.2.1 Objective of Financial analysis

The objective of analysis of MEPCO’s financial statements is basically to assess the financial health of the Company to review its operational costs. For this purpose the horizontal and vertical trend analysis of Company’s financial statements has been conducted. Critical factors affecting the financial statements have also been highlighted.

14.2.2 Horizontal Analysis of Financial Statement

Horizontal analysis (also known as trend analysis) is a financial statement analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time. The statements for two or more periods are used in horizontal analysis. Audit used financial statements for financial year 2016-17 & 2017-18.

14.2.3 Profit and Loss Account
For the year ended June 30, 2016 to 2018

(Rs. in billions)

	2016	*% age Incr/ (dec)*	*2017*	*%Incr/ (dec)*	*2018*
Sale of Electricity	**101.321**	6.16	**107.559**	30.14	**139.972**
Subsidy from Government of Pakistan on sale of Electricity	**24.720**	25.75	**31.086**	29.53	**40.265**
Sale of Electricity including Subsidy	**126.040**	10.03	**138.685**	29.96	**180.237**
Cost of Electricity	(113.690)	23.16	(140.019)	37.62	(192.694)
Gross Profit/(Loss)	**12.350**	(110.80)	**(1.334)**	833.81	**(12.457)**
Amortization of deferred Credit	2.035	8.80	2.214	8.63	2.405
	14.385	(93.89)	**0.879**	(1,243.57)	**(10.052)**
Operating Expenses excluding Depreciation	(18.619)	(7.27)	(17.266)	26.69	(21.875)
Depreciation	(3.414)	9.40	(3.735)	12.21	(4.191)
	(22.034)	(4.69)	**(21.001)**	24.12	**(26.067)**
Loss from Operations	(7.648)	163.10	(20.122)	79.50	(36.118)
Misc. Other Income	3.705	(15.76)	3.121	9.77	3.426
Financial Expenses	(0.840)	11.19	(0.934)	21.31	(1.133)
	(4.783)	274.97	(17.935)	88.60	(33.825)
Taxation	-	-	-	-	-
Net Profit/(Loss) after Tax	**(4.783)**	274.97	**(17.935)**	88.60	**(33.825)**

Source: Audited Financial Statement of 2016-17 & Provisional Financial Statements of 2017-18.

14.2.4 Balance Sheet
As at June 30, 2016 to 2018

(Rs. in billions)

	2016	**%Incr/ (dec)**	**2017**	**%Incr/ (dec)**	**2018**
Equity & Liabilities					
Issued, subscribed and Paid up Capital	10.824		10.824		10.824
Deposit for issue of Share Capital	32.508	-	32.508	(5.90)	30.590
Surplus on Revaluation	-	-	-	-	-
Accumulated Losses	(26.569)	110.66	(55.97)	89.79	(106.225)
Shareholders' Equity	**16.763**	(175.39)	**(12.64)**	412.82	**(64.81)**
Liabilities against Government Investment	-	-	-	-	-
Long term Loans	8.068	12.31	9.061	1.58	9.204
Staff retirement benefits	43.011	31.58	56.593	24.39	70.394
Long term security deposits	6.339	13.74	7.210	13.25	8.165
Receipts against deposit work	14.942	16.58	17.420	17.56	20.479
Deferred Credit	43.891	7.81	47.320	8.07	51.137
Deferred mark-up	0.244	19.67	0.292	115.07	0.628
Total Non-current Liabilities	**116.496**	18.37	**137.896**	16.03	**160.007**
Trade & Other Payables	12.096	267.27	44.425	161.22	116.046
Accrued Markup	4.792	31.51	6.302	14.20	7.197
Provision for Taxation	-	-	-	-	-
Current portion of long term debt	2.695	33.47	3.597	24.35	4.473

Total Current Liabilities	**19.583**	177.40	**54.324**	135.10	**127.716**
Total Equity & Liabilities	**152.842**	17.50	**179.582**	24.13	**222.912**
Assets				-	
Property Plant & Equipment	81.680	10.14	89.966	10.01	98.973
Long Term Loans	0.077	(1.30)	0.076	1.32	0.077
Long term deposits	0.00	-	0.00	-	0.00
Total Non-Current Assets	**81.757**	10.13	**90.042**	10.00	**99.050**
Stores, spares & loose tools	4.616	(14.62)	3.941	46.26	5.764
Trade Debts against sale of Electricity	19.808	39.07	27.546	41.75	39.046
Loans & Advances	0.386	(35.23)	0.250	64.80	0.412
Other Receivables	29.106	33.16	38.758	48.86	57.697
Tax refunds due from government	12.581	(19.38)	10.143	5.24	10.674
Total Receivables	**61.881**	23.94	**76.697**	40.59	**107.829**
Accrued Interest	0.015	166.67	0.040	22.50	0.049
Cash & Bank Balances	4.573	93.79	8.862	15.34	10.221
Total Current Assets	**71.085**	25.96	**89.540**	38.33	**123.862**
Total Assets	**152.842**	**17.50**	**179.582**	**24.13**	**222.912**

Source: Audited Financial Statement of 2016-17 & Un-audited Financial Statements of 2017-18.

14.2.5 Huge accumulated loss sustained by Company

The financial statements of the company as June 30, 2018 shows that the Company has suffered accumulated loss of Rs.106.225 billion up to June 30, 2018 which has turned equity of the Company into negative and its current liabilities exceeded its current assets. Payable of the Company stood at Rs.116.046 billion (as on June 30, 2018) in shape of circular debt ultimately born by the public exchequer through government bailout.

14.2.6 Gap between Cost and Sales Revenues

Revenue from sale of electricity is Rs.138.685 billion in 2017 and Rs.180.237 billion in 2018 which have increased by 10.03% in 2017 and 29.96% in 2018, whereas the cost of electricity is Rs.140.019 billion in 2017 and Rs.192.694 billion in 2018 which have increased at a higher rate i.e. 23.16% and 37.62% in 2017 and 2018 respectively. This increase in revenues and exponential increase in cost does not supplement each other.

Increase in cost was due to 15.51% increase in avg. purchase rate whereas avg. sale rate was increased by 8.65% only in 2018. This un-even increase in rates has also contributed to huge gap between sales revenues and cost of electricity.

(Rs. in billion)

	2016	% Inc (dec)	2017	% Inc (dec)	2018
Sale of Electricity (Rs. in billion)	126.040	10.03	138.685	29.96	180.237

Units Sold (Billion KWH)	12.341	7.39	13.253	19.62	15.853
Avg. rate (Rs. per KWH	10.213	2.46	10.464	8.65	11.369
Cost of Electricity (Rs. in billion)	113.690	23.16	140.019	37.62	192.694
Unit Purchased (Billion KWH)	14.770	8.00	15.952	19.14	19.006
Avg. Rate (Rs. per KWH)	7.697	14.03	8.778	15.51	10.139

Source: Statistics of Energy Purchased and Sold by the Company

14.2.7 Heavy HR cost, Staff retirement benefits and other extraordinary charges

The gap between electricity cost and sales revenues trickles down in the whole financials leading to gross losses.

(Rs. in billion)

	2016	% age of total opex	2017	% age of total opex	2018	% age of total opex
Salaries, wages and other benefits	6.890	31.27	7.408	35.27	8.673	33.27
Staff retirement benefits	7.327	33.25	4.930	23.48	6.550	25.13
Repair & maintenance	1.686	7.65	1.888	8.99	1.299	4.98
Supplemental Charges	0.896	4.07	0.621	2.96	2.612	10.02
Sub- Total	**16.799**	**76.24**	**14.847**	**70.70**	**19.134**	**73.40**
Other Operating Expenses	5.235	23.76	6.154	29.30	6.933	26.60
Total OPEX	**22.034**	**100.00**	**21.001**	**100.00**	**26.067**	**100.00**

Source: Audited Financial Statement of 2016-17 & Un-audited Financial Statements of 2017-18.

Major operating expenses are salaries and wages (31.27% to 35.27%), Staff retirement benefits (23.48% to 33.26%), Repair & maintenance (4.98% to 8.99%) and Supplemental charges (2.96% to 10.02%) during the last three years. Other expenses are 23.76% to 26.60% of total operating expenses during the last three years.

14.2.8 Delay in Tariff Differential Subsidy adjustment by Government

The subsidy from GoP on sale of electricity represents a difference between electricity rates determined by NEPRA and rates notified by the Federal Government. This subsidy is being paid by the GoP to the DISCOs.

In 2017-18, an amount of Rs.44.088 billion was receivable from Government on account of Tariff Differential Subsidy as on June 30, 2018. During the last three years Rs.69.787 billion were claimed by the Company as tariff differential subsidy. An amount of Rs.47.332 billion was received / adjusted against payables to Government through a Credit Note from CPPA. This showed that weak controls over timely adjustment/recovery of subsidy resulting in accumulation of Company's receivable and ultimately affecting the Company's ability to discharge its liabilities against payables.

The management needs to make serious efforts for recovery of outstanding dues against subsidy from federal government for timely payment against its liabilities.

(Source: Data received from MEPCO)

14.2.9 Heavy Funds stuck in Trade debts

Trade Debts against sale of electricity has increased to Rs.39.046 billion in 2018 as compared to Rs.27.546 billion in 2017 and Rs.19.808 billion in 2016 excluding provision for doubtful debts showing an increase of 97.12% in three years.

(Rs. in billions)

	2016	% age Inc/(dec)	2017	% age Inc/(dec)	2018
Trade Debts against sale of Electricity	19.808	39.07	27.546	41.75	39.046

Source: Audited Financial Statement of 2016-17 & Un-audited Financial Statements of 2017-18.

In 2018 total trade debts are Rs.43.119 billion (without provision) out of which Rs.42.603 billion are related to private sector and Rs.0.559 billion to Government consumers.

(Rs. in millions)

		6 Months to one Year	Over 1 Year	Over 3 Year	Total
Government Consumers					
	Running	26.560	32.290	42.230	101.080
	Defaulters	0.990	9.810	23.170	33.970
Sub-Total		**27.550**	**42.100**	**65.400**	**135.050**
Private Consumers					-
Commercial & Industrial	Running	492.720	177.970	70.680	741.370
	Defaulters	32.220	86.000	208.410	326.630
General Consumers	Running	9.670	0.650	0.020	10.340
	Defaulters	711.000	1322.160	2207.090	4240.250
Sub-Total		**1245.610**	**1586.780**	**2486.200**	**5318.590**
Grand Total		**1273.160**	**1628.880**	**2551.600**	**5453.640**

Source: Audited Financial Statement of 2016-17 & Un-audited Financial Statements of 2017-18.

Category wise age analysis of energy trade debtors as on 30.06.2018, shows that Rs.2,551.600 million have been stuck with debtors which are more than 3 years old and Rs.1,628.880 million are blocked by debtors which are over 1 year and up to 3 years old. Audit is of the view that a major factor contributing in circular debt is non-recovery from trade debtors. It is recommended to recover these long outstanding dues immediately in order to improve the cash flows of the Company.

14.2.10 Huge Recoverable from tax authorities

Analysis of financial statements shows that a huge amount of Rs.10.673 billion was recoverable as on June 30, 2018 from Tax authorities on account of sales tax. Moreover, the Tax authorities alleged that the Company, in the current or prior years, has either failed to recover sales tax from various customers or have adjusted incorrect input tax in its returns related to subsidy provided by GoP to MEPCO.

(Rs. in billions)

	2016	%Incr/(dec)	2017	%Incr/(dec)	2018
Recoverable from tax authorities	12.581	(19.39)	10.142	5.24	10.673

Source: Audited Financial Statement of 2016-17 & Un-audited Financial Statements of 2017-18.

The management is required to pursue the case for recovery of this amount from Tax authorities and clarify the position regarding non-recovery of sales tax from the respective consumers.

14.2.11 Heavy CPPA Payables

CPPA Payables are Rs.101.719 billion in 2018 as compared to Rs.38.006 billion in 2017 and Rs.0.838 billion in 2016 showing an increase of 4435.32% in 2017 and 167.64% increase in 2018. Non-payment of CPPA's dues on time is the major cause of circular debt. It is recommended that in order to ensure timely payments of CPPA dues, the management of MEPCO should enhance its recovery/collection.

(Rs. in billions)

	2016	%Inc/(dec)	2017	%Inc/(dec)	2018
CPPA Payable	0.838	4,435.32	38.006	167.64	101.719

14.2.12 Short recoveries against amount billed

Recovery of amount billed has been analyzed. MEPCO has a recovery rate of 79.47% against current billing in 2016-17 and 79.82% against current billing in 2017-18 of amount billed against 100% target given by NEPRA. Whereas its recovery rate against total billing (Current + Arrears) is 84.02% during the year 2016-17 and 94.58% against total billing during the year 2017-18.

(Rs. in million)

Financial Year	Amount of Current Billing During the Year	Amount of Collection during the year			Short Fall of Recovery Against Current Billing	%age Of Recovery Against Current Billing	%age Of total Recovery shown during the year	NEPRA Target % age	Breach of Target % age Against Current Billing	Breach of Target % age Against Total Billing During the Year
		Against Current Billing	Against Arrear	Total						

1	2	3	4	5 (3+4)	6 (2-3)	7 (3/2*100)	8 (5/2*100)			
2016-17	**147.641**	117.323	6.719	**124.042**	**30.317**	**79.47**	**84.02**	**100**	**-20.53**	**-15.98**
2017-18	**187.209**	149.434	27.626	**177.061**	**37.775**	**79.82**	**94.58**	**100**	**-20.18**	**-5.42**

(Source PITC Data)

Poor recovery %age of MEPCO resulted in less recovery of revenue as Rs.30.32 billion during 2016-17 and Rs.37.77 billion in 2017-18.

14.2.13 Un-recognized Supplemental charges – Rs.12.446 billion

The management of MEPCO had not been recognizing supplemental charges amounting to Rs.12.446 billion in 2016-17. These supplemental charges represented the delayed payment charges for Power Producers and were charged by CPPA. The management was of the opinion that supplemental charges were the liability of CPPA. Due to non-accounting for these expenses, the accumulated losses had been under stated by an amount of Rs.12.446 billion.

14.2.14 Non-Recognition of Long Term liability for Circular Debt Retirement and markup

In order to reduce circular debt on mark-up basis, CPPA has entered into Multi-Partite Agreement for financing of Rs.335 billion under various agreements executed between Power Holding (Private) Limited (PHPL), Government of Pakistan (GoP) and syndicated banks during financial years 2012, 2013, 2014 and 2015 for funding the repayments of liabilities of distribution companies (DISCOs) against cost of electricity purchased. Consequently, this amount was transferred to the Company by CPPA on energy drawl basis and the Company has received credit notes uptill 30 June 2018 aggregating to Rs.41,324.57 million (Rs.60,905.37 million in 2017) from CPPA to recognize this amount as loan. Moreover, the Company has also received debit notes from CPPA in respect of the mark-up and arrangement fee on these in current and prior years aggregating to Rs.8,252.52 million (Rs.17,370.51 million in 2017).

The Company has not yet recognized the impact of said credit/ debit notes in its books of account. Had these credit/debit notes been recognized in books of accounts the long term liabilities of company would increase amounting to Rs.41.324 million and increase the accumulated loss amounting to Rs.8.252 billion up to 30 June 2018.

14.2.15 Vertical Trend Analysis

A vertical analysis is used to show the relative sizes of the different accounts on a financial statement. Here while doing the vertical analysis of Profit & Loss account Sale of Electricity has been taken as 100%, and every other head of Profit & Loss account has been shown as a percentage of the total sales number.

	2016	*2017*	*2018*
	% Age Sale	*% Age Sale*	*% Age Sale*
Sale of Electricity including Subsidy	100.00	100	100
Cost of Electricity	(90.20)	(100.96)	(106.91)
Gross Profit/(Loss)	9.80	(0.96)	(6.91)
Amortization of deferred Credit	1.61	1.60	1.33
	11.41	0.63	(5.58)
Operating Expenses excluding Depreciation	(14.77)	(12.45)	(12.14)
Depreciation	(2.71)	(2.69)	(2.33)
	(17.48)	(15.14)	(14.46)
Loss from Operations	(6.07)	(14.51)	(20.04)
Misc. Other Income	2.94	2.25	1.90
Financial Expenses	(0.67)	(0.67)	(0.63)
	(3.79)	(12.93)	(18.77)
Taxation	-	-	-
(Loss) after Tax	**(3.79)**	**(12.93)**	**(18.77)**

Source: Audited Financial Statement of 2016-17 & Un-audited Financial Statements of 2017-18.

Vertical analysis of Profit & Loss account of MEPCO shows a very dismal position. Cost of sales is 106.91% of the sales in 2018 as compared to 100.96% in 2017 which indicates serious inefficiencies of business of the Company.

Operating expenditure excluding depreciation are 12.14% of sales in 2018 and 12.45% of sales in 2017. The impact of depreciation expense will further enhance the annual net loss in 2018. Operating losses are 20.04% of sales in 2018 and 14.51% in 2017 which indicates in-efficient operational management.

14.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
MEPCO	2016-17	01	-	**25** (Para No. 4.1.1, 4.1.2, 4.1.4, 4.1.5, 4.1.7 to 4.1.10, 4.1.13, 4.1.14, 4.1.16 to 4.1.21, 4.1.23, 4.1.24 to 4.1.26, 4.1.28 to 4.1.31, 4.1.34)	

Position of compliance with PAC directives is not satisfactory.

14.4 AUDIT PARAS

14.4.1 Non-recovery of reconciled General Sales Tax Subsidy by the Punjab Government - Rs.5,813.58 million

As per Finance Division, Government of Pakistan vide dated 28th June, 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 / Provincial Governments."

In MEPCO, Multan, an amount of Rs.5,813.58 million was recoverable against agreed subsidy amount of General Sales Tax from Government of the Punjab. Non-payment of reconciled subsidy on General Sales Tax from the Government of Punjab 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 instructions of finance division resulted in non-recovery of Rs.5,813.58 million from provincial government up to the Financial Year 2017-18.

The matter was taken up with the management during October, 2018 and reported to the Ministry in December, 2018. The management replied that the claim was submitted to Finance Department Punjab as and when payment would be received Audit would be informed accordingly. The reply was not tenable as strenuous efforts were not being made to recover the huge reconciled amount.

Audit recommends that the management needs to take the matter with the Government of Punjab for payment of reconciled general sales tax subsidy.

(Draft Para No. 1507/2018-19)

14.4.2 Excess procurement of electrical material - Rs.314.89 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 the items for indefinite period.

In MEPCO Multan, electrical material worth Rs.314.89 million remained un-utilized under IRG USAID Program. This scenario indicated that the material in question was procured without forecasting/assessing the actual demand of MEPCO. Had due care been exercised in procurement of material, the funds blocked in the shape of dead stock/slow-moving stock would have been spent on some other development projects of the company.

Non-adherence to instructions resulted in excess procurement of material amounting to Rs.314.89 million up to the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that material pointed out pertained to residual balance of USAID where early utilization in system was under consideration. The reply was not tenable as material was not procured under USAID programme for long storage.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance and consumption of material verified within a week and expedite the consumption of remaining material. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 609/2018-19)

14.4.3 Blockage of funds due to non-utilization of healthy power transformers - Rs.134.90 million

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

In GSO Circle MEPCO, nineteen (19) power transformers valuing Rs.134.90 million were spared after augmentation works and were lying at grid stations. These healthy transformers were neither utilized nor returned to store for further allocation. Thus, Company's funds were blocked to the stated extent.

Non-adherence to Authority's instructions resulted in blockage of funds amounting to Rs.134.90 million due to non-utilization of healthy power transformers up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that power transformers were lying in safe custody at relevant grid stations. The reply was not tenable as healthy power transformers remained un-utilized.

The DAC in its meeting held on December 20-21, 2018 directed the CEO MEPCO to inquire the matter and submit report to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 622/2018-19)

14.4.4 Annual loss due to non replacement of conductor with ABC cable on high loss feeders - Rs.61.77 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In Operation Vehari Circle MEPCO, three (03) feeders were running with an average annual energy loss ranging from 71% to 97%. It was decided by the Planning Department to replace all LT conductors with ABC cable in order to control theft on high loss feeders. No sincere efforts were being made to replace the conductor with ABC cable on high loss feeders nor disciplinary action was taken against persons deputed to monitor these feeders.

Non-adherence to the Authority's instructions resulted in annual loss of Rs.61.77 million due to non replacement of conductor with ABC cable on high loss feeders during the Financial Year 2017-18.

The matter was taken up with the management during October, 2018 and reported to the Ministry in November, 2018. The management replied that the losses were due to shifting of load of consumer to nearby feeders. The reply was not acceptable as technical solution to address the menace of theft was not adopted.

The DAC in its meeting held on December 20-21, 2018 did not agree with the stance and directed the management to make the loss good and get it verified within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 965/2018-19)

14.4.5 Non-construction of 11 KV independent feeders - Rs.37.25 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject 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 Bahawalnagar MEPCO, New City and City Garden housing scheme with estimated electrification cost of Rs.37.25 million was approved by P&E MEPCO. The housing scheme connection was to be energized from new proposed 11 KV independent feeders. Contrary to this, the Construction Division had installed only five transformers and energized the housing schemes without constructed independent feeders.

Non-adherence to Authority's instructions resulted in non-construction of 11 KV independent feeders with estimated electrification cost of Rs.37.25 million during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management replied that the feeder would be completed within 2 weeks positively.

The DAC in its meeting held on December 20-21, 2018 directed the management to complete the works and get the record verified from Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 789/2018-19)

14.4.6 Non-recovery of fixed rental charges from TV cable network operators using DISCO / WAPDA poles / structures – Rs.32.90 million

According to the authority's instructions vide Secretary WAPDA letter No.1630-50/S/GMCS/Tariff/T-62 (Vol-II) dated 27.07.2000, a sum of Rs.40/- per month against per pole / structure for use of DISCO / WAPDA poles/ structures was required to be recovered from cable TV network operators.

In Operation Circle Muzaffargarh MEPCO, rent charges @ Rs.40/- per pole was recoverable from cable operators for using DISCOs pole structures. No efforts were being made to recover rent charges from TV Cable Operators.

Non-adherence to Authority's instructions resulted into loss of Rs.32.90 million up to the financial year 2017-18.

The matter was taken up with management in September, 2018 and reported to the Ministry in November, 2018. The management replied that final reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to effect recovery and get it verified from Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives and vigorously pursue the recovery of rent charges from Cable Operators or disallowed them, using MEPCO's pole / structures.

(Draft Para No. 865/2018-19)

14.4.7 Preparation of un-realistic estimates on account of 11 KV feeders - Rs.32.81 million

As per terms and conditions of work orders regarding bifurcation / rehabilitation of feeders clause-5 the estimate preparing officer/official will be responsible for any omission/mistake".

In Construction Circle MEPCO, the seven estimates of bifurcation / rehabilitation works for Rs.64.30 million were approved, against the actual expenditure of Rs.31.49 million. A variation of more than 50% occurred due to un-realistic estimates.

Non-adherence to Authority's instructions resulted in preparation of un-realistic estimates Rs.32.81 million in the financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that final reply would be submitted in due course of time. Audit contended that variation of more than 50% had occurred due to unrealistic estimates.

The DAC in its meeting held on December 20-21, 2018 directed the Chief Executive Officer MEPCO to conduct an inquiry and submit report within a month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 461/2018-19)

14.4.8 Irregular / unjustified payment on account of purchase of power from M/s Roomi Fabrics - Rs.27.88 million

The Power Acquisition Request (PAR) of MEPCO for purchase of 10.50 MW energy from M/s Roomi Fabrics was submitted to NEPRA Tariff was determined by NEPRA on 27.01.2014. As per Clause-15.30 of approval of PAR, NEPRA directed MEPCO to adjust payments, if any, made to RFL in the light of above order of the Authority from the date of supply of electricity.

In MEPCO, adjustment of an amount of Rs.106 million paid in excess due to tariff difference from tariff determined by NEPRA, was required to be recovered but the same was not done. Contrary to this, an additional payment of Rs.27.88 million vide payment voucher No.106 dated October 11, 2017 was made to M/s Roomi Fabrics in violation of the contract clause-D of the Power Purchase Agreement.

Non-adherence to the standards, procedures and contract clause resulted in irregular / unjustified payment of Rs.27.88 million up to March, 2018.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that payment was made in the light of Honorable High Court decision after getting Bank Guarantee of Rs.83.652 million. It was also directed by the court that the issue filed by the consumer should be resolved by arbitration.

The DAC in its meeting held on December 20-21, 2018 directed the management to conduct inquiry in the matter at PEPCO level and submit reply within a month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 618/2018-19)

14.4.9 Loss due to procurement of sub-standard material - Rs.23.16 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In PMU MEPCO, as per recommendation of an inquiry committee on September, 28, 2016 was constituted to probe into the matter regarding the procurement of sub-standard material valuing Rs.23.16 million, defective material was inspected / accepted without issuing GRNs, and the same was utilized for the construction of 132 KV transmission line. Neither the responsibility was fixed upon the persons at fault, nor action taken against them.

Non adherence to the authority's instructions resulted in loss of Rs.23.16 million during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that the matter had already been taken in previous Inspection Report. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stated duplication verified from Audit within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to take disciplinary action against those who inspected and approved sub-standard material, blacklist the firm and recover the loss from all these responsible.

(Draft Para No. 697/2018-19)

14.4.10 Non-Recovery of electricity dues from two consumers - Rs.11.43 million

As per abridged conditions of energy supply, it was obligatory upon the quarters concerned that in case of non-payment of electricity charges within the specified time, the connection of the defaulters would be disconnected permanently and installed material removed from the sites and recovery affected.

In Operation Vehari Circle MEPCO, an amount of Rs.11.43 million on account of electricity dues were recoverable from two consumers but neither the connections were disconnected nor the energy charges were recovered from them.

Non-observance of abridged conditions of energy supply resulted in non-recovery of energy charges Rs.11.43 million from the defaulter during the year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that recovery would be effected. The reply was not tenable as sincere efforts were not being made to recover the long outstanding amount.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the recovery from consumers. 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 ensuring the recovery from the delinquents.

(Draft Para No. 1475/2018-19)

14.4.11 Loss due to poor performance of line superintendent - Rs.8.60 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, “Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) efficient application of billing and collection procedures".

In Operation Circle Muzaffargarh MEPCO, 636,702 units valuing Rs.8.60 million were lost in a single month due to poor performance of Mr. Sagheer Ahmad Koria, Line Superintendent, MEPCO 1st Sub-Division, Kot Addu. This scenario indicated that bogus record was maintained to cover the actual line losses.

Non-adherence to the commercial procedure resulted in loss of Rs.8.60 million due to poor performance and its cover up by the line superintendent during the Financial Year 2017-18.

The matter was taken up with management during September, 2018 and reported to the Ministry in November, 2018. The management replied that final reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to make good the loss and get it verified from Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides taking disciplinary action against the LS responsible for the loss.

(Draft Para No. 861/2018-19)

14.4.12 Non-recovery of security deposit from independent consumers - Rs.6.64 million

As per clause-18 of abridged condition of supply, the security deposit shall be offered and accepted in cash only and shall not be transferable in the name of any other consumer or same consumer against his other connection.

In Operation Circle Muzaffargarh MEPCO, an amount of Rs.6.64 million was recoverable from thirteen (13) consumers using the supply of their plaza, hotel / restaurants and hospitals from MEPCO distribution transformers instead of independent transformers. Notices were served to regularize the connections through independent transformers but neither security was deposited by the consumers nor connections running at site removed.

Non-adherence to abridged condition resulted in non-recovery of security deposit amounting to Rs.6.64 million from the consumers during the year 2017-18.

The matter was taken up with management during September, 2018 and reported to the Ministry in November, 2018. The management replied that notices had been issued to consumers for regularization of extended load. The reply was not tenable as no documentary evidence in support of reply.

The DAC in its meeting held on December 20-21, 2018 did not agree with stance and directed to CEO to conduct inquiry and submit report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends expeditious recovery of capital cost and additional security from consumers.

(Draft Para No. 841/2018-19)

14.4.13 Non-recovery of cost of replaced meters from consumers – Rs.5.36 million

As per Section 12 of Abridged Conditions of Supply, “The consumer shall be solely responsible for, and shall pay for any loss of, or damage to, any electric supply lines, main fuses, meters and /or other apparatus belonging to the Authority on the consumer’s premises, whether caused whether arising out of fire, theft or any other cause beyond the control of the Authority, always excepting reasonable wear and tear and loss or damages arising out of defects in the aforesaid electric supply lines, main fuses, meters and/or other apparatus belonging to the Authority on the consumer’s premises.

In MEPCO, 154 AMR meters and 2636 single / three phase meters were replaced against damaged / defective meters without recovering the cost of Rs.5.36 million from consumers which was a loss to the Company.

Non-adherence the rules/regulations of Authority resulted into loss due to non recovery of cost of meters amounting to Rs.5.36 million from the consumers during the financial year 2017-18.

The matter was taken up with the management during September & October, 2018 and reported to the Ministry during November & December, 2018. The management replied that some of the amount had been recovered and remaining amount would be recovered in due course of time. The reply was not acceptable as abridge conditions of supply had been violated.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified and submit the justification for replacing the meter without cost within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 612, 798 & 1191/2018-19)

14.4.14 Loss of revenue due to non-execution of deposit works – Rs.5.28 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject 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 Muzaffargarh MEPCO, an amount of Rs.5.28 million was received from the sponsoring agencies for construction of fourteen (14) industrial connections. These funds were received between periods of 2016-17 & 2017-18. However, no expenditure was incurred against these works which showed that no steps were taken to execute these works. By this way the Company was deprived of envisaged benefits which required justification.

Non-adherence to Authority's instructions resulted in loss of revenue of Rs.5.28 million due to non-execution of deposit works up to the Financial Year 2017-18.

The matter was taken up with management during September, 2018 and reported to the Ministry in November, 2018. The management replied that works were pending due to non allocation of material. The reply was not agreed to as funds had already been received by MEPCO.

The DAC in its meeting held on December 20-21, 2018 directed the management to conduct inquiry at PEPCO level and submit its report to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1033/2018-19)

14.4.15 Poor performance of Consultants due to non-preparation of completion reports of completed works – Rs.5.08 million

According to Article-4.3 of Consultancy Services Agreement with M/s BARQAB, "the Consultants shall submit to the client monthly progress reports and project completion reports of the works completed during the month."

In Construction Circle MEPCO, the completion reports of seven (07) completed works valuing Rs.5.08 million were not prepared by the consultants i.e. M/s BARQAB despite lapse of three (3) to eight (8) months. Further according to Executive Engineer Construction Division MEPCO Vehari, the performance of consultant was not up to the mark as standard of work was not being inspected during execution and checking of site was being delayed.

Non-adherence to the provisions of Consultancy Services Agreement resulted in poor performance of the consultants and non-capitalization of completed works valuing Rs.5.08 million during the Financial Year 2017-18.

The matter was taken up with the management in July, 2017 and reported to the Ministry in October, 2018. The management replied that the form-C of the works mentioned had been prepared by the consultant and finalized accordingly.

The DAC in its meeting held on December 20-21, 2018 directed the management to impose penalty upon the consultant for rendering poor performance and also fix responsibility for not watching the performance of the consultant and report be submitted to Audit within a month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 54/2018-19)

14.4.16 Irregular execution of job on account of Low Tension Proposal under ELR head - Rs.4.31 million

As per Power Distribution Programme Planning Guide, "those LT proposals which give maximum technical as well as financial benefits should be executed. The required benefit to cost ratio for LT proposals will be taken as > = 1".

In Operation Vehari Circle, MEPCO, four (04) LT proposals amounting to Rs.4.31 million were sanctioned and executed with a benefit to cost ratio less than one contrary to the cited rule. Thus, sanctioning and execution of the cited LT proposals amounting to Rs.4.31 million was irregular.

Non-adherence to Power distribution Programme Planning guide lines resulted in irregular and unjustified execution of LT Proposal amounting to Rs.4.31 million during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management replied that one LT proposal was cancelled while other three proposals were executed in the best interest of public and authority. The reply was acceptable no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 849/2018-19)

14.4.17 Unjustified inclusion of GST in departmental work estimates – Rs.4.08 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject 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 MEPCO, an amount of Rs.4.08 million on account of 17% GST was included in the estimates of works for bifurcation/ rehabilitation of 11 KV Alampur feeder. The amount of GST was already included in the cost of material as the work order was executed departmentally i.e. by the Project Director Construction Multan. Hence the inclusion of 17 % GST in addition to already included GST on cost of material was not justified.

Non-implementation of rules for safeguarding the assets of the Company resulted in loss due to double inclusion of GST in the estimates amounting Rs.4.084 million up to the Financial Year 2017-18.

The matter was taken up with the management in July, 2017 and reported to the Ministry in October, 2018. The management replied that work in question was under process for revision and Audit would be informed shortly. The reply was not acceptable as charging of 17% GST in departmental estimate was irregular.

The DAC in its meeting held on December 20-21, 2018 directed the management that the revised technical sanction estimates be submitted to Audit for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 51/2018-19)

14.4.18 Irregular payment due to appointment on bogus transfer & posting order -Rs.4.00 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In MEPCO, Multan, an inquiry committee reported that three (03) officials were transferred from HESCO to MEPCO and adjusted at the disposal of Deputy Manager (Operation) Dera Ghazi Khan on the basis of fake office order vide dated November 22, 2006. These employees got pay & allowances of Rs.4.00 million w.e.f November 22, 2006 to March 2, 2015 and November 22, 2006 to February 14, 2015 respectively. The joining of these employees was taken on the basis of photocopies of appointment letters without confirmation from HESCO. The expenditure incurred on pay & allowances was required to be recovered from the persons at fault and legal action was required to be taken but needful was not done.

Non-adherence to the above guidelines resulted in irregular payment of Rs.4.00 million on account of pay and allowance during the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management stated that reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 did not agree with the stance and directed the management to inquire the matter at PEPCO level with TOR for verification of antecedents of all employees incoming from other companies (DISCOs, GENCO, etc) within a fortnight. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 604/2018-19)

14.4.19 Non-recovery of irregular payment of dangerous allowance - Rs.2.16 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982

(amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

In Operation Khanewal Circle, Eleven (11) linemen were paid dangerous allowance Rs.2.16 million irregularly as they were not performing duties on live lines. Inquiry report was finalized but disciplinary action against persons at fault and recovery of the dangerous allowance was not forthcoming from the record.

Non-adherence to the instructions resulted into irregular payment of dangerous allowance amounting to Rs.2.16 million to linemen up to financial year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management stated that final reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit final reply and get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 1195/2018-19)

14.4.20 Non-recovery of excess expenditure incurred over deposited amount from sponsors - Rs.1.99 million

According to Section-III-C (1) of WAPDA Book of Financial Powers, “deposit works shall be undertaken only after getting full amount of sanctioned work estimated deposits with WAPDA, with an undertaking from the depositor to meet any variation.” According to General Manger (Dist. Div.) letter No. 1235-1976/GMD/MFD/Im 10-3 (vi) dated January 22, 1985, “if in case variation exceeds 10%, such cases should be examined at Area Board level and appropriate action, for refund of recovery may be taken.”

In Construction Circle MEPCO, an expenditure of Rs.1.99 million was incurred on five (05) deposit works in excess of the estimated / deposited amount by the sponsors. The amount of excess expenditure was required to be recovered from the concerned sponsors but needful was not done.

Non-adherence to WAPDA Book of Financial Powers resulted in non-recovery of excess expenditure of Rs.1.99 million from sponsors of deposit works up to the Financial Year 2017-18.

The matter was taken up with the management during July, 2018 and reported to the Ministry in October, 2018. The management replied that in two cases actual expenditure was less than the sanctioned estimate while in remaining cases estimates had been revised. The reply was not tenable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the record verified from Audit within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 56/2018-19)

14.4.21 Irregular execution of deposit work against commercial shops - Rs.1.63 million

As per Manager P&E MEPCO vide letter No. 335/CE(P&E)/HDM dated June 8, 2011 that one point supply to commercial unit under tariff A2-C is much more to useful in the interest of Company".

In Operation Circle Multan MEPCO, a new connection for commercial plaza was energized without removing three (3) existing commercial connections in the same premises. As per test report of the cited application, three (3) connections were already running at the site from three (3) independent 50 KVA transformers in the same building. The said building fell under the criteria of commercial plaza and was to be approved from planning directorate of MEPCO. The connection installed was quite irregular and violation of consolidated load from one point supply to the whole building.

Non-adherence to rules/regulations of Authority resulted in irregular execution of deposit work against commercial shops Rs.1.63 million in the financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that final reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit final reply covering the status of meter connections/bidding as per SOP and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 870/2018-19)

14.4.22 Loss due to non-charging of units to the tube well connections - Rs.1.07 million

As per Commercial Procedure Para 1.3 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 Vehari Circle MEPCO, 108007 units were kept pending on account of two tube well connections with the collaboration of field staff. No disciplinary action was taken against the official / officers involved in non-charging of units. Resultantly, the Company sustained a loss of Rs.1.07 million (108,007 kWh x Rs.9.94) due to non-charging of units to the tube well connections.

Non-observance of Commercial Procedure resulted in non-recovery of energy charges Rs.1.07 million during the year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018**.** The management replied that outstanding units had been charged to consumer and disciplinary proceeding were initiated against official involved in non-charging of unit. The reply was not acceptable as no documentary evidence was provided to substantiate reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to make good the loss and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 851/2018-19)

14.4.23 Loss due to illegal electrification of commercial plaza - Rs.0.94 million

As per SOP for commercial buildings/plazas circulated vide GM (Operation) letter dated July 2, 2010, "commercial buildings/market, plazas having covered area 1,000 sft or more with five or more shops are being electrified by providing independent transformer & the assessment of load is being carried out in accordance with GM (PE&S) letter dated October 26, 1993.

In Operation Circle Khanewal MEPCO, electricity was provided to commercial consumer through 5 connections (4 Commercial & 1 domestic) from general distribution transformer instead of providing independent transformer. Thus undue benefit was given to the consumer and company sustained a loss of Rs.0.94 million.

Non-adherence to SOP resulted in loss of Rs.0.94 million due to illegal electrification of commercial plaza during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management replied that final reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply to Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives and take disciplinary action against those responsible for supply of illegal electrification of commercial plazas.

(Draft Para No. 1079/2018-19)

CHAPTER-15

PESHAWAR ELECTRIC SUPPLY COMPANY (PESCO)

15. PESHAWAR ELECTRIC SUPPLY COMPANY (PESCO)

15.1 Introduction

Peshawar Electric Supply Company (PESCO) is a subsidiary of WAPDA and started its operations as a Public Limited Company, registered in May, 1998 under Companies Ordinance 1984 (now Companies Act 2017). The Company has obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The Company purchases electricity from NTDC. The Company was selling electricity to whole area of Khyber Pakhtunkhwa (KPK). However, the business of FATA circle, which consists of tribal areas of KPK, was transferred to Tribal Areas Electric Supply Company Limited (TESCO). PESCO receives supply from NTDC on 220 KV Grid Stations at Daud Khel, Domail, Mardan and 500 KVA Grid Station 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.

The jurisdiction of PESCO includes six Operation Circles, one Project Construction Circle, one Grid System Construction Circle and one Grid System Operation circle.

15.2 Comments on Financial Statements

15.2.1 Financial Audit Findings

The objective of analysis of PESCO's financial statement is basically to assess the financial health of the Company to bear its operational costs and to indicate the factors contributing to the piling up of huge circular debt.

For this purpose the horizontal and vertical trend analysis of Company's financials have been conducted along with critical ratio analysis. Critical factors affecting the financial statements have also been highlighted.

15.2.2 Horizontal Analysis of Financial Statement

Horizontal analysis (also known as trend analysis) is a financial statement analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time. It is a useful tool to evaluate the trend situations. The statements for two or more periods are used in horizontal analysis.

15.2.3 Profit and Loss Account
For the year ended June 30, 2016 to 2018

(Rs. in billions)

	2016	%Incr/(dec)	2017	%Incr/(dec)	2018
					(31.05.2018)
Sale of Electricity	73.292	7.07	78.472	11.90	87.808
Cost of Electricity	86.580	24.80	108.053	31.10	141.662
Gross Profit/(Loss)	(13.288)	122.62	(29.581)	82.06	(53.854)
Operating Expenses excluding Depreciation	25.974	(17.42)	21.449	(27.34)	15.584
Operating Profit/(Loss) before Depreciation, Interest and Tax	(39.262)	29.97	(51.030)	36.07	(69.438)
Depreciation	2.009	14.13	2.293	(100.00)	-
Operating Profit/(Loss) before Interest and Tax	(41.270)	29.20	(53.323)	30.22	(69.438)
Subsidy from Government of Pakistan on sale of Electricity	27.932	13.36	31.664	2.09	32.325
Rental and Service Income	0.043	2.97	0.044	1.91	0.045
Amortization of deferred Credit	1.084	19.11	1.291	(100.00)	-
Misc. Other Income	3.729	13.70	4.240	15.52	4.898
Total Other Income	32.788	13.58	37.239	0.08	37.268
Net Profit /(Loss) before Interest and Tax	(8.482)	89.61	(16.083)	100.02	(32.170)
Financial Expenses	3.163	(22.18)	2.461	(98.95)	0.026
Net Profit /(Loss) before Tax	(11.645)	59.25	(18.544)	73.62	(32.196)
Taxation	-	-	0.828	-	-
Net Profit/(Loss) after Tax	(11.645)	(162.46)	(19.372)	66.20	(32.196)

Source: Profit & Loss Account, Annual Financial Statements of PESCO
2017-18 Provisional Accounts up to 31.05.2018

15.2.4 Balance Sheet
As at June 30, 2016 to 2018

(Rs. in billions)

	2016	%Incr/ (dec)	2017	%Incr/ (dec)	2018
					(31.05.2018)
Equity & Liabilities					
Issued, subscribed and Paid up Share Capital	0.000010	-	0.000010	-	0.000010
Deposit for issue of Share Capital	18.082	-	18.082	-	18.082
Surplus on Revaluation	-	-	-	-	-
Accumulated Losses	(157.730)	12.28	(177.102)	18.18	(209.298)
Shareholders' Equity	**(139.648)**	13.87	**(159.020)**	20.25	**(191.216)**
Liabilities against Government Investment	82.145	-	82.145	(21.94)	64.123

Long term Loans	13.207	(24.29)	10.000	(29.59)	7.041
Staff retirement benefits	40.537	3.60	41.997	0.48	42.198
Deferred Credit	21.567	21.44	26.190	0.73	26.381
Total Non-current Liabilities	**157.456**	1.83	**160.332**	(12.84)	**139.743**
Trade & Other Payables	177.228	18.94	210.793	21.52	256.149
Accrued Markup	8.154	29.56	10.565	6.78	11.281
Provision for Taxation	-	-	0.828	-	0.095
Current maturity of long term loans	30.476	12.79	34.375	10.30	37.917
Total Current Liabilities	**215.858**	**18.86**	**256.560**	**19.05**	**305.442**
	233.667	10.36	**257.873**	(1.51)	**253.969**
Assets					
Property Plant & Equipment	53.167	11.42	59.241	6.29	62.967
Long Term Loans	0.048	(45.04)	0.026	(32.49)	0.018
Total Non-Current Assets	**53.215**	11.37	**59.267**	6.27	**62.985**
Stores, spares & loose tools	6.239	(43.60)	3.519	(9.04)	3.201
Trade Debts against sale of Electricity	32.095	9.04	34.997	30.65	45.722
Government levies and other charges	14.935	18.61	17.714	7.89	19.112
Other Receivables from MoF	49.842	15.65	57.642	(59.83)	23.157
Other Receivables	75.509	6.09	80.109	16.98	93.713
Total Receivables	172.381	10.49	190.462	(4.60)	181.705
Loan & Advances	0.577	62.04	0.935	56.16	1.460
Cash & Bank Balances	1.255	194.11	3.690	25.17	4.618
Total Current Assets	**180.452**	10.06	**198.606**	(3.84)	**190.984**
	233.667	10.36	**257.873**	(1.51)	**253.969**

Source: Annual Financial Statements

15.2.5 Gap between Cost and Sales Revenues

Revenues from Sale of Electricity have increased by 7.07% in 2017and 11. 90% in 2018 whereas the cost of electricity has increased at a higher rate i.e. 24.80% in 2017 and 31.10% in 2018. This increasing trend in revenues and cost do not supplement each other.

Increase in cost was due to 10.62% increase in avg. purchase rate whereas avg. sale rate was increased by 3.38% only in 2018. This un-even increase in rates has also contributed to huge gap between sales revenues and cost of electricity.

(Rs. in billion)

	2016	**% Inc (dec)**	**2017**	**% Inc (dec)**	**2018**
Sale of Electricity	73.292	7.07	78.472	11.90	87.808
Units Sold (Billion KWH)	7.782	8.35	8.432	(22.11)	6.568
Avg. rate (Rs. per KWH	9.42	0.53	9.47	3.38	9.79
Cost of Electricity	86.58	24.80	107.982	31.10	141.662
Unit Purchased (Billion KWH)	11.749	(23.08)	9.037	14.47	10.345
Avr. Rate (Rs. per KWH)	7.6	13.95	8.66	10.62	9.58

Peshawar Electric Supply Company (PESCO) has been sustaining losses over the years and these losses are increasing every year. In 2016 the gross loss was 18% of the sales which increased to 38% in 2017 and 61% in 2018.

15.2.6 Heavy HR cost and Provisions for Doubtful debts

The gap between electricity cost and sales revenues trickles down in the whole financials leading to gross losses. Operating expenses contribute to mass up this loss although there is a decreasing trend in year to year comparison.

	2016	**% age of total opex**	**2017**	**% age of total opex**	**2018**	**% age of total opex**
Salaries, wages and other benefits	17.634	67.89%	13.621	63.50%	14.106	65.77%
Provision for doubtful debts	6.600	25.41%	6.090	28.39%	-*	0.00%
Sub-Total	**24.234**	**93.30%**	**19.711**	**91.90%**	**14.106**	**65.77%**
Other operating expenses	1.740	6.70%	1.738	8.10%	7.343	34.23%
Total OPEX	**25.974**	**100%**	**21.449**	**100%**	**21.449**	**100%**

No provision for doubtful debts is provided in the unaudited accounts.

Major operating expenses are salaries and wages (63% to 68%) and Provision of doubtful debt 25 to 28%). Both are 92% to 93% of total operating expenses. Although the management has cut its staff cost in 2017, there is a more need to rationalize its human resources and efforts to enhance recovery of doubtful debts.

15.2.7 Delay in government subsidy adjustment against energy payables

In order to meet the gap between costs and revenues, Government of Pakistan has given subsidy of Rs.27.932 billion in 2016 and Rs.31.664 billion in 2017. Management's operations are not able to bear its operational cost or even meet its cost of purchase of electricity resulting into operational losses over the years. The accumulated losses have massed up to Rs.177.101 billion in 2017. There is a serious doubt on PESCO's ability to survive its existence without the support of Government of Pakistan.

In 2017-18, an amount of Rs.57.642 billion was receivable from Government on account of subsidy. During the year Rs.32.310 billion were claimed as subsidy. An amount of Rs.66.795 billion was adjusted against payables to Government through a Credit Note from CPPA. Remaining amount of Rs.23.157 billion was receivable on June 2017. No cash against the subsidy was disbursed by the Government.

15.2.8 Heavy Funds stuck in Trade debts

Trade Debts against sale of electricity has increased to Rs.45.722 billion in 2018 as compared to Rs.34.997 billion in 2017 and Rs.32.095 billion in 2016 showing a vertical increase of 42.46% in three years. In 2018 total trade debts are Rs.64.835 billion out of which Rs.48.402 billion are related to private sector and Rs.16.432 billion to Government sector. In 2017 total trade debts were Rs.52.710 billion out of which Rs.36.278 billion were related to private sector and Rs.16.432 billion to Government sector.

(Rs. in billions)

Category	6 Months to one year	Over 1 Year	Over 3 Year	Total
Total Government				
Active	2.154	1.650	17.133	20.937
Disc.	0.006	0.026	0.135	0.167
	2.160	**1.676**	**17.268**	21.104
Private				
Active	3.312	3.775	41.800	48.887
Disc.	0.314	1.816	38.530	40.660
Total Private	**3.626**	**5.591**	**80.330**	89.547
Grand Total	**5.786**	**7.267**	**97.598**	110.651

(Source:- Age analysis provided by PITC)

Category wise age analysis of energy trade debtors as on 30.06.2018, shows that Rs.80.330 billion have been stuck in private sector debtors which are more than 3 years old and Rs.5.591 billion are blocked in private sector debtors which are over 1 year and up to 3 years old. Audit is of the view that one of major factor contributing in circular debt is non-recovery from trade debtors. It is recommended to recover these long outstanding debts immediately in order to improve the cash flows of the Company.

15.2.9 Heavy CPPA Payables

	2016	%Inc/(dec)	2017	%Inc/(dec)	2018
CPPA Payable	147.866	22.60	181.290	20.73	218.865

CPPA Payables are Rs.218.865 billion in 2018 as compared to Rs.181.290 billion in 2017 and Rs.147.866 billion in 2016 showing an increase of 22.60% in 2017 and 20.73% increase in 2018. Non-payment of CPPA’s dues on time is one of the causes of circular debt. It is recommended that in order to ensure timely payments of CPPA dues, the management of PESCO should enhance its recovery/collection.

15.2.10 Short Recoveries against Amount Billed

Recovery of amount billed has been analyzed. PESCO has a recovery rate of 89.10% of amount billed as against target of 100% given by NEPRA in 2016-17.

Name of DISCO	Actual Recovery (%)	Target (%)	Breach of Target (%)
1	2	3	4=(2-3)
PESCO	89.1	100	-10.9

15.2.11 Financial Impact of short-collection

Name of DISCO	Billing (Million Rs.)	Collection (Million Rs.)	Un-Collected (Million Rs.)
1	2	3	4=(2-3)
PESCO	98,674	87,901	10,773

PESCO's receivable due to short collection against billing is Rs.10.773 billion in 2016-17

15.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
PESCO	2002-03	06	-		**06** (Para No. 1, 4, 5, 6, 8, 10)

Position of compliance with PAC directives is not satisfactory.

15.4 AUDIT PARAS

15.4.1 Loss due to revision of load shedding schedule without approval of BoD – Rs.9,694.58 million

The PESCO BoD during its 77th meeting held on December 24, 2012 approved load shedding schedule on the basis of Composite Efficiency Index (CEI).

In PESCO, load shedding program was revised w.e.f. December, 2017 on the directions of Ministry of Energy (Power Division) without approval of BoD. Due to implementation of directions of Ministry, the supply to high losses feeders was enhanced. Resultantly, quantum of lines losses of the company w.e.f. 12/2017 to 06/2018 was abnormally increased to the extent of 9.33% as compared to line losses of corresponding months of previous year and the overall losses of the company for the Financial Year 2017-18 increased to the extent of 38.19% as compared to the lines losses of previous year i.e. 32.6%. Due to implementation of load shedding schedule of the Ministry, PESCO sustained loss of Rs.9,694.58 million (8,181.7 x 9.33% = 763.33 x Rs.12.70) causing increase in receivables of CPPA(G) against PESCO.

Implementation of load shedding schedule of Ministry without approval of BoD resulted in loss of Rs.9,694.58 million during Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management stated revised reply would be given in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply to Audit within 15 days. The management replied that load shedding schedule was revised on the directions of Ministry. The reply was not acceptable as revision was made without approval of BoD.

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

(Draft Para No. 1307/2018-19)

15.4.2 Recurring annual loss due to abnormal lengthy feeders - Rs.7,279.07 million

According to calculation of Director (P&E) PESCO, 11 KV HT feeders exceeding 25 KM in length and 350 Amp load cause annual loss of 28,000 units per KM.

In PESCO, out of 1004 feeders 454 feeders were beyond length of 25 KM with maximum length of 191 KM. Abnormal lengthy feeders were causing huge recurring annual technical losses. Based on the technical calculations of PESCO Planning & Evaluation Directorate, it was facing huge recurring annual loss of Rs.7,279.07 million due to 11 KV feeders having length beyond 25 KM.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply to Audit within 15 days. The management replied that some areas of PESCO were far away and it was not possible to propose a separate grid for each area. The reply was not tenable as technical parameters were not observed.

Audit recommends that the management needs to restrict the PESCO to remain within the approved technical standards.

(Draft Para No. 1308/2018-19)

15.4.3 Loss due to overloaded / two phase distribution transformers - Rs.4,738.53 million

According to calculation of Director (P&E) PESCO, average annual unit loss of 6,500 units to 25,500 units is calculated for over loaded / two phase distribution transformers of 25 KVA to 200 KVA.

In PESCO, overloaded/ two phase distribution transformers was 31% of the total transformers installed in PESCO during 2016-17. However, during the Financial Year 2017-18, the said percentage remained 10.17%. The financial impact in term of annual units lost in this regard on the basis of calculation of P&E Directorate of PESCO was Rs.4,738.53 million in two years.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply to Audit within 15 days. It was replied that the percentage of two phase distribution transformers had been reduced to 10.17%. The reply was not acceptable as no documentary evidence was provided in support of reply.

Audit recommends that the management needs to investigate the matter for fixation of responsibility after thorough technical inquiry.

(Draft Para No. 1309/2018-19)

15.4.4 Non-settlement of free electricity issue to the affectees of Warsak Dam Area for Rs.816.86 million & piling up of receivables of Rs.1,328.71 million – Rs.2,145.57 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

In PESCO jurisdiction, the residents of 52 villages claimed themselves as the affectees of Warsak Dam and were not paying a single penny against the electricity bills. They had removed all the installed meters and opted to use electricity through direct hooks. On the other hand the billing was being made by PESCO on estimation basis & the arrears kept on accumulating since long. Increase in electricity theft and non-payment of bills resulted in high AT&C

losses. Due to non-resolving of Warsak Dam issue PESCO has to face loss of revenue amounting Rs.816.864 million on account of theft of 64.32 million units by way of direct hooks annually. Moreover, the collection of billing had come to a standstill leading to accumulation of receivables to the tune of Rs.1,328.71 million up to June 2018.

Non-adherence to above guidelines resulted in non-settlement of free electricity issue to the affectees of Warsak Dam Area piling up of receivables of Rs.2,145.57 million up to the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply to Audit within 15 days. It was replied that there was no written agreement between the affectees and WAPDA / PESCO. The reply was not tenable as the issue was to be resolved at Government level to avoid loss to the company.

Audit recommends that the issue of non-payment of electricity and piling up of receivables needs to be resolved immediately.

(Draft Para No. 1311/2018-19)

15.4.5 Non-spending of 20% of the village electrification funds for improvement / up-gradation of the grids - Rs.1,801.48 million

NEPRA while determining tariff i.r.o PESCO for FY 2015-16 directed to spend at least 20% of the village electrification funds for improvement/ up gradation of the Grid. NEPRA further directed PESCO not to undertake any village electrification which would result in overloading of the system and is not supported by technical evaluation and positive NPV.

In PESCO, funds amounting to Rs.3,069.83 million and Rs.5,937.56 million were received from Federal and Provincial Governments respectively for village electrification works under the legislator's funds during Financial Years 2015-16 to 2016-17. In contradiction to NEPRA directions 20 % of the funds received for village electrification amounting Rs.1,801.48 million was not spent on improvement / up-gradation of the Grids. Resultantly PESCO has to face massive system constraints i.e. overburdening / overloading, uneconomical HT / LT ratio etc. leading towards increase in technical losses and forced load shedding to avoid system damages.

Non-implementation of NEPRA directions resulted in non-spending of funds amounting to Rs.1,801.48 million on improvement/ up gradation of grids up to the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply to Audit within 15 days. It was replied that the matter was being investigated to dig out the factual position. No further progress was intimated till finalization of the report.

Audit recommends that the management needs to inquire the matter for fixing responsibility regarding non-adherence to the NEPRA instructions and putting the existing operational system at stake.

(Draft Para No. 1310/2018-19)

15.4.6 Excess credit adjustments beyond the permissible limit - Rs.1,033.84 million

As per MOU, signed by PESCO and Ministry of Water and Power the credit adjustment has been limited to 0.01% of amount billed in the month, communicated to all circles vide Chief Executive Officer, PESCO, Peshawar's letter No.3417-643/M-1 dated.16.4.2015.

In PESCO, Peshawar abnormal credit adjustments of Rs.1,062.39 million was given to the consumers against the permissible limit of Rs.28.55 million during April to June 2018. This resulted in excess credit adjustment beyond the permissible limit amounting to Rs.1,033.842 million.

Non-adherence to the above rules resulted into excess credit adjustment beyond the permissible limit of Rs.1,033.84 million during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply and to get the stance verified from Audit 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 ensuring the excess recovery of credit adjustments from the consumers.

(Draft Para No. 1026/2018-19)

15.4.7 Irregular payment through drawl of cash for chest - Rs.75.24 million

As per Ministry of Water & Power letter No. 1(17)/ 2007-I&C dated. May 16, 2009 and Director General Finance (B&C) WAPDA letter No. DGF(B&C)/Consold/270-76 dated August 13, 2009, the personal claims include pay / allowances, arrears, medical reimbursement, honorarium, TA/DA, payment of advances , leave encashment, educational stipends etc be made to all WAPDA employees including non-gazetted staff by issuing crossed cheque.

In PESCO, an amount of Rs.75.24 million was drawn from company's bank account as cash for chest for further disbursement to the payees, which was irregular as the cash payments were totally disallowed to avoid the chances of frauds and misappropriation of public money.

Non-adherence to Ministry's instructions resulted in irregular payment of Rs.75.24 million through drawl of cash for chest during the Financial Year 2017-18.

The matter was taken with the management during September & October, 2018 and reported to the Ministry in November, 2018. The management replied that strict compliance would be made as per directions of Audit.

The DAC in its meeting held on December 20-21, 2018 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 implement DAC's directives besides fixing responsibility.

(Draft Para No. 768 & 1124/2018-19)

15.4.8 Wasteful expenditure on independent feeders - Rs.23.07 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In Construction Circle PESCO, two (02) independent feeders were completed with cost of Rs.23.07 million and handed over to Zaida Sub Division PESCO on March 26, 2013. But due to defective works these feeders were not energized and remained redundant from last five years and whole expenditure of Rs.23.07 million was gone waste.

Non-adherence to rules resulted Wasteful expenditure of Rs.23.07 million on independent feeders during the Financial Year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in December, 2018. The management stated that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply to Audit within 15 days. It was replied that the energization was pending which was the responsibility of PD GSC. The reply was not tenable as the feeders were not energized since 2013.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 1189/2018-19)

15.4.9 Non-recovery of repair charges of damaged transformers and non-adjustment / claiming of cost of old parts - Rs.22.75 million

According to SOP circulated vide Chief Operating Officer, PESCO Peshawar, letter dated February 8, 2017, SDO concerned is held responsible for non-checking of transformer maintenance Register / non-adopting of preventive measures and the concerned, L.S and Area Line Man will be held responsible if any transformer found damaged due to short circuiting of LT line, unbalancing of load, overloading, improper fuse / earthling, leakage/ low level or moisturized oil and shifting of load of adjacent damage transformers etc.

In PESCO, an expenditure of Rs.20.98 million was incurred on repairing of 334 damaged transformers. The transformers were damaged due to overloading, unbalancing of load, oversize fuses, moisturized oil and LT short circuit etc but no responsibility was fixed upon concerned officer / official for recovery of loss. Moreover, out of the said damaged transformers, 158 ones were got repaired from private workshop but the cost of old coil & oil amounting to Rs.1.77 million was not adjusted / claimed while making payment of repair bill.

Non-adherence to the operational instructions resulted in non-recovery of repair charges of damaged transformers amounting to Rs.20.98 million from concerned officers / officials and non-adjustment / claiming of cost of old parts amounting to Rs.1.77 million in repair bill during financial year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management stated that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to furnish the reply to Audit within 15 days. It was replied that the constitution of high power committee was under way. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

(Draft Para No. 854, 1007 & 1029/2018-19)

15.4.10 Less recovery of Security from an industrial consumer - Rs.8.36 million

According to Consumer Service Manual/ NEPRA Notification, Security Deposits at the rate of Rs.2,890 per KW shall be recoverable at the time of sanction of new connection and extension of load of B-3 connection.

In PESCO, Peshawar, three (03) industrial consumers applied for change of name/extension of load. The management either did not deduct the security or less deducted. Due to short recovery or non deduction of security of Rs.8.36 million the company had to sustain loss to the stated extent.

Non-adherence to the above rules resulted into less recovery of Security from industrial consumer for Rs.8.36 million during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply and to get the stance verified from Audit 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 making the loss good.

(Draft Para No. 1027/2018-19)

15.4.11 Undue favour to the consumers due to non-providing of transformers - Rs.7.32 million

As per PEPCO letter No. 1065-74/CE(O) Stat-187 Dated 30.06.2018, where the load of shopping plazas, shopping centers and other places is more than 10 KW the mandatory independent transformer will be installed.

In Operation Circle Hazara-II PESCO, nineteen (19) commercial consumers energized from transformers of general domestic consumers, only to avoid the cost of Independent Transformers for Rs.7.32 million. Afterwards they extended their connected load un-authorizedly which was undue favour afforded to consumers.

Non-adherence to instructions of the PEPCO resulted in undue favour to Rs.7.32 million given to the consumers during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply to Audit within 15 days. It was replied that demand notices had been issued to consumers. The reply was not tenable as documentary evidence was not provided to substantiate the reply. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1163/2018-19)

15.4.12 Doubtful drawl of material – Rs.2.12 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In Operation Khyber Circle PESCO, Peshawar different LT proposals got repeatedly approved from Chief Engineer. Hence the chances of withdrawal of material more than once on the same proposal could not be ruled out. The matter was to be investigated.

Non-adherence to the operational instructions resulted in doubtful drawl of material amounting to Rs.2.12 million during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply and to get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to dig out the factual position and in case of excess drawn of material may be returned to store and disciplinary action be initiated against the responsible.

(Draft Para No. 1469/2018-19)

15.4.13 Loss due to non-recovery of cost of old material of damaged transformers from the private workshops - Rs.2.07 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject 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 Bannu PESCO, an expenditure of Rs.7.88 million was incurred for repair of 126 transformers through private Workshops. These transformers were not got repaired from the WAPDA Foundation Workshop. If these transformers were got repaired from WAPDA workshop, 26.25% credit on old material could have been obtained. But no credit of old material was given by these private workshops. Resultantly, Rs.2.07 million @26.25% on Rs.7.88 million of their bills was to be deducted, which was not done.

Non-adherence to the above rules resulted into loss of Rs.2.07 million due to non-recovery cost of old material of damaged transformers from the private workshops during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that credit of old parts where involved were being adjusted in the bills. The reply was not tenable as documentary evidence was not provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply and to get it verified from Audit 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 cost of old material from the responsible.

(Draft Para No. 1362/2018-19)

CHAPTER-16

QUETTA ELECTRIC SUPPLY COMPANY (QESCO)

16. QUETTA ELECTRIC SUPPLY COMPANY (QESCO)

16.1 Introduction

Quetta Electric Supply Company (QESCO) is a subsidiary of PEPCO. The Company started its operation as a Public Limited Company registered under Companies Ordinance 1984 (now Companies Act 2017) in July, 1998. The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company purchases electricity from CPPA through NTDC system and sells it to various consumers of Balochistan Province.

The operational activities are performed through six (06) Operation Circles and Grid System Construction, Project Construction & Grid System Operation Circles.

16.2 Comments on Financial Statements

16.2.1 Findings on Financial Audit

The objective of analysis of QESCO's financial statement is basically to assess the financial health of the Company to bear its operational costs and to indicate the factors contributing the piling up of huge circular debt.

For this purpose the horizontal and vertical trend analysis of Company's financials have been conducted along with critical ratio analysis. Critical factors affecting the financial statements have also been highlighted.

16.2.2 Horizontal Analysis of Financial Statement

Horizontal analysis (also known as trend analysis) is a financial statement analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time. It is a useful tool to evaluate the trend situations. The statements for two or more periods are used in horizontal analysis. Here we used three years financial statement i.e. from 2016 to 2018. The financial results of the Company for the year 2017-18 as compared to the previous years2015-16 & 2016-17 are tabulated below:

16.2.3 Profit and Loss Account
For the year ended June 30, 2016 to 2018

(Rs. in billions)

Year	2016	%Incr/(dec)	2017	%Incr/(dec)	2018
Sale of Electricity	32.275	5.29	33.983	69.16	57.487
Cost of Electricity	44.008	19.77	52.710	26.53	66.696
Gross Profit/(Loss)	(11.733)	59.61	(18.727)	(50.83)	(9.209)
Operating Expenses excluding Depreciation	51.318	(38.13)	31.753	(85.31)	4.663
Operating Profit/(Loss) before Depreciation, Interest and Tax	(63.050)	(19.94)	(50.480)	(72.52)	(13.872)
Depreciation	1.979	3.79	2.054	3.10	2.118
Operating Profit/(Loss) before Interest and Tax	(65.029)	(19.22)	(52.534)	(69.56)	(15.990)
Subsidy from Government of Pakistan on sale of Electricity	31.400	3.49	32.496	(64.50)	11.535
Rental and Service Income	-	-	-	-	-
Amortization of deferred Credit	0.370	11.32	0.412	(100.00)	-
Misc. Other Income	2.118	52.27	3.225	7.50	3.468
Total Other Income	33.888	6.63	36.133	(58.48)	15.003
Net Profit /(Loss) before Interest and Tax	(31.142)	(47.34)	(16.400)	(93.98)	(0.987)
Financial Expenses	1.391	26.14	1.755	20.73	2.119
Net Profit /(Loss) before Tax	(32.533)	(44.19)	(18.155)	(82.89)	(3.106)
Taxation	0.519	5.40	0.547	(33.19)	0.366
Net Profit/(Loss) after Tax	(33.053)	(43.42)	(18.703)	(81.44)	(3.472)

Source: Profit & Loss Account, Annual Financial Statements of QESCO
2017-18 Provisional Accounts

16.2.4 Balance Sheet
As at June 30, 2016 to 2018

(Rs in billions)

	2016	%Incr/(dec)	2017	%Incr/(dec)	2018
Equity & Liabilities					
Equity					
Issued, subscribed and Paid up Share Capital	0.000010	-	0.000010	-	0.000010
Deposit for issue of Share Capital	57.245	-	57.245	-	57.245
Surplus on Revaluation	33.175	(3.23)	32.102	-	32.102
Accumulated Losses	(117.342)	18.71	(139.293)	2.49	(142.764)
Shareholders' Equity	**(26.921)**	85.52	**(49.946)**	6.95	**(53.417)**
Liabilities against Government Investment	-	-	-	-	-
Long term Loans	32.668	41.65	46.273	5.50	48.818
Staff retirement benefits	11.008	45.29	15.994	(4.49)	15.276
Deferred Credit/Receipts against deposit works & connections	19.268	11.31	21.448	1.60	21.792
Total Non-current Liabilities	**62.944**	33.00	**83.715**	2.59	**85.885**
Trade & Other Payables	137.406	9.95	151.082	42.67	215.550

Accrued Markup	4.258	41.19	6.012	16.45	7.001
Provision for Taxation	0.524	-	1.071	-	-
Total Current Liabilities	**143.722**	**11.82**	**160.710**	**38.48**	**222.552**
	179.745		**194.479**		**255.020**
Property Plant & Equipment	75.476	5.58	79.686	(28.71)	56.809
Capital work in-progress	-	-	-	-	23.651
Long Term Loans/Advances	0.054	20.29	0.065	(7.67)	0.060
Total Non-Current Assets	**75.531**	5.59	**79.751**	0.96	**80.520**
Stores, spares & loose tools	3.251	1.54	3.301	2.35	3.379
Trade Debts against sale of Electricity	52.276	14.32	59.764	76.80	105.661
Government levies and other charges	-	-	-	-	-
Other Receivables from MoF	-	-	-	-	-
Other Receivables	42.313	4.60	44.259	37.35	60.788
Total Receivables	94.589	9.97	104.023	60.01	166.449
Loan & Advances	1.099	(7.27)	1.019	-	-
Cash & Bank Balances	5.275	21.05	6.385	(26.84)	4.671
Total Current Assets	**104.214**	10.09	**114.728**	52.10	**174.499**
Total Assets	**179.745**	8.20	**194.479**	31.13	**255.020**

16.2.5 Heavy Accumulated losses

The Company has been suffering heavy losses every year. During 2017-18 suffered a net loss of Rs.3.472 billion. It is however, encouraging that year to year losses are decreasing. In 2015-16, net loss was Rs.33.53 billion which decreased by 43.42% to Rs.18.703 billion in 2016-17 and further decreased to Rs.3.472 billion in 2017-18. Company must continue this trend in order to come out of losses. However, the net loss for the year 2017-18 was declined by 17.90% to Rs.22.421 billion. The accumulated yearly losses rose to Rs.142.764 billion up to the year ended June 30, 2018. This cast a significant doubt about the Company's ability to continue as going concern.

16.2.6 Liquidity Position

Company's current liabilities exceeded current assets by Rs.80.520 billion as on June 30, 2018 which indicates that company is not in a position to pay its immediate liabilities. These state of affair cast a serious doubt on Company ability to operate without the support of Government. The Company should try to improve its current ratio to 2:1 (prescribed international standard). Likewise, the Company was suffering consistent losses over the years, which reflect inefficiency and mismanagement of the affairs of the company, which needed serious attention.

16.2.7 Gap between Cost and Sales Revenues

Revenues from Sale of Electricity have increased by 5.29% in 2017 and 69.16% in 2018. Sharp increase in sales revenues in 2018 needs detailed justification. Cost of electricity was 136% of the Sales in 2016, 155% in 2017 and 116% in 2018. Increase in cost can be attributed to increased tariff rate and no. of units purchased. Increase in sales revenues can be linked to increase in recoveries, no. of units sold and tariff. A breakup of these factors is given as under:-

(Rs. in billion)

	2016	% Inc (dec)	2017	% Inc (dec)	2018
Sale of Electricity	32.275	5.29%	33.983	69.16%	57.487
Units Sold (Billion KWH)	4.227	5.35%	4.453	10.40%	4.916
Avg. rate (Rs per KWH	9.42	24.02%	11.683**	20.18%	14.040**
Cost of Electricity	44.008	19.84%	52.710	26.69%	66.249
Unit Purchased	5.558	4.30%	5.797	9.35%	6.339
Avr. Rate (Rs per KWH)	8.409	7.42%	9.033	0.08%	9.040
Unit Lost	1.331	0.98%	1.344	5.88%	1.423

***** Calculated by dividing sales with no. of units sold***

Sales for the year 2017 have been re-stated in Provisional Accounts 2018 from Rs.33.983 billion to Rs.57.487 billion which needs detailed justification and breakup of sales revenues. The sales in 2017 increase by 5.29% and further jumped by 69.16% in 2018. These increases in sales revenue does not match with the recovery against amount billed.

16.2.8 Recovery of Amount Billed

Recovery of amount billed has been analyzed. QESCO has a recovery rate of 43.50% of amount billed as against target of 100% given by NEPRA in 2016-17.

Name of DISCO	Actual Recovery (%)	Target (%)	Breach of Target (%)
1	2	3	4=(2-3)
QESCO	43.5	100	-56.5

16.2.9 Financial Impact of short-collection

Name of DISCO	Billing (Million Rs.)	Collection (Million Rs.)	Un-recovered(Million Rs.)
1	2	3	4=(2-3)
QESCO	63,948	27,842	36,106

Loss sustained to QESCO due to short collection against billing is Rs.36.106 billion in 2016-17. Quetta Electric Supply Company (QESCO) has been sustaining losses over the years and these losses are increasing every year. In 2016 the gross loss was 36.35% of the sales which increased to 55.11% in 2017 and suddenly decreased to 16.02% in 2018. This trend shows the inconsistencies in management and operations of the company.

16.2.9 Non-cash adjustments against Subsidies

	2016	% Inc (dec)	2017	% Inc (dec)	2018
Subsidy	13.721	7.72%	14.780	57.75%	23.316

In order to meet the gap between costs and revenues, Government of Pakistan has given subsidy of Rs 13.721 billion in 2016 which increased by 7.72% in 2017 to Rs.14.780 billion in 2017 and further increased by 57.75% in 2018 to Rs.23.316 billion. Adjustments are made against subsidy receivables but no cash disbursement was made by the Government.

16.2.10 Trade Debts

(Rs in billions)

	2016	%Incr/(dec)	2017	%Incr/(dec)	2018
Trade Debts against sale of Electricity	52.276	14.32	59.764	76.80	105.661

Trade Debts against sale of electricity has increased to Rs.105.661 billion in 2018 as compared to Rs.59.764 billion in 2017 and Rs.52.276 billion in 2016 showing a vertical increase of 76.80.46% in three years. Audit is of the view that one of major factor contributing in circular debt is non-recovery from trade debtors.

	up to 1 year	Over 1 Year	Over 3 Year	Total
Government				
Active	683,593,856	1,837,019,791	9,525,034,198	12,045,647,845
Disconnected	-12,130,130	10,619,369	326,172,571	324,661,810
	671,463,726	**1,847,639,160**	**9,851,206,769**	**12,370,309,655**
Agricultural				
Active	47,230,233,699	3,703,020,131	181,200,416,687	232,133,670,517
Disconnected	22,743,889	33,125,295	265,783,629	321,652,813
Total agriculture	**47,252,977,588**	**3,736,145,426**	**181,466,200,316**	**232,455,323,330**
Other Private				
Active	1,380,343,041	691,318,280	9,614,091,500	**11,685,752,821**
Disc.	10,620,658	65,974,337	1,408,106,648	**1,484,701,643**
Total Private	**1,390,963,699**	**757,292,617**	**11,022,198,148**	**13,170,454,464**
Total - Debtors	**49,315,405,013**	**6,341,077,203**	**202,339,605,233**	**257,996,087,449**

(Source Data: CP-48)

Aging of Trade debts as on 30.06.2018 shows that Government has to pay Rs.12.370 billion to QESCO out of which Rs.9.851 billion are pending over three years. In order to stream line the Company's cash flows these debts may be immediately paid to QESCO.

Private Sector Receivables' status is also very alarming. As on 30.06.2018, Rs.13.170 billion are stuck with private customers. An alarming point to note is receivables from active consumers which are Rs.11.685 billion out of which Rs.9.614 billion are recoverable for over three years. Justification is needed for non-recovery of dues from active consumers for last three years.

Special attention is needed to recover the private sector trade debts. Non-collection from trade debts contribute to building up of circular debt.

16.2.11 CPPA Payables

	2016	%Inc/(dec)	2017	%Inc/(dec)	2018
CPPA PAYABLE	134.278	10.34	148.159	42.45	211.055

QESCO is not paying the CPPA dues timely. In 2016 Rs.134.278 billion was Payable to CPPA which increased to Rs.148.159 billion in 2017. In 2018, there was an abnormal increase of 42.45% and CPPA dues jumped to 211.055 billion. Non-payment of CPPA's dues on time is one of the causes of circular debt. It is recommended that in order to ensure timely payments of CPPA dues, the management of QESCO should enhance its recovery / collection.

16.2.12 Vertical Analysis

A vertical analysis is used to show the relative sizes of the different accounts on a financial statement. Here while doing the vertical analysis of Profit & Loss account Sale of Electricity has been taken as 100%, and every other head of Profit & Loss account has been shown as a percentage of the total sales number. For Balance Sheet, total assets have been taken as base line and every other head of balance sheet has been shown as a percentage of total assets.

(% of sales)

Year	2016	2017	2018
Sale of Electricity	100.00	100.00	100.00
Cost of Electricity	136.35	155.11	116.02
Gross Profit/(Loss)	(36.35)	(55.11)	(16.02)
Operating Expenses excluding Depreciation	159.00	93.44	8.11
Operating Profit/(Loss) before Depreciation, Interest and Tax	(195.35)	(148.54)	(24.13)
Depreciation	6.13	6.04	3.68
Operating Profit/(Loss) before Interest and Tax	(201.48)	(154.59)	(27.81)

Subsidy from Government of Pakistan on sale of Electricity	97.29	95.62	20.07
Rental and Service Income	-	-	-
Amortization of deferred Credit	1.15	1.21	-
Misc. Other Income	6.56	9.49	6.03
Total Other Income	104.99	106.33	26.10
Net Profit /(Loss) before Interest and Tax	(96.49)	(48.26)	(1.72)
Financial Expenses	4.31	5.16	3.69
Net Profit /(Loss) before Tax	(100.80)	(53.42)	(5.40)
Taxation	1.61	1.61	0.64
Net Profit/(Loss) after Tax	(102.41)	(55.03)	(6.04)

Vertical analysis of Profit & Loss account of QESCO shows that Cost of sales is 116.33% of the sales in 2018 as compared to 155.11% in 2017. Management should take steps to enhance its revenues.

Operating expenditure excluding depreciation were 159% of sales in 2016, 93.44% in 2017 and8.11% of sales in 2018. This sharp decrease in operating expenses is although positive sign but need detailed justification.

16.2.13 Absence of Financing Agreement

Company has accounted for long term financing of Rs.34.494 billion from Power Holding Private Ltd. (PHPL) based on advices received from CPPA against circular debt payments. However, no agreement for such long term financing has been made. Management has been accounted for the financing costs of Rs.635.289 million in 2016, Rs.881.368 million in 2017 and Rs.1,127.447 million in 2018.

Audit is of the view that formal financing agreement must be signed and accordingly interest may be charged in books of accounts.

16.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
QESCO	2016-17	01	-	**18** (Para No. 4.1.1, 4.1.2, 4.1.4, 4.1.5, 4.1.7, 4.1.9, 4.1.11, 4.1.13, 4.1.14, 4.1.17 to 4.1.21, 4.1.23, 4.1.26, 4.1.30, 4.1.33)	

Position of compliance with PAC directives is not satisfactory.

16.4 AUDIT PARAS

16.4.1 Loss due to non-removal of illegal tube well connections - Rs.7,783.96 million

According to Guidelines for Policy and Procedure on Detection Bills circulated vide letter dated October 26, 1999, “whoever found to connect his installation appliances and apparatus for the purpose of supply of energy without its (with the work of license) written consent commits an offence to be prosecuted under Section 39 & 39A of Electricity Act, 1910 which requires FIR to be lodged with police. Further to compensate the loss sustained on account of theft, assessment bills were to be served as per laid down procedures to such illegal and unregistered consumers".

In QESCO, 12192 illegal tube well connections were running in territorial jurisdiction of the Company. These illegal tube well connections were identified / verified by the SDOs / LSs concerned. Neither these illegal tube well connections were regularized and brought into billing cycle nor illegally installed transformers valuing Rs.144.57 million removed from sites. Huge revenue loss amounting to Rs.7,639.39 million was also being sustained by the Company due to operation of these illegal tube well connections. Legal and departmental action was not taken to fix the responsibility and recovery of the energy charges as well.

Non-adherence to the guidelines for policy and procedure on detection bills resulted in loss of Rs.7,783.96 million due to non-removal of illegal tube well connection up to the financial year 2017-18.

The matter was taken up with the management during September & October, 2018 and reported to the Ministry during November & December, 2018.

The management replied that 54 transformers uprooted and the matter was taken up at higher level for taking prompt action against the culprits. The reply was not tenable as no documentary evidence in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to conduct facts finding inquiry for delay in compliance and submit its report within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

(Draft Para No. 447, 699, 707 & 1249/2018-19)

16.4.2 Irregular booking of Provincial subsidy as receivable from Government of Balochistan - Rs.5,249.30 million

The ECC vide case No.16/12/2015 approved the subsidy package for agriculture tube well connection in Balochistan for period with effect from 1st January 2015 to 31st December 2016. The Package was extended/continued by ECC for further period of one year w.e.f January 1, 2017 to December 31, 2017 vide No.ECC-103/70/2017 dated October 6, 2017 subject to commitment of past payments by all the stake holders i.e. consumers, GoB & GoP.

In QESCO, subsidy to agricultural consumers equal to 60% was to be received from Government of Balochistan up to December 31, 2017. After expiry of the subsidy package, there was no approval to date for submitting claims to Government of Balochistan. The amount in this account was to be billed to respective consumers as per approved tariff. But the record showed that after December 31, 2017 an amount of Rs.5,249.30 million was wrongly debited to the Government of Balochistan up to June 30, 2018. The amount was receivable from agricultural consumers. Hence, amount due from agricultural consumers was under stated to the extent of Rs.5,249.30 million.

Non-adherence to the Authority's instructions resulted in irregular booking of Provincial subsidy to the tune of Rs.5,249.30 million up to the financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply and to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to bill the agriculture consumers and recover the amounts besides fixing responsibility upon the responsible officers / officials.

(Draft Para No. 1221/2018-19)

16.4.3 Non-recovery of electricity revenue from consumers - Rs.4,093.80 million

According to Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company efficient application of billing and collection procedures".

In Operation Circle Pishin QESCO, an amount of Rs.4,748.30 million was billed against consumption of electricity but only Rs.654.80 million were recovered from consumers which was only 13.80% of total billing. Efforts were not made to recover the balance amount of Rs.4,093.80 million (86.20%).

Non-adherence to commercial procedure resulted in non-recovery of electricity revenue from consumers Rs.4,093.80 million during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that efforts were made to recover the arrears from defaulters. The reply was not tenable as no documentary evidence to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to pursue the matter vigorously and to get recovery verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 781/2018-19)

16.4.4 Non-finalization of completion report of ADB Loan-2727 Tranche-II – Rs.1,191.32 million

According to Section 2.08 (c) of project agreement, promptly after physical completion of the project, but in any event not later than 3 months thereafter or such later date as ADB may agree for this purpose, each detail as ADB shall reasonably request, on the execution and initial operation of the project, including its cost, the performance by the DISCO of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

In PMU QESCO, Quetta, an amount of Rs.1,191.32 million under ADB Loan-2727-PAK Power Distribution Enhancement Investment Program, (PDEIP) Tranche-II was allocated to QESCO which was effected from October 8, 2011 and completed the physical activities with full utilization of loan amount on June 30, 2018. However, neither loan accounts were finalized nor completion report of the project prepared.

Non-adherence to provision of project agreement resulted in non-finalization of completion report of ADB loan-2727 Tranche-II amounting to Rs.1,191.32 million during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that when amount of pending loan was disbursed, completion would be finalized. The reply was not acceptable as the project cost would be increased due to delayed completion.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the completion of works and submit final status to Audit within 10 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding inordinate delay for completion of project besides fixing responsibility.

(Draft Para No. 586/2018-19)

16.4.5 Investment at risk due to suspension of transmission line work - Rs.237.11 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GSC QESCO, an expenditure of Rs.237.11 million was incurred on construction of 132 KV transmission line of Grid Station. The material was procured and major portion of the work for transmission line of Jiwani Grid Station was executed by the contractors. Meanwhile Gwadar Development Authority suspended transmission line work from 220 KV Gwadar grid station to Jiwani - Zero point section due to revision of Gwadar Master Plan. The suspension of work caused inordinate delay in completion of work.

Non-adherence to Authority's instructions resulted in investment of Rs.237.11 million at risk due to suspension of transmission line work during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that augmentation and renovation works to minimize overloading were under progress. The reply was not tenable as no action was taken against the person who were responsible for inordinate delay.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the completion of works and submit final status to Audit for examination within 10 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding inordinate delay in completion of works besides fixing responsibility.

(Draft Para No. 584/2018-19)

16.4.6 Non- installation of electrical material - Rs.139.11 million

According to Para-4.5 (Section-8) of Distribution Stores Manual, " the Line Superintendent will use the materials on the job for which he drew and will record the consumption in his Electrical Measurement Book (EMB) / Material at Site Register (MSR) showing any materials left after the work has been completed".

In GSC Circle QESCO, electrical material valuing Rs.139.11 million was drawn by field staff for installation at various grid stations and Transmission Lines. But the said material was not installed at sites since 01/2018. Due to non-installation of material at sites, the chances of misappropriation of material could not be ruled out.

Non-adherence to Distribution Stores Manual resulted in non-installation of electrical material - Rs.139.11 million up to the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that material was installed and record was ready for verification. The reply was not tenable as no documentary evidence in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 07days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter for fixing responsibility besides ensuring early installation of material at sites.

(Draft Para No. 580/2018-19)

16.4.7 Non-adjustment of security deposits against arrear amounts – Rs.113.08 million

According to Para-5 (CP-14) of the WAPDA Commercial Procedure, when a permanent disconnection has been effected and final bill prepared by W.C.C, the amount of the Security Deposits held against the consumer is adjusted against his outstanding bill.

In QESCO, 116 consumers of different categories were permanently disconnected due to default in payment of Rs.113.08 million for up to 293 months. However, neither the arrears were recovered nor adjusted against security deposits of the said consumers.

Non-adherence to Commercial Procedure resulted in non-adjustment of security deposits against arrears of Rs.113.08 million up to the financial year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management replied that the Revenue Offices were directed to adjust the security deposits of defaulters. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to complete the required actions and get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

(Draft Para No. 727& 748/2018-19)

16.4.8 Unjustified installation of material at site without issuance from store - Rs.58.52 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject 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 QESCO, material valuing Rs.58.52 million was used for execution of various village electrification works without issuance from the store. The consumption of material without issuance from store indicated that used material was either misappropriated or stolen somewhere.

Weak Internal controls resulted in misappropriation of material amounting to Rs.58.52 million during the year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in November, 2018. The management replied that material installed which was already drawn from store. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 679/2018-19)

16.4.9 Non-return of surplus material from contractor - Rs.54.45 million

As per 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 PMU QESCO, two Turnkey projects of ADB Loan 2972 -Tranche-III QESCO-01 & 02 were completed on May 31, 2017 and June 10, 2018 respectively. However, surplus material amounting to Rs.54.45 million against completed works was not returned from the contractor. Hence, chances of misappropriation of material could not be ruled out.

Non-adherence to WAPDA Accounting Manual resulted in non-return of surplus material from contractor against turnkey projects valuing Rs.54.45 million up to till financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that material was returned to QESCO T&G ware house. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 592/2018-19)

16.4.10 Excess charging of units by CPPA(G) - Rs.45.87 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In QESCO, 1,730.55 million units were sent by CPPA(G) to QESCO whereas QESCO received 1,725.97 million units (03 invoices). Resultantly, 4.58 million units valuing Rs.45.87 million were excess charged by CPPA(G) to QESCO which needed justification.

Non-adherence to instructions resulted in excess charging of units amounting to Rs.45.87 million to CPPA (G) during the year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter to fix responsibility besides taking the matter with CPPA (G).

(Draft Para No. 1443/2018-19)

16.4.11 Excessive line losses due to non-execution of HT works – Rs.39.22 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject 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 Sibbi QESCO, 3.26 million units, of 11 KV Sibbi City and Jhal Magsi feeder were lost in excess of NEPRA target of energy losses 17.5% during the Financial Year 2017-18. But, proposal for bifurcation of Sibbi City and Jhal Magsi feeder with estimated cost Rs.13.79 million was not executed despite abnormal line losses. Inordinate delay in execution of works caused excessive line losses.

Non-execution of HT works resulted in excessive line losses Rs.39.22 million during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management replied that feeder was bifurcated and energized subsequent losses were under permissible limit. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide completion report along with CP-22A to get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 769/2018-19)

16.4.12 Loss due to non-repairing of damaged transformers - Rs.37.72 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In QESCO, six hundred and sixty five (665) transformers of different capacities amounting to Rs.37.72 million were damaged. But the same were not repaired since long which was loss to the company due to non-utilization of such costly material.

Non-adherence to Authority's instructions resulted in loss due to non-repair of damaged transformers amounting to Rs.37.72 million up to the financial year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management stated that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply and directed to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding non-repair of damaged transformers besides fixing responsibility.

(Draft Para No. 1205/2018-19)

16.4.13 Wasteful expenditure on electrification works - Rs.21 million

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

In Construction Circle QESCO, an amount of Rs.21 million was incurred on the execution of ten (10) electrification works. Later on these schemes were stopped due to different reasons. Resultantly, expenditure of Rs.21 million had gone wasteful.

Non-adherence to rules resulted in wasteful expenditure amounting to Rs.21 million up to the financial year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in November, 2018. The management replied that the works would be completed after resolution of disputes and Audit would be informed accordingly. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to conduct inquiry for delay at PEPCO level and submit inquiry report to Audit within 30 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 694/2018-19)

16.4.14 Unjustified award of contract - Rs.12.97 million

As per minutes of the CDWP meeting held on October 21, 2011 "the project at an estimated cost of Rs.249.77 million was approved by CDWP subject to the condition that it may be funded through a package by Government of Balochistan through its own resources".

In GSC QESCO, a contract of Rs.12.97 million was awarded to the contractor for construction of boundary wall, security guard cabin at 132 KV grid station. However, neither land was transferred in favor of the company, nor funding source of project was finalized. Hence, award of the contract without fund availability and non-clearance of disputed land was irregular and unjustified.

Non-adherence to minutes of meetings resulted in unjustified award of contract amounting to Rs.12.97 million during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that the contract was awarded due to protest of inhabitant of the area and no payment was made. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed that PEPCO should inquire into the matter and fix responsibility for award of contract without provision of funds. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 581/2018-19)

16.4.15 Loss due to undue favour to industrial consumers - Rs.10.24 million

According to Para-11 of GFR Vol-I, "every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of his own money and the expenditure should not be prima facie more than the occasion demands".

In QESCO, due dates for payment of electricity bills of seven (07) industrial consumers were extended frequently throughout the year to avoid Late Payment Surcharge (LPS). Due to extension in due dates frequently in a year an amount of Rs.10.24 million was less recovered from the consumers on account of LPS.

Non-adherence to General Financial Rules resulted in loss due to undue favour to industrial consumers amounting to Rs.10.24 million during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply 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 responsibility against the person(s) at fault.

(Draft Para No. 1402/2018-19)

16.4.16 Loss due to installation of lower capacity power transformer - Rs.10 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982

(amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In QESCO, a power transformer of 31.5/40 MVA capacity was to be installed at Grid Station Pasinzai Qilla Saifullah as per approved PC-I but 20/26MVA Power Transformer was installed by concerned Executive Engineer against the provision of PC-I which needed justification.

Non-adherence to Authority's instructions resulted in installation of lower capacity power transformer amounting to Rs.10 million up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply and to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter to fix responsibility.

(Draft Para No. 1202/2018-19)

16.4.17 Non-return of surplus material by contractor against turnkey project - Rs.9.38 million

As per Para-74 of WAPDA Accounting Manual 1978, on completion of the work, the excess material will be returned to godown or transferred to another work.

In GSC QESCO, some material drawn against erection works of 132 KV D/C Transmission Line on ACSR Lynx conductor amounting to Rs.9.38 million found surplus but not returned to store by the contractor. Non serious efforts were made to recover the material from the contractor.

Non-adherence to WAPDA Accounting Manual resulted in non-return of surplus material from contractor against turnkey project under ADB Loan 2972, Tranche-III valuing Rs.9.38 million up to financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that contractor was directed to return all the surplus material to store. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to ensure early return of material besides fixing responsibility.

(Draft Para No. 576/2018-19)

16.4.18 Recurring loss of revenue due to non-energization of water supply schemes -Rs.8.40 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject 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 Pishin QESCO, an amount of Rs.2.39 million was paid by PHE department against four water supply schemes in May 2016. However, the connections were not energized after lapse of considerable period. Hence, non-energization resulted in recurring loss of revenue Rs.8.40 million to the Company.

Non-adherence to Authority's instructions resulted in loss due to non energization of connections amounting to Rs.8.40 million up to the financial year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply and directed to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that management needs to investigate the matter for fixing responsibility besides energization of connections.

(Draft Para No. 778/2018-19)

16.4.19 Blockage of revenue on account of electricity charges - Rs.4.53 million

According to Para-1.3 of Commercial Procedures Manual of WAPDA Power Wing, "Revenue Officer and Assistant Manager are responsible for implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company efficient application of billing and collection procedures".

In Operation Circle Loralai QESCO, an amount of Rs.4.53 million against consumer bearing account No. 24-48241-0413609 was deferred on the direction of NEPRA and further decided that such deferred amount would be cleared after analysis of average consumption data of the meter installed at the premises of the consumer up to September, 2018. However neither deferred amount was cleared nor submitted the case to NEPRA for final decision. Resultantly company put into blockage of funds of Rs.4.53 million.

Non-adherence of authority's instructions resulted in blockage of revenue on account of electricity charges Rs.4.53 million during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management replied that matter would be finalized by NEPRA and Audit would be informed accordingly. The reply was not tenable as the case was not referred to NEPRA for final decision.

The DAC in its meeting held on December 20-21, 2018 directed the management to pursue the case vigorously and intimate progress achieved within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No.702/2018-19)

16.4.20 Less recovery of Grid Sharing Cost from Housing Society Sponsor - Rs.4.18 million

According to the instructions issued by PEPCO dated September 19, 2009, 50% cost was to be paid by sponsor of housing societies in lump sum in advance. According to the instructions issued by PEPCO dated February 19, 2010, 50% cost to be paid by sponsor of housing societies in lump sum in advance.

In QESCO, an amount of Rs.4.18 million on account of grid sharing cost from sponsor of Garden Town Housing Scheme Chashma Achozai Airport Road Quetta was less recovered i.e. 25% instead of 50% in violation of above mentioned orders. Due to less recovery of said cost, the company sustained a loss to the stated extent which needs justification.

Non-adherence to Authority's instructions resulted in less-recovery of grid sharing cost amounting to Rs.4.18 million up to the financial year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply and to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter to fix responsibility besides recovering the amount from the sponsor.

(Draft Para No. 1212/2018-19)

16.4.21 Loss due to non-recovery of installation charges from the consumers - Rs.2.67 million

According to the SOP regarding provision of own transformers issued vide No.11231- 42/GM(P&IC) dated November 9, 1996, installation charges i.e. 26% of WAPDA purchase rate of that capacity will also be recovered, from the consume"

In QESCO, two (02) new cases for 11 KV independent feeder connections were sanctioned by Planning & Evaluation department QESCO. However, installation charges amounting to Rs.2.67 million were required to be recovered from the consumers but the needful was not done.

Non-adherence to Standard Operating Procedure resulted in loss due to non-recovery of installation charges from the consumers of Rs.2.67 million up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply and to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expedite the recovery investigate the matter besides recovery of the amount from the consumers.

(Draft Para No. 1220/2018-19)

16.4.22 Loss due to levy of commitment charges on unutilized loan – Rs.2 million

According to ADB loans agreements, the borrower shall pay commitment charges of 0.15% per annum on the un-withdrawn amount of the loan. Such charges shall accrue on the full amount of the loan (less amounts withdrawn from time to time), commencing sixty (60) days after the date of this loan agreement.

In PMU QESCO, entire amount of ADB loans-2972 Power Distribution Enhancement Investment Program, Tranche-III could not be utilized up till June, 2018. Resultantly, the Company had to bear financial loss of Rs.2 million on account of commitment charges for unutilized portion of loans due to lack of planning and inefficiency towards achievement of project goals.

Non-adherence to provision of project agreement resulted in loss of Rs.2 million due to levy of commitment charges on unutilized loan during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that all the approved projects were completed before closing of loans and surplus amount was intimated to PEPCO. The reply was not tenable as no justification regarding unutilized portion of loan was provided.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 591/2018-19)

16.4.23 Illegal work on Housing Society - Rs.1.79 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In QESCO, electrification work of Metro Housing Scheme amounting to Rs.1.79 million was done illegally. In this regard, inquiry committee was constituted but no any action was taken to recover the loss which needs justification.

Non-adherence to Authority's instructions resulted in illegal electrification work of housing society amounting to Rs.1.79 million up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply and get it verified from Audit 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 responsibility against the persons at fault to make the loss good.

(Draft Para No. 1207/2018-19)

16.4.24 Loss due to non-recovery of material cost from the contractor - Rs.1.35 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject 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 QESCO, an amount of Rs.1.35 million was recoverable on account of material cost from the contractor i.e. M/s Ghulam Dastagir. But the same was not recovered despite best efforts made by the formation.

Non-adherence to rules resulted in non-recovery of material cost amounting to Rs.1.35 million up to the financial year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in November, 2018. The management replied that cost had been recovered and record was ready for verification. The reply was not tenable as no documentary evidence was provided to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide record related to recovery made to Audit within 7 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 683/2018-19)

16.4.25 Non-recovery of fixed charges from consumers - Rs.1.35 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 Operation Circle Pishin QESCO, ten (10) industrial consumers got sanctioned their load under Tariff B-I but their connected load was to be charged under Tariff B-II. Hence, fixed charges amounting to Rs.1.35 million could not be charged.

Non-adherence to commercial procedure resulted in non-recovery of fixed charges amounting to Rs.1.35 million from the consumers during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the reply and to get it verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that management needs to investigate the matter for charging wrong tariff to the consumers besides fixing responsibility.

(Draft Para No. 774/2018-19)

CHAPTER-17

SUKKUR ELECTRIC POWER COMPANY (SEPCO)

17. SUKKUR ELECTRIC POWER COMPANY (SEPCO)

17.1 Introduction

Sukkur Electric Power Company (SEPCO) is a subsidiary of PEPCO. The Company started its operation as a Public Limited Company during 2011 and registered under Companies Ordinance 1984 (now Companies Act 2017). The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company purchases electricity from CPPA through NTDC system and sells it to various consumers of ten (10) Districts of Sindh Province.

The operational activities are performed through three Operation Circles and Grid System Construction, Project Construction & Grid System Operation Circles.

17.2 Comments on Financial Statements

17.2.1 Financial Audit Findings

According to Section-233 of Companies Act 2017, “the directors of every company shall at some date not later than eighteen months after the incorporation of the company and subsequently once at least in every calendar year lay before the company in annual general meeting a balance-sheet and profit and loss account or in the case of a company not trading for profit an income and expenditure account for the period.

In SEPCO, the balance sheet and profit & loss account of the Company for the years 2016-17 and 2017-18 could not be finalized by the management.

The financial statements up to the year 2015-16were audited by the Chartered Accountants and provisional accounts for the years 2016-17 and 2017-18 were included in the financial analysis. The financial results of the Company for the year 2017-18 as compared to the previous years’ 2015-16 & 2016-17 are tabulated below:

17.2.2 Balance Sheet
As at June 30, 2018

(Rs. in billion)

	2017-18	%Inc/ (Dec)	2016-17	%Inc/ (Dec)	2015-16
EQUITIES AND LIABILITIES					
Share capital	0.00001	0	0.00001	0	0.00001
Accumulated loss	(100.28)	10.4	(90.83)	10.95	(81.87)
	(100.28)	10.4	(90.83)	10.95	(81.87)
Deposit for issue of share capital	35.93	0	35.93	0	35.93
Deferred credit	9.91	(2.6)	10.17	8.98	9.33
NON CURRENT LIABILITIES					
Long term financing	14.88	(0.06)	14.89	(0.09)	14.9
consumer security deposit	0.96	16.35	0.82	9.54	0.75
Receipt against deposit work	4.63	13.79	4.07	(0.71)	4.1
Staff retirement benefits	17.83	0	17.83	2.67	17.37
TOTAL NON CURRENT LIABILITIES	**38.3**	1.83	**37.62**	1.33	**37.12**
CURRENT LIABILITIES					
creditor, accrued and other liabilities	4.3	7.67	3.99	26.78	3.15
Provision for taxation	-		-		-
Due to associated undertaking	157.78	23.76	127.49	5.97	120.31
Current and overdue portion of long term financing	0.02	0	0.02	0	0.02
TOTAL CURRENT LIABILITIES	**162.09**	23.27	**131.5**	6.5	**123.47**
CONTINGENCIES AND COMMITMENTS					
TOTAL EQUITY AND LIABILITIES	**145.95**	17.35	**124.38**	0.31	**123.99**
ASSETS					
NON CURRENT ASSETS					
Property, plant & equipment	20.44	3.48	19.76	11.81	17.67
Capital in progress	4.44	50.68	2.95	(2.43)	3.02
TOTAL NON CURRENT ASSETS	**24.88**	9.6	**22.7**	9.73	**20.69**
Long term loans	0	0	0	0	0
CURRENT ASSETS					
Stores, spares and loose tools	1.9	(9.8)	2.11	8.41	1.94
Trade debts	67.64	17.79	57.42	(4.4)	60.06
Due from associated undertakings	29.93	21.36	24.66	9.43	22.54
Advances and other receivables	18.05	20.24	15.01	(8.6)	16.42
Taxation	1.53	71.26	0.89	5.07	0.85
Cash and bank balances	2.02	27.7	1.59	6.41	1.49
TOTAL CURRENT ASSETS	**121.07**	19.07	**101.68**	(1.57)	**103.3**
	145.95	17.35	**124.38**	0.31	**123.99**

17.2.3 Profit And Loss Account
For the year ended June 30, 2018

(Rs.in billion)

	2017-18	% Inc/(Dec)	2016-17	% Inc/(Dec)	2015-16
Sale of electricity	31.14	7.92	28.85	5.74	27.29
Cost of electricity	46.43	24.7	37.23	10.57	33.67
Gross profit / (loss)	**(15.29)**	**82.48**	**(8.38)**	**31.19**	**(6.39)**
Other operating cost excluding depreciation	(4.85)	(13.16)	(5.59)	(17.16)	(6.75)
Operating profit / (loss) before depreciation, interest and tax	**(20.14)**	**44.2**	**(13.97)**	**6.35**	**(13.14)**
Depreciation	(0.73)	3.68	(0.7)	(27.27)	(0.97)
Operating profit / (loss) before interest and tax	**(20.87)**	**42.26**	**(14.67)**	**4.04**	**(14.1)**
Subsidy from GoP on sale of electricity	9.99	47.78	6.76	10.17	6.13
Amortization of deferred credit	0.48	9.5	0.44	7.97	0.41
Misc. / other income	2.66	477.28	0.46	(76.11)	1.93
Total other income	**13.13**	**71.49**	**7.66**	**(9.61)**	**8.47**
provision for doubtful debts	(1.69)	15.34	(1.47)	(89.11)	(13.49)
Net profit / (loss) before interest and tax	**(9.44)**	**11.22**	**(8.48)**	**(55.62)**	**(19.12)**
Financial income / expenses – net	(0.01)	(99.55)	(1.74)	(33.69)	(2.62)
Net profit / (loss) before taxation	(9.44)	(7.6)	(10.22)	(52.98)	(21.74)
Taxation	-	-	-	-	-
Net profit / (loss) after taxation	**(9.44)**	**(7.6)**	**(10.22)**	**(52.98)**	**(21.74)**

(Source: Annual accounts of SEPCO)

17.2.4 Accumulation of Heavy Losses

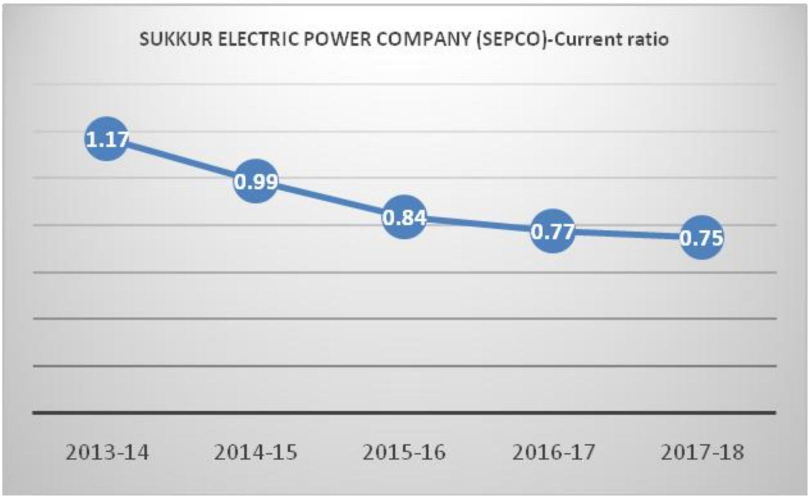
The Company suffered a net loss of Rs 21.74 billion during the year 2015-16, which declined to Rs 10.22 billion in 2016-17 and further reduced to Rs.9.44 billion in 2017-18 showing a decreasing trend of 52.98% in 2016-17and 7.60% in 2017-18. Due to continuous trend of incurring net losses on yearly basis resulted in accumulation of losses of the Company to the tune of Rs.100.28 billion million up to the year ended June 30, 2018. This cast a significant doubt about the Company’s ability to continue as going concern.

17.2.5 Deteriorated Liquidity Position

The current ratio of the Company declined from 1.17:1 in 2013-14 to 0.75:1 in 2017-18 showing a decline by 36.11%. Furthermore, the current liabilities exceeded current assets byRs.41.019 billion as on June 30, 2018 as detailed below:

	2013-14	2014-15	2015-16	2016-17	2017-18
Current Assets	82.494	95.957	103.303	101.678	121.073
Current Liabilities	70.56	97.271	123.472	131.496	162.092
Current ratio	**1.17**	**0.99**	**0.84**	**0.77**	**0.75**

The graphical representation of current ratio showing the decline from 1.17:1 to 0.75:1 in 2013-14 to 2017-18 as under:



17.2.6 Imbalance in Sales and Cost of Sales

The sales of the Company slowly increased from Rs.27.29 billion in 2015-16 to Rs.28.85 billion: 2016-17 and Rs.31.14 billion in 2017-18 showing an increase of 5.74% in 2015-16 and 7.92% in 2017-18, whereas cost of sales of the Company rose to Rs.46.43 billion in 2017-18 from Rs.37.23 billion in 2016-17 registering an increase of 24.70%. This resulted in Gross loss of Rs.15.29 billion in 2017-18 as against Rs.8.38 billion in 2016-17 showing an abnormal increase of 82.48%.The above imbalance means that the Company was unable to recover even its cost of electricity purchased from CPPA despite subsidy provided by GoP, which is very alarming.

17.2.7 Long Outstanding Trade and Other Receivables

Trade and other receivables of the Company rose to Rs.115.616 billion in 2017-18 as against Rs.78.216 billion in 2013-14 registering an increase of Rs.37.40 billion and by 47.82%. Further, an amount of Rs.22.533 billion was receivable from Government of Pakistan against tariff differential subsidy in 2017-18 and Rs.7.396 billion was also receivable from other associated undertakings. The detailed analysis of increase in trade and other receivables is as under:

Analysis of trade and other receivables					
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Trade Debts	46.101	54.783	60.063	57.424	67.64
Other Receivables	17.063	19.838	16.42	15.009	18.047
Due from Govt. as subsidy differential	15.052	14.196	18.457	19.766	22.533
Due from other associated undertakings	0	3.562	4.078	4.894	7.396
Total receivables	**78.216**	**92.379**	**99.018**	**97.093**	**115.616**

Huge balance of receivables depicts the poor recovery efforts of the Company, which needed serious attention as the liquidity position of the Company is continuously deteriorating.

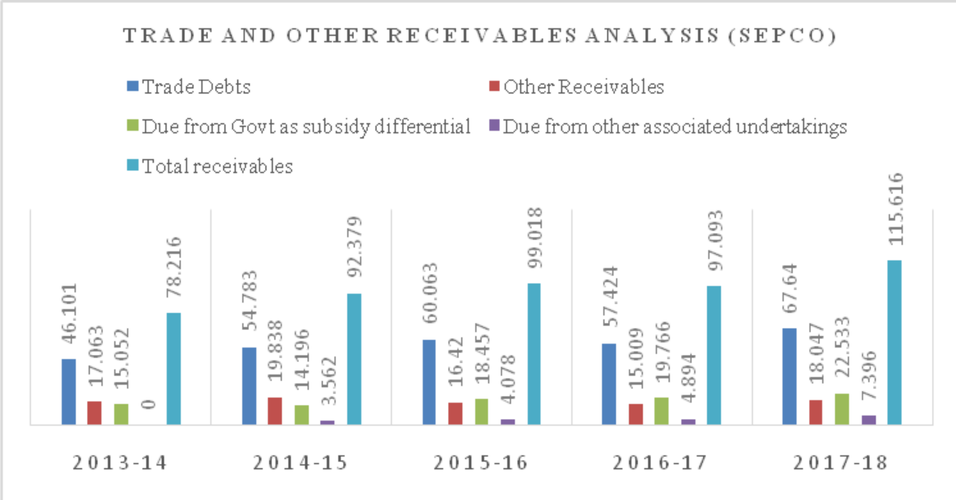
Aging of Trade debts as on 30.06.2018 shows that Government has to pay Rs.6.404 billion to SEPCO out of which Rs.3.759 billion are pending over three years. In order to stream line the Company's cash flows these debts may be immediately paid to SEPCO.

Private Sector Receivables' status is also very alarming. As on 30.06.2018, Rs.84.324 billion are stuck with private customers. An alarming point to note is receivables from active consumers which are Rs.70.968 out which 61.632 billion are recoverable for over three years. Justification is needed for non-recovery of dues from active consumers for last three years.

	6 Months to one year	**Over 1 Year**	**Over 3 Year**	**Total**
Government				
Active	1,836.71	1,712.64	3,015.98	5,649.73
Disconnected	1.91	8.93	743.46	754.30
Total	**1,838.62**	**1,721.57**	**3,759.44**	**6,404.03**
Other Private				
Active	785.68	5,218.00	61,631.70	**70,967.58**
Disc.	57.08	822.83	12,500.42	**13,356.87**
Total Private	**842.76**	**6,040.83**	**74,132.12**	**84,324.45**
Total - Debtors	**2,681.38**	**7,762.40**	**77,891.56**	**90,728.48**

Special attention is needed to recover the private sector trade debts. Non-collection from trade debts contribute to building up of circular debt. Huge balance of receivables depicts the poor recovery efforts of the Company, which needed justification.

The graphical presentation of the above analysis is as under:

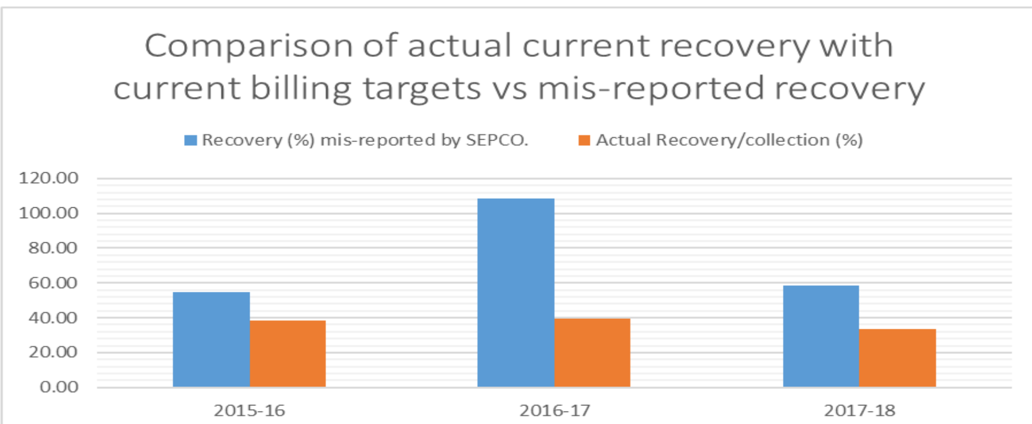


17.2.8 Declining Trend of Recovery (%)

The recovery position of billed amount to consumers showed a decreasing trend over the years as detailed below:

Year	Billing (Rs. in million)	Collection (Rs. in million)			%age of current Recovery
		Current year recovery	Recovery of arrears from defaulters	Total Recovery	
2015-16	36,209	13,978	5,865	19,843	38.60
2016-17	35,961	14,250	24,702	38,952	39.63
2017-18	42,203	14,104	10,695	24,799	33.42

	2015-16	2016-17	2017-18
Recovery (%) mis-reported by SEPCO.	54.80	108.32	58.76
Actual Recovery/collection (%)	38.6	39.63	33.42

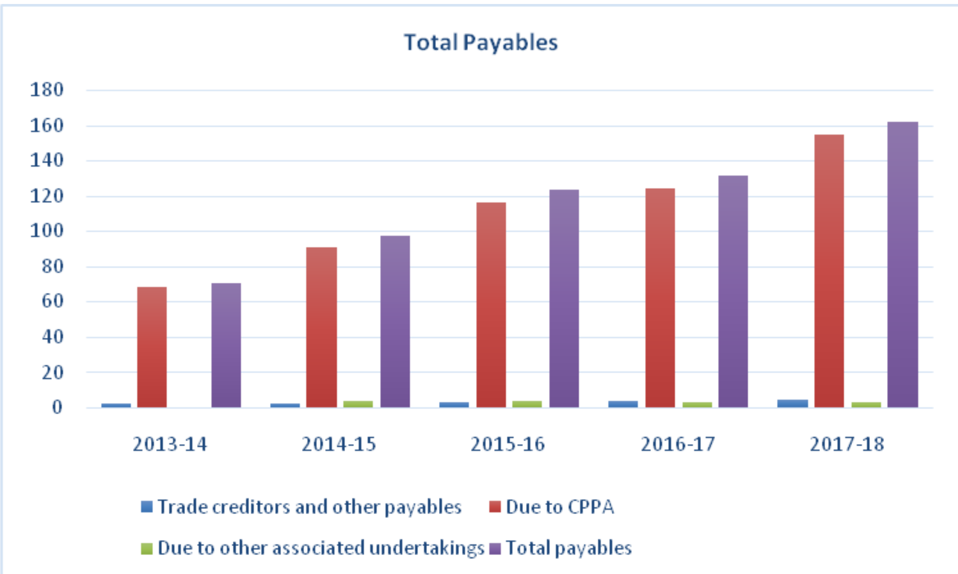


The above data clearly indicated that the recovery position over the years is not satisfactory which needs to be addressed. It is elaborated that the total amount recovered by the Company included arrears of previous years and recovery of current billing which is mis-matched with current year billings in order to calculate the achievement of 100% targets set by NEPRA. But due to additions of previous period arrears, actual recovery target achieved was overstated. This reporting mechanism is required to be re-addressed in order to show the factual recovery position.

17.2.9 Non-Clearance of Trade and Other Payables

Trade and other Payables of the company increased by 129.70% from Rs.70.560 billion in 2013-14 to Rs.162.076 billion in 2017-18. Likewise, a huge amount was due to CPPA, which rose to Rs 154.965 billion in 2017-18 from Rs 68.416 billion in 2013-14 registering an increase of 126.50%. This amount was payable to CPPA on account of purchase of electricity which indicated the weakness in repayment of short-term liabilities due to poor liquidity position of the company and it needed attention. The detailed analysis of payables is as under:

Analysis of trade and other payables					
	2013-14	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Trade creditors and other payables	2.144	2.642	3.148	3.991	4.297
Due to CPPA	68.416	90.567	116.285	124.203	154.965
Due to other associated undertakings	0	4.047	4.023	3.285	2.814
Total payables	**70.56**	**97.256**	**123.456**	**131.479**	**162.076**



17.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
SEPCO	2016-17	01	-	**21** (Para No. 4.1.1 to 4.1.5, 4.1.8, 4.1.13 to 4.1.15, 4.1.17 to 4.1.23, 4.1.25, 4.1.26, 4.1.29, 4.1.30, 4.1.34)	

Position of compliance with PAC directives is not satisfactory.

17.4 AUDIT PARAS

17.4.1 Loss due to flat rate billing to the Provincial Govt. connections – Rs.7,257 million

As per ECC decision dated 25.11.2016, the billing from August, 2016, GoS would pay energy charges to SEPCO on the basis of average agreed billing for Rs.555.82 million per month till installation of AMR/AMI.

In SEPCO Sukkur, 15693 connections of Government of Sindh were running under the operational jurisdiction of company with the sanctioned load of 221.87 MKwh. Whereas, the numbers of connection at the time of agreement (MoU) were 15422 with sanctioned load of 209.92 MKwh. Despite the increase in number of connections, the billing to GoS was made as per MoU (Rs.555.82 million / month) which resulted into loss of Rs.7,257 million to the Company.

Non-adherence to the ECC decision resulted in loss to the tune of Rs.7,257 million due to flat rate of billing to government of Sindh up to the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in December, 2018. The management replied that as per MoU and resolution of outstanding billing issues between GoS and SEPCO, the matter was submitted to the ECC of cabinet and it was decided that average billing for the period July 2010 to July 2016 be carried out @ Rs.555.82 million per month till installation of AMR meters. The reply was not tenable as the billing was made on the basis of consumption @ 209.92 MKwh instead of updating basis of consumption @ 221.87 MKwh.

The DAC in its meeting held on December 20-21, 2018 directed the management to get revise MoU and recover the difference of consumption from Sindh Government. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1299/2018-19)

17.4.2 Loss due to Procurement of Substandard Power Transformer - Rs.1,356.00 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

In GSO SEPCO Sukkur, 03 PEL Make Power Transformers 132/11KV 31.5/40MVA Power were procured in 2011 by PMU SEPCO for 132 KV Grid Station. Dadu, Arain Road, Sukkur and Shikarpur. These Transformers were commissioned in 09/2012, 06/2012 and 11/2012 respectively. But the annual test result in 2016 of the above transformers was found unsatisfactory and above permissible limit just after lapse of three years. The problem highlighted in test results mostly related to low insulation resistance which was violation of contractual obligations. Hence defective purchase was made resulting in loss to the company to the same extent.

Non-adherence to above instructions resulted in loss due to procurement of substandard power transformer Rs.1,356.00 million during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that transformers were working satisfactory after installation and no problem occurred since commissioning. The reply was not acceptable as the insulation test results were unsatisfactory.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the defective procurement besides fixing responsibility.

(Draft Para No. 256/2018-19)

17.4.3 Non-adjustment of advance paid for custom duties and taxes – Rs.134.25 million

According to Clause-9.2.5 of WAPDA Accounting and Financial Reporting Manual “employees taking advance shall complete the employee expense work sheet to document their expenses within 15 days of the scheduled advance and date and submit to respective immediate head of accounting unit for processing".

In PMU SEPCO Sukkur, an amount of Rs.134.25 million was paid to HESCO in April, 2018 for clearance of custom duties and taxes through CRRK, Karachi. No adjustment account of expenditure actually incurred for clearance of material was provided to SEPCO.

Non-adherence to rules resulted in non-adjustment of advance amounting to Rs.134.25 million paid for custom duties and taxes to HESCO up to the financial year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management replied that concerned formation was requested to provide the relevant document / adjustment. The reply was not tenable as result of efforts for adjustment of amount was not made known to Audit.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the matter and got verified within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to pursue the matter with HESCO authorities vigorously.

(Draft Para No. 736/2018-19)

17.4.4 Irregular supply of electricity to illegal Housing Schemes / Plazas / Complexes – Rs.41.30 million

The Honorable High Court of Sindh Bench at Sukkur in his decision dated "Utility companies agencies are directed to disconnect their respective supplies in respect of all such illegal buildings which have been built /constructed without the approved building plan, if any such request is made by Sindh Building Control Authority.

In the Operation Circle Sukkur SEPCO, fifty nine (59) unapproved / illegally constructed buildings was referred by the Authority to SEPCO for implementation of the decision of the Honorable Court, but the above decision was not implemented and supply of electricity to illegal buildings remained intact the estimated cost of those connections was Rs.41.30 million.

Non-implementation of Sindh High Court decision resulted in irregular supply of electricity to illegal Housing Schemes / Plazas / Complexes amounting to Rs.41.30 million up to the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that the notices were issued to residential Plazas Complexes by the concerned XENs for regularization / sanction of connections through independent transformers.

The DAC in its meeting held on December 20-21, 2018 directed the management to investigate the matter at PEPCO level within one month under verification by Audit. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement the decision of Honorable Court besides fixing responsibility.

(Draft Para No. 563/2018-19)

17.4.5 Loss due to abnormal increase in AT&C losses - Rs.35.66 million

MD PEPCO on January 8, 2018 has directed all Chief Executive Officers (CEOs) of distribution companies (DISCOs) to prepare robust proposals for reducing the power distribution losses including, aggregate technical and commercial losses (AT&C), immediately. Moreover, it was also directed that progress of DISCOs would be monitored in monthly review meetings. Failure to improve reasonably well might entail extreme measures under applicable rules/law including Efficiency and Discipline (E&D) Rules 1978, Electricity Act and NAB Ordinance if needed.

In Operation Dadu Circle SEPCO, AT&C losses of all operation divisions remained in between the range of 58.4% to 72.9% during the Financial Year 2017-18 whereas it was in the range of 59.5% to 77% in the year 2016-17. Such a huge substantial increase in AT&C losses shows the weakness of internal control regarding control over technical and commercial losses of Rs.35.66 million in respect of Dadu Circle. But no action was taken against those responsible.

Non-adherence to MD PEPCO directives resulted in loss of Rs.35.66 million due to abnormal increase in AT&C losses during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that remedial measures were taken to reduce AT&C loss of electricity. Progressive AT&C losses were decreased from 69.3% to 68.6%. The reply was not acceptable as the percentage of AT&C losses was still on abnormally higher side.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that management needs to investigate the matter for fixing responsibility besides ensure the extreme measures as directed by MD PEPCO.

(Draft Para No. 690/2018-19)

17.4.6 Wasteful expenditure on installation of Aerial Bundle Cable (ABC) - Rs.15.54 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In SEPCO, an inquiry was conducted in May, 2018 to finalize the pending claims for damaging of Aerial Bundled Cable (ABC) of the contractor M/s Sheikh Abdul Rehman & Co. amounting to Rs.15.54 million. As per findings of inquiry report, the staff of concerned sub-divisions was responsible for direct hooking and rupturing of the expensive ABC System. Due to damage of the ABC System, the envisaged benefits could not be achieved and expenditure incurred on replacement of bared LT conductor gone waste for which no responsibility was fixed.

Non-adherence to Authority's instructions resulted in wasteful expenditure of Rs.15.54 million installation of ABC up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management replied that revised reply would be submitted to Audit in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply and investigate the matter through Ministry of Energy (Power Division) within one month. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1094/2018-19)

17.4.7 Blockage of funds due to non-lifting of repaired power transformer - Rs.12.59 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In GSO SEPCO Sukkur, 30/37.5 MVA (ELTA Make) Power Transformer at 132 KV Grid Station Larkana (New) was replaced with the damaged transformer. The damaged transformer was shifted to PTESU for repair after paying advance Rs.0.875 million as repair charges and inspection charges Rs.0.434 million. PTESU repaired the transformer and served the bill of remaining repair charges amounting to Rs.1.72 million in 11/2017 with the request to lift the transformer from workshop but the same was not done causing blockage of authority's funds amounting to Rs.12.59 million.

Non-adherence to store manual resulted in blockage of authority's funds amounting to Rs.12.59 million due to non-lifting of repaired power transformer up to the Financial Year 2017-2018.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that a noting was approved for shifting of subject Power Transformer from PTESU to SEPCO territory. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to inquire into the matter at CEO level and fix responsibility for inordinate delay in shifting of transformers under verification by Audit within fortnight. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 262/2018-19)

17.4.8 Loss due to penalty imposed by NEPRA on account of poor performance of the Company – Rs.6 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores,

shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In SEPCO, a penalty of Rs.6 million was imposed on the Company by NEPRA on account of provision of incorrect information regarding number of complaints / interruption, failing to maintain required voltage level, restoration of power supply within prescribed time frame and removing system constraints. No responsibility of this poor performance was fixed.

Non-adherence to Authority's instructions resulted in loss of Rs.6 million due to penalty imposed by NEPRA on account of poor performance of the Company during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management stated that matter was taken up with NEPRA against imposition of penalty. The reply was not tenable as no action was taken against the employees who were responsible to provide incorrect information to the Regulator.

The DAC in its meeting held on December 20-21, 2018 directed the management to pursue the matter with NEPRA and decision be shared with Audit. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 1467/2018-19)

17.4.9 Non-surrender of funds received against "not workable" village schemes - Rs.2.42 million

According to Para-4 guidelines for implementation of the Prime Minister's Global SDGs Achievement Program issued by Cabinet Division, Islamabad dated October 10, 2016 "The competent forum while approving the proposal would certify that the scheme (s) is/are feasible, in public interest and no other agency has undertaken or is undertaking the same scheme in the area.

In Construction Circle SEPCO Larkana, funds amounting to Rs.60.31 million were released by Provincial Govt. against 54 village electrification schemes under the constituency PS-22 of Abdul Sattar Rajpar. Out of these, 04 schemes having estimated cost Rs 2.42 million were declared "not workable schemes" after release of funds. As such the funds allocated to these schemes were required to be refunded but the same was not done

Non-adherence to Cabinet Division guidelines resulted in non-surrender of released funds of non-workable electrification schemes amounting to Rs.2.42 million during the Financial Year 2017-18.

The matter was taken up with the management July, 2018 and reported to the Ministry in November, 2018. The management replied that funds were required to be surrendered in case of assignment accounts. Funds were released by Provincial Government for village electrification without proper proposal and funds were utilized after the receipt of approved schemes. Remaining funds would be utilized after getting approved schemes. The reply was not acceptable as the instructions of the Cabinet Division had not been adhered to.

The DAC in its meeting held on December 20-21, 2018 directed the management to investigate the matter to fix responsibility at CEO level within one month and report be provided to Audit. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 284/2018-19)

17.4.10 Undue favour to consumer due to non-provision of capacitor in estimates for new industrial connections - Rs.1.92 million

In transmission /distribution line only the active component of the current is useful. When PF is low the active component is small but reactive component is large means large voltage drop. So, large supply of current is required for the same amount of active current. Low Power Factor requires additional equipment for regulation to keep the voltage drop within prescribed limit. A capacitor is a static source of reactive power. Electric utilities usually are bound to maintain the voltage at customer's terminals within prescribed limits. They have to incur additional capital cost of tap changing gear on transformer. So the electricity authorities penalize the industrial customer for their low power factor (PF) by charging increased tariff for maximum KVA demand in addition to the KW demand. So it is advantageous for the customer to improve his own load PF.

In Operation Circle Sukkur SEPCO, sixty four (64) industrial consumers connection estimates were sanctioned but LT capacitors were not provided in the respective estimates due to which the authority not only had to sustain a loss of Rs.1.92 million

Non-adherence to rehabilitation guidelines resulted in heavy loss of Rs.1.92 million due to weak operational management during the Financial Year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that revised reply would be submitted to Audit in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply and recover the amount within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter of non-provision of capacitors to industrial connections besides fixing responsibility upon the persons at fault.

(Draft Para No. 629/2018-19)

17.4.11 Loss due to bogus credit adjustments – Rs.1.75 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In SEPCO, forty (40) credit adjustments amounting to Rs.1.75 million were found bogus / fictitious which were added in CP-80 below the signature RO, XEN, DCM and S.E. An inquiry was conducted in March, 2015 by Manager (S&I) SEPCO who concluded that three (03) Data Entry Operators of Computer Centre, Larkana were responsible for these adjustments. No action was taken against the concerned officials and the resultant loss remained unrecovered.

Non-adherence to Authority's instructions resulted in loss of Rs.1.75 million due to bogus credit adjustments up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management stated that disciplinary action against the responsible was under process.

The DAC in its meeting held on December 20-21, 2018 directed the management that action taken be shared with Audit within 15 days, otherwise the case may be referred to Ministry of Energy (Power Division) for administrative/criminal action. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1158/2018-19)

17.4.12 Loss due to unjustified drawl of POL against off road vehicle - Rs.0.32 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In SEPCO, POL amounting to Rs.0.32 million was drawn by staff of old Sukkur Sub-Division against an off road vehicle which caused loss to the stated extent. No departmental inquiry was constituted to fix the responsibility of loss and making good the loss.

Non-adherence to Authority's instructions resulted in loss of Rs.0.32 million due to unjustified drawl of POL against off road vehicle up to the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in November, 2018. The management replied that revised reply would be submitted to Audit in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply and loss be made good within 15 days. Further progress was not reported till finalization of the report.

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

(Draft Para No. 1097/2018-19)

17.4.13 Undue benefit to the consumer on account of installation of B-I connections - Rs.0.23 million

According to Authority's instructions issued vide letter dated November 21, 2006, "industrial connections having load up to 10 HP (7.46-KW) can be given from the existing transformer, if the required load is available but the transformer will not be augmented to give such connection"

In M&T SEPCO Sukkur, an industrial consumer having load of more than 7.46 K.W. (B-I tariff) were given connections from the existing general duty distribution transformer. This was done in order to give undue benefit to the consumer and avoid installation of 50 KVA independent transformer.

Non-adherence to Authority's instructions resulted in loss of Rs.0.23 million due to non-installation of independent transformers up to the Financial Year 2017-18.

The matter was taken up with the management on July, 2018 and reported to the Ministry in November, 2018. The management stated that revised reply would be submitted in due course of time.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply and get verified the record within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding violation of SOP besides fixing responsibility.

(Draft Para No. 273/2017-18)

CHAPTER-18

TRIBAL AREAS ELECTRIC SUPPLY COMPANY (TESCO)

18. TRIBAL AREAS ELECTRIC SUPPLY COMPANY (TESCO)

18.1 Introduction

Tribal Areas Electric Supply Company (TESCO) is a subsidiary of PEPCO. The Company was incorporated on July 03, 2002 as a public limited company under Companies Ordinance 1984 (now Companies Act 2017). The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company purchases electricity from CPPA through NTDC system and sells it to the consumers of FATA.

The operational activities are performed through one Operation Circle, one Construction Division and one SS&TL Division.

18.2 Comments on Financial Statements

18.2.1 Objective of Financial Analysis

The objective of analysis of TESCO's financial statement is basically to assess the financial health of the Company to bear its operational costs and indicate the factors contributing the piling up of huge circular debt.

For this purpose the horizontal and vertical, trend analysis of Company's financials have been conducted. Critical factors affecting the financial statements have also been highlighted.

18.2.2 Horizontal Analysis of Financial Statement

Horizontal analysis (also known as trend analysis) is a financial statement analysis technique that shows changes in the amounts of corresponding financial statement items over a period of time. The statements for two or more periods are used in horizontal analysis.

18.2.3 Profit and Loss Account

For the year ended 30 June 2016 to 2018

(Rs. in billions)

	2016	%age Inc/(Dec)	2017	%age Inc/(Dec)	2018
Revenue:					
Sale of electricity	11.665	7.190	12.504	22.313	15.294
Subsidy from Government on sale of electricity	5.378	17.962	6.344	9.158	6.925

	17.043	10.585	18.847	17.896	22.220
Cost of electricity	11.270	22.803	13.840	19.501	16.539
Gross Profit	**5.773**	**(13.268)**	**5.007**	**13.461**	**5.681**
Operating expenses excluding depreciation	5.618	(24.475)	4.243	15.225	4.889
Operating Profit before depreciation, interest and tax	**0.155**	**392.903**	**0.764**	**3.665**	**0.792**
Depreciation	0.208	9.615	0.228	4.825	0.239
Operating (loss)/profit before interest and tax	**(0.053)**	**(1,111.320)**	**0.536**	**3.172**	**0.553**
Other Income					
Interest income	0.092	(27.174)	0.067	(20.895)	0.053
Rental and service income	0.001	16,200.000	0.163	(6.748)	0.152
Amortization of deferred credit	0.149	42.953	0.213	4.695	0.223
Misc. income	0.081	220.987	0.260	(99.231)	0.002
Total Other Income	*0.324*	*117.284*	*0.704*	*(38.778)*	*0.431*
Net Profit / (Loss) before interest and tax	**0.270**	**359.259**	**1.240**	**(20.565)**	**0.985**
Financial Charges	0.038	(2.632)	0.037	(18.919)	0.030
Net Profit / (Loss) before tax	**0.232**	**418.534**	**1.203**	**(20.698)**	**0.954**
Taxation	0.000		0.000		0.000
Net Profit / (Loss) after tax	**0.232**	**418.534**	**1.203**	**(20.698)**	**0.954**

Source:-Audited Financial Statements for the year ended 30 June 2017 & Un-audited Accounts for the year ended June 30, 2018.

18.2.4 Balance Sheet
As at 30 June, 2016 to 2018

(Rs. in billions)

	2016	% age Inc/(Dec)	2017	% age Inc/(Dec)	2018
ASSETS					
NON CURRENT ASSETS					
Property, plant and equipment	6.540	15.718	7.568	(20.652)	6.005
Long term equipment	0.003	(33.334)	0.002	-	0.002
Total Non-Current Assets	**6.543**	**15.696**	**7.570**	**(20.660)**	**6.006**
CURRENT ASSETS					
Stores and spares	0.477	56.184	0.745	5.100	0.783
Trade debts	35.348	(8.815)	32.232	10.955	35.763
Advances and other receivables	2.100	281.810	8.018	(38.888)	4.900
Interest accrued	0.004	(75.000)	0.001	100.000	0.002
Receivable from Government	19.154	6.072	20.317	8.584	22.061
Total Receivables	***56.607***	**6.996**	***60.567***	**3.565**	***62.726***
Cash and bank balances	2.895	(27.392)	2.102	34.682	2.831
Total Current Assets	**59.979**	**5.728**	**63.415**	**4.613**	**66.340**
TOTAL ASSETS	**66.522**	**6.709**	**70.985**	**1.919**	**72.347**
EQUITY AND LIABILITY					
SHARE CAPITAL AND RESERVES					
Authorized: 20,000,000 ordinary shares of Rs. 10/- each	0.200	0.000	0.200	0.000	0.200
Issued, subscribed and paid up share capital	0.000	0.000	0.000	900.000	0.000
Deposit for share	0.255	0.000	0.255	0.000	0.255

Accumulated loss	(33.249)	(3.618)	(32.046)	(2.980)	(31.091)
Total Share Capital and Reserves	**(32.994)**	**(3.646)**	**(31.791)**	**3.004**	**(30.836)**
NON CURRENT LIABILITIES					
Long term loan from Government (Grant in aid)	19.233	0.000	19.233	0.000	19.233
Long term loans	0.233	(5.579)	0.220	(5.909)	0.207
Deferred credits	2.976	2.252	3.043	1.807	3.098
Total Non-Current Liabilities	**22.443**	**0.241**	**22.497**	**0.183**	**22.538**
CURRENT LIABILITIES					
Consumers' security deposits	0.115	33.913	0.154	68.182	0.259
Current portion of long term loans	0.233	5.579	0.246	5.285	0.259
Trade and other liabilities	76.726	4.108	79.878	0.312	80.127
Total Current Liabilities	**77.073**	4.159	**80.279**	0.456	**80.645**
Total Liabilities	**99.516**	**3.275**	**102.775**	**0.397**	**103.183**
TOTAL EQUITIES AND LIABILITIES	**66.522**	**6.709**	**70.985**	**1.919**	**72.347**

Source:-Audited Financial Statements for the year ended 30 June 2017 & Un-audited Accounts for the year ended June 30, 2018.

18.2.5 Huge accumulated loss sustained By Company

The financial statements of the company as June 30, 2018 shows that the Company has suffered accumulated loss of Rs.31.091 billion up to June 30, 2018 which has turned equity of the Company into negative and its current liabilities exceeded its current assets. Payable of the Company stood at Rs.80.127 billion (as on June 30, 2018) in shape of circular debt to be ultimately born by the public exchequer through government bailout.

18.2.6 Gap between Cost and Sales Revenues

Revenues from Sale of Electricity have increased by 17.89% from 2017 to 2018 and 10.58% from 2016 to 2017 whereas the cost of electricity has increased at higher rate i.e. 19.50% from 2017 to 2018 and 22.80% from 2016 to 2017. This increasing trend in revenues and cost do not supplement each other. Increasing trend in sale of electricity shows that there might be higher recovery from defaulters or lower transmission losses or control on theft of electricity.

Increase in cost was due to 9.43% and 22.43% increase in avg. purchase rate for the 2016 to 2017 and 2017 to 2018 respectively whereas avg. rate of units sold was increased by 2.87% from the year 2016 to 2017 and decreased by 2.44% during the year 2017 to 2018. This un-even increases in tariff rates has also contributed to huge gap between sales revenues and cost of electricity.

(Rs. in million)

	2018 Provisional	**%age Inc/(Dec)**	**2017**	**%age Inc/(Dec)**	**2016**
Sale of Electricity	15,294.40	22.32	12,503.56	7.19	11,664.88
Units Sold (Million KWH)	1,481.00	20.70	1,227.00	1.49	1,209.00

Avg. rate (Rs per KWH)	11.18	(2.44)	11.46	2.87	11.14
Cost of Electricity	16,538.68	19.50	13,839.83	22.80	11,270.44
Unit Purchased (Million KWH)	1,695.83	17.03	1,449.10	14.19	1269.00
Avg. rate (Rs per KWH)	11.79	22.43	9.63	9.43	8.80

Source:-Audited Financial Statements for the year ended 30 June 2017 & Un-audited Accounts for the year ended June 30, 2018.

18.2.7 Heavy HR Cost, Bad Debts and Other Extra-Ordinary Charges

Major operating expenses are salaries and wages (11.43% to 16.45%), bad debts (3.07% to 32.87%), wheeling charges by PESCO (28.87% to 43.21%) and other charges of PEPCO (21.08% to 32.74%) during the year 2016 to 2018. Overall percentage of these expenses are 93% to 93.43% during the year 2017 to 2018. TESCO needs to rationalize its human resources and make efforts to enhance recovery of doubtful debts.

(Rs. in million)

	2016	**%age of total opex**	**2017**	**%age of total opex**	**2018 Provisional**	**%age of total opex**
Salaries, wages and other benefits	665.52	11.43	735.62	16.45	831.66	16.21
Bad Debts	0.00	0.00	1,469.76	32.87	157.30	3.07
Wheeling Charges by PESCO	1,682.13	28.87	1,931.75	43.21	2,125.38	41.45
Other Charges to PEPCO	0.00	0.00	21.08	0.47	1,678.52	32.74
Sub-Total	**2,347.65**	**40.30**	**4,158.21**	**93.00**	**4,792.86**	**93.47**
Other operating expenses	3,478.47	59.70	313.17	7.00	334.69	6.53
Total Operating Expenses	**5,826.12**	**100**	**4,471.38**	**100**	**5,127.55**	**100**

Source:-Audited Financial Statements for the year ended 30 June 2017 & Un-audited Accounts for the year ended June 30, 2018.

18.2.8 Heavy Funds stuck in Trade debts

Trade Debts against sale of electricity has increased to Rs 35.763 billion in 2018 as compared to Rs 32.231 billion in 2017 showing an increase of 10.96% from 2017 to 2018.

(Rs. in billion)

Year	**2016**	**% age Inc/(dec)**	**2017**	**% age Inc/(dec)**	**2018**
Trade Debts against the sale of Electricity	35.348	(8.82)	32.232	10.96	35.763

Source:-Audited Financial Statements for the year ended 30 June 2017 & Un-audited Accounts for the year ended June 30, 2018.

As per PITC data, total trade debts which are receivable over six months in 2018 are Rs 38.507 billion out of which Rs 36.813 billion are related to private sector and Rs 1.694 billion to Government sector. In 2017 total trade debts receivable over six months were Rs.32.631 billion out of which Rs 31.364 billion were related to private sector and Rs 1.267 billion to Government sector.

(Rs. in millions)

		OVER 6 MONTHS & UPTO 1 YEAR		OVER 1 YEAR & UPTO 3 YEAR		ABOVE 3 YEARS		TOTAL	
		2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Government Consumers	Running	28.49	17.3	146.49	142.97	1484.71	1236.59	1659.69	1396.86
	Defaulters	0.18	0	0	0.14	34.73	30.66	34.91	30.8
Sub-Total		**28.67**	**17.3**	**146.49**	**143.11**	**1519.44**	**1267.25**	**1694.60**	**1427.66**
Commercial & Industrial	Running	73.55	100.36	277.56	256.28	5207.04	5141.62	5558.15	5498.26
	Defaulters	0.18	0	0.14	0.16	1031.1	991.02	1031.42	991.18
General Consumers	Running	1.47	1.68	13.46	12.85	29901.78	24932.72	29916.71	24947.25
	Defaulters	0.53	0	0	1.78	306.28	298.88	306.81	300.66
Sub-Total		**75.73**	**102.04**	**291.16**	**271.07**	**36446.21**	**31364.24**	**36813.09**	**31737.35**
TOTAL		**104.4**	**119.34**	**437.65**	**414.18**	**37965.65**	**32631.49**	**38507.69**	**33165.01**

Source: PITC Data

Age analysis of energy trade debtors as on 30 June 2018, shows that Rs.36.446 billion have been stuck in private sector debtors which are more than 3 years old and Rs 0.291 billion are blocked in private sector debtors which are over 1 year and upto 3 years old. Audit is of the view that one of major factors contributing in circular debt is non-recovery from trade debtors. It is recommended to recover these long outstanding debts immediately in order to improve the cash flows of the Company.

18.2.9 Heavy Provision for Doubtful Debts

Company has created heavy provision for its doubtful debts which is 17.61% of its debt in 2016, 22.14% in 2017 and 17.45% in 2018 which indicates the inefficiency towards collection of debts. The company is creating such provision to write off its receivables instead of making efforts to improve its recovery.

(Rs. in billion)

	2016 (Rs.)	Inc./(Dec.) %age 2016 to 2017	2017 (Rs.)	Inc./(Dec.) %age 2017 to 2018	2018 (Rs.) Provisional
Trade Debts (In Billion)	35.35	(8.82)	32.23	10.95	35.76
Provision for doubtful debts (In Billion)	6.22	14.79	7.14	(12.60)	6.24
%age of Trade Debt	17.61	25.73	22.14	(21.18)	17.45

Source:-Audited Financial Statements for the year ended 30 June 2017 & Un-audited Accounts for the year ended June 30, 2018.

18.2.10 Heavy CPPA Payables

CPPA Payables are Rs 19.551 billion in 2018 as compared to Rs 22.876 billion in 2017 and Rs 23.418 billion in 2016 showing decrease of 2.314% in 2017 and 14.535% decrease in 2018. Although there was decreasing trend from

2016 to 2018 yet there was a heavy amount payable to CPPA. Late-payment of CPPA's dues is a major cause of accumulation of circular debt.

(Rs. in billion)

	2016	Inc./(Dec.) %age 2017 to 2018	2017	Inc./(Dec.) %age 2017 to 2018	2018
CPPA PAYABLE	23.418	(2.314)	22.876	(14.535)	19.551

Source: Financial Statements for the years 2015-16 to 2017-18

18.2.11 Subsidy receivable from Government

A huge amount of Rs.22.061 billion is still receivable as on June 30, 2018 from government under the head of Tariff Deferential Subsidy. The liquidity position of the company can improve if the Government makes payment of TDS.

(Source: Note 10 of Un-audited Financial Statements for the year ended 30 June 2018)

18.2.12 Short Recoveries against Amount Billed

Recovery of amount billed by TESCO during FYs-2016-17 & 2017-18 against 100% target given by NEPRA has been analyzed as under:

(Rs in million)

Financial Year	Amount of Current Billing During the Year	Collection during the year			Short Fall of Recovery Against Current Billing	%age Of Recovery Against Current Billing	%age Of total Recovery shown during the year
		Against Current Billing	Against Arrear	Total			
1	*2*	3	4	5 (3+4)	6 (2-3)	7 (3/2*100)	8 (5/2*100)
2016-17	**14,697.35**	1,888.47	10,296.75	**12,185.22**	**12,808.88**	**12.85**	**82.91**
2017-18	**18,810.86**	2,844.72	9,685.85	**12,530.57**	**15,966.14**	**15.12**	**66.61**

(Source PITC Data)

Poor recovery %age of TESCO resulted in less recovery of revenue of Rs.12.81 billion during 2016-17 and Rs.15.97 billion in 2017-18. During 2016-17 TESCO's total recovery has been shown as 82.91% against NEPRA's target of 100%, whereas the recovery against current billing was only 12.85% and rest of recovery related to arrear. Likewise in 2017-18 the total recovery was shown as 66.61% but the actual recovery against current billing was 15.12%. Thus the percentage of the total recovery was not true representative of the billing during the respective financial years. Further, low percentage of recovery i.e. 12.85% & 15.12% against current billing during the years 2016-17 & 2017-18 was quite alarming which needs to be justified.

18.2.13 Vertical Trend Analysis

A vertical analysis is used to show the relative sizes of the different accounts on a financial statement. Here while doing the vertical analysis of Profit & Loss account Sale of Electricity has been taken as 100%, and every other head of Profit & Loss account has been shown as a percentage of the total sales number.

(Rs. in Billions)

	%age of Sales 2016	**%age of Sales 2017**	**%age of Sales 2018**
Revenue:			
Sale of electricity	68.45	66.34	68.83
Subsidy from Government on sale of electricity	31.55	33.66	31.17
Total Sales	**100.00**	**100.00**	**100.00**
Cost of electricity	66.13	73.44	74.43
Gross Profit	**33.87**	**26.57**	**25.57**
Operating expenses excluding depreciation	32.96	22.52	22.00
Operating Profit / (Loss) before depreciation, interest and tax	**0.91**	**4.05**	**3.56**
Depreciation	1.22	1.21	1.07
Operating Profit / (Loss) before interest and tax	**(0.31)**	**2.84**	**2.49**
Other Income			
Interest income	0.55	0.36	0.24
Rental and service income	0.001	0.86	0.68
Amortization of deferred credit	0.87	1.13	1.00
Misc. income	0.47	1.38	0.01
Total Other Income	*1.90*	*3.74*	*1.94*
Net Profit before interest and tax	**1.58**	**6.58**	**4.43**
Financial Charges	0.23	0.19	0.14
Net Profit before tax	**1.36**	**6.38**	**4.29**
Taxation	0.00	0.00	0.00
Net Profit after tax	**1.36**	**6.38**	**4.29**

Source:-Audited Financial Statements for the year ended 30 June 2017 & Un-audited Accounts for the year ended June 30, 2018.

Vertical analysis of profit and loss account of TESCO shows gross profit 33.87%, 26.57% and 25.57 % in 2016, 2017 and 2018 respectively. Operating expenses are 32.96%, 22.52% and 22% of sales in 2016, 2017 and 2018 respectively which reduce profit after tax indicating serious operational inefficiencies.

18.3 Brief comments on the status of compliance with PAC directives

Name of Company	**Year**	**No. of Directives**	**Status of compliance**		
			Full	**Partial**	**Outstanding**
TESCO	2016-17	01	-	**04** (Para No. 4.1.15, 4.1.18, 4.1.20, 4.1.21)	

Position of compliance with PAC directives is not satisfactory.

18.4 AUDIT PARAS

18.4.1 Accrued liability of PESCO's wheeling charges - Rs.2,125.38 million

According to Para 11.6 of NEPRA Tariff determination for the financial year 2017-18, "Authority has decided to allow the wheeling charges to TESCO on provisional basis."

In TESCO Peshawar, the company received debit advices of Rs.2,125.38 million on account of wheeling charges from PESCO. However, The company did not pay these charges despite accepting the debit advices. Resultantly, financial burden in shape of accrued liability of wheeling charges increased in the books of accounts of the company.

Non-adherence to Authority's instructions resulted in Accrued liability PESCO's wheeling charges for Rs.2,125.38 million during the Financial Year 2017-18.

The matter was taken up with the management in October, 2018 and reported to the Ministry in December, 2018. The management replied that due to financial crunch, TESCO was not in a position to pay accrued liabilities. However, efforts are being made to settle the liabilities against receivable.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply after detail examination and final payment. 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 strenuous efforts be made to clear the company's liability.

(Draft Para No. 1440/2018-19)

18.4.2 Irregular utilization of Deposit Works' Funds – Rs.1,044.10 million

According to Para 7.16.1 of NEPRA Tariff Determination for the year 2016-17, "the utilization of the money collected against deposit works and security deposits other than the works for which it has been received is illegal and unlawful."

In, TESCO Peshawar, deposit works' funds to the tune of Rs.1,044.10 million were utilized for payment to Federal Board of Revenue (FBR) on account of taxes and payment of bonus to employees, which was against the financial rules and violation of above NEPRA's directions.

Non-adherence to Authority's instructions resulted in irregular utilization of deposit works' funds of Rs.1,044.10 million up to the Financial Year 2017-18.

The matter was taken up with the management during October, 2018 and reported to the Ministry in December, 2018. The management replied that due to financial crunch in TESCO, funds from Deposit Works' Funds were utilized to FBR. Funds withdrawn from said account were recouped later on. The reply was not tenable as violation of NEPRA's direction was made.

The DAC in its meeting held on December 20-21, 2018 directed the management to take up the matter with the Ministry and to submit revised reply within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding violation of NEPRA's direction besides fixing responsibility.

(Draft Para No. 1334/2018-19)

18.4.3 Illegal and unlawful expenditure from security deposits - Rs.64.88 million

According to Para 7.16.1 of NEPRA Tariff Determination for the year 2016-17, "the utilization of the money collected against deposit works and security deposits other than the works for which it has been received is illegal and unlawful."

In TESCO, an amount of Rs.64.88 million were transferred from Security Deposits to GBA (General Bank Account). This amount was utilized on routine operational matters in violation of the directions of NEPRA.

Non-adherence to Authority's instructions resulted in illegal and unlawful expenditure from security deposits for Rs.64.88 million during the Financial Year 2017-18.

The matter was taken up with the management during May, 2018 and reported to the Ministry in December, 2018. The management replied that due to financial crunch in TESCO, funds from security deposit account were utilized to pay the salaries and pension to employees. Funds withdrawn from said account were recouped later on. The reply was not tenable as violation of NEPRA's direction was made.

The DAC in its meeting held on December 20-21, 2018 directed the management to take up the matter up to Ministry level and to submit revised reply within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding violation of NEPRA's direction besides fixing responsibility.

(Draft Para No. 1284/2018-19)

18.4.4 Non-initiation/finalization of departmental proceedings against TESCO employees involved in embezzlement - Rs.5.40 million

Ministry of Water and Power directed Chief Executive Officer, TESCO, Peshawar vide letter No.17(1)/2016 dated November 10, 2016 to immediately initiate departmental proceedings against the employees, who entered into Voluntary Return with NAB.

In TESCO, departmental proceedings were to be initiated against the employees, who were entered into voluntary return of Rs.5.40 million with NAB as evident dated March 6, 2018. In this regard, disciplinary cases were not yet finalized due to awaiting final decision of the Honorable Supreme Court of Pakistan as evident from Personal hearing of one of the accused dated May 17, 2018.

Non-adherence to Authority's instructions resulted in non initiation/finalization of departmental proceedings against TESCO employees involved in embezzlement of Rs.5.40 million up to the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in December, 2018. The management replied that employees who had entered into voluntary return with NAB had filed review appeal against the decision of Supreme Court which was still pending.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply along with detail of embezzlement within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to take action as per findings of departmental committee.

(Draft Para No. 1305/2018-19)

18.4.5 Less recovery of meter security and capital cost from Ice factories - Rs.4.30 million

According to Para 5.1 (a) Chapter-5 of consumer service manual "All service connection charges after sanction of a new connection, a demand notice for security deposit as per rate approved by NEPRA and other connection charges as per provision made in consumer eligibility criteria regulations shall be issued to the applicant for depositing the same in the designated bank branch".

In Operation Circle TESCO, five Ice factory consumers regularized their illegal connections without the recovery of capital cost and company sustained a huge loss worth Rs.4.30 million.

Non-adherence to the rules/regularizations of the authority resulted in less recovery of capital cost from the industrial consumers in the financial year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in November, 2018. The management replied that being Tribal area, the consumers were installed all the electrical equipment, at their own resources. However, connections were regularized, energy meters installed and notices for load extension served to consumers for payment. In the meantime, DCOs were also issued to recover outstanding dues. As Ice factory consumers were seasonal, therefore, all outstanding dues would be recovered in summer.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit revised reply along with latest position of within fifteen days. Further progress was not reported till finalization of the report.

Audit recommends that management needs to investigate the matter for fixing responsibility besides to ensure the recovery of losses from the consumers.

(Draft Para No. 529/2018-19)

CHAPTER-19

POWER INFORMATION TECHNOLOGY COMPANY (PITC)

19. POWER INFORMATION TECHNOLOGY COMPANY (PITC)

19.1 Introduction

Power Information Technology Company (PITC) started its operations as a Public Limited Company during June, 2010 and registered under Companies Ordinance 1984 (now Companies Act 2017). PITC is the leading power sector IT Company in Pakistan. The Company is headed by Chief Executive Officer appointed by BoD / PEPCO. It has four major units i.e. Operation & Customer Services, Engineering Solution Development, Research and Business Development. PITC is solely responsible for providing software support to ten (10) power distribution companies (DISCOs) of Pakistan and also provides technical consultancy to various subsidiaries of PEPCO and WAPDA.

19.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, "the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of financial year adopted by the company".

In PITC, the Profit & Loss account and Balance Sheet of the company for the Financial Year 2017-18 could not be finalized by the management up till December 31, 2018.

19.3 AUDIT PARAS

19.3.1 Irregular expenditure on account of Honoraria / Reward paid to the employees - Rs.11.02 million

According to bonus policy circulated by Ministry of Finance (GoP) vide No. F.3(5)R-12/80(R-14)/2002-154 dated. March, 18, 2002, the bonus would be paid to the employees of the autonomous/semi-autonomous/public sector corporations/organizations on the operational profit only excluding income from other sources. Moreover, no commitment of payment of bonus may be made during negotiation with the CBA.

In PITC Lahore, a huge amount worth Rs.11.02 million paid to the employees of company on account of honoraria / reward without any justification and adherence to criteria laid down for award of honoraria / reward. The company has sustained a huge loss in the financial year.

Non-adherence the rules/regulations of Authority resulted into loss of Rs.11.02 million on account of payment of honoraria to the company.

The matter was taken up with the management in July, 2018 and reported to the Ministry in November, 2018. The management replied that the payment of honoraria was made with the approval of BoD. The reply was not tenable as the criteria for granting honoraria / reward was violated.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit detailed reply along with KPIs and criteria for awarding honoraria. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 336/2018-19)

19.3.2 Un-authentic expenditure - Rs.4.58 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In the PITC Lahore, an amount of Rs.4.58 million was incurred on the maintenance & POL charges of the vehicles. Neither the relevant record was prepared by the management, nor produced to Audit. It was apprehended that company's funds were mis-appropriated.

Non-adherence the rules/regulations of Authority resulted in the loss of Rs.4.58 million on account of un-authentic expenditure during the Financial Year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in November, 2018. The management replied that log books alongwith other record was ready for verification. The reply was not tenable as no documentary evidence to substantiate the reply.

The DAC in its meeting held on December 20-21, 2018 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 that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 278/2018-19)

19.3.3 Un-justified payment to consultant as bonus - Rs.0.17 million

As per Finance Division (Admn & Regulations) WAPDA No. FO(B&F)/10-126/IND/VOL-21/684-783 dated. 30.09.2016 para 2 (e) the advisor, consultant and other, engaged on lump sum/special pay package are not entitled to the bonus.

In PITC Lahore, a huge amount of Rs.0.17 million was paid to consultant on account of bonus during the Financial Year. The payment of bonus to the consultant was unjustified.

Non-adherence the rules/regulations of Authority resulted in unjustified payment of Rs.0.17 million paid to the consultant as bonus during the Financial Year 2017-18.

The matter was taken up with the management in July, 2018 and reported to the Ministry in November, 2018. The management replied that bonus was given to the consultant with the approval of BoD. The reply was not agreed to as the consultant was not employees of the company.

The DAC in its meeting held on December 20-21, 2018 did not agree view point of the management and directed to recover the amount of bonus from the consultant. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

(Draft Para No. 279/2018-19)

CHAPTER-20

CENTRAL POWER PURCHASING AGENCY GURANTEED (CPPA(G))

20. CENTRAL POWER PURCHASING AGENCY GURANTEED (CPPA(G))

20.1 Introduction

Central Power Purchasing Agency (CPPA) is a Company incorporated under Companies Ordinance 1984 (now Companies Act 2017) and wholly owned by the Government of Pakistan. The Company has assumed the business of National Transmission and Despatch Company pertaining to the market operations and presently functioning as the Market Operator since June, 2015.

The Company is currently performing eight major functions segregated into six core and two support functions. The core functions include (i) billing and settlement (ii) power procurement on behalf of DISCOs (iii) financing (iv) legal and corporate affairs (v) strategy and market development (vi) monitoring and coordination. The support functions include (vii) human resource management and (viii) information technology. The Company is also involved in treasury management and other relevant banking functions for the purposes of collection and disbursement as per the Commercial Code.

20.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, “the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of financial year adopted by the company”.

In CPPA(G), the Profit & Loss account and Balance Sheet of the company for the Financial Year 2017-18 could not be finalized by the management up till December 31, 2018.

20.3 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
CPPA-G	2016-17	01	-		**01** (Para No. 10.4.1)

Position of compliance with PAC directives is not satisfactory.

20.4 AUDIT PARAS

20.4.1 Non-recovery on account of sale of energy, markup and market fees from DISCOs - Rs.1,141,668.78 million

According to Schedule-I of Market Operations, "the operations and responsibilities to be performed and discharged by the market operator, shall include in accordance with the grid code and the commercial code:- (e) Collection from the DISCOs and settlement to the market participants as per the commercial code".

In CPPA(G), sale of energy and mark-up amounting to Rs.1,141,574 million and market fees of Rs.94.78 million was receivable from Distribution Companies (DISCOs). Non-recovery of such a huge amount also contributed adversely on company's financial position for payment to IPPs and ultimately piling up of circular debt for which CPPA had to obtain loans from PHPL.

Poor financial management resulted in non-recovery of Rs.1,141,668.78 million from DISCOs on account of sale of energy, markup and market fees up to the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that CPPA(G) was pursing constantly for recovery of receivables from DISCOs.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the efforts for recovery of receivable from the distribution companies under verification by Audit within fortnight. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 544/2018-19)

20.4.2 Unjustified acquisition of loans and imposition of surcharge to consumers – Rs.147,410 million

According to Section-8 (B) (iii) (d) of NEPRA Act-2018, "In performing its functions under this Act, the Authority shall protect interests of consumers and companies providing electric power services in accordance with the principles of transparency and impartiality".

In CPPA(G), an amount of Rs.990,341 million was paid to IPPs against power purchase invoices received during the financial year 2017-18. The substantial portion of the payment of Rs.842,930 million was directly received from DISCOs on account of billing & other charges and remaining amount of Rs.147,410 million were managed as loan through PHPL in the shape of three separate financing facilities from banks. The servicing of one loan facility i.e. Rs.80,000 million as well as the principal amount would be done through imposition of surcharge @ Rs.0.70/kWh from consumers being pass-through items in tariff, which was not justified.

Non-adherence to the Authority`s instructions resulted in unjustified acquisition of loans of Rs.147,410 million and imposition of surcharge to consumers during the financial year 2017-18.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding unjustified acquisition of loans and imposition of surcharge to consumers.

(Draft Para No. 1537/2018-19)

20.4.3 Non recovery/adjustment of markup on delayed payments from DISCOs and K-Electric – Rs.137,930 million

According to Schedule-I of Market Operations, "the operations and responsibilities to be performed and discharged by the market operator, shall include the following in accordance with the grid code and the commercial code:- (e) Collection from the DISCOs and settlement to the market participants as per the commercial code". According to the minutes of BoDs 38th meeting held on March 02, 2018, "Chief Legal Officer CPPA(G) will forthwith finalize a legal strategy against K-Electric for recovery of markup amounting to Rs.27.3 billion to be segregated between PPA period and post PPA period".

In CPPA(G), an amount of Rs.110,630 million was recoverable from DISCOs and K-Electric on account of mark-up on delayed payments. Moreover, mark-up on delayed payments amounting to Rs.27,300 million pertaining to the F.Y 2008-09 to 2015-16 was also recoverable from K-Electric. Neither the said amount was recovered / adjusted nor legal course of action taken. Non recovery of such a huge amount also contributed adversely on company`s financial position for payment to IPPs and ultimately piling up of circular debt for which CPPA had to obtain loans from PHPL.

Non-adherence to BoD`s instructions resulted in non recovery/adjustment of markup of Rs.137,930 million on delayed payments from DISCOs and K-Electric up to the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that matter was still subjudice. Hence, no further action could be taken till the final judgment of the Court.

The DAC in its meeting held on December 20-21, 2018 directed the management to pursue the case vigorously and inform Audit accordingly. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 509/2018-19)

20.4.4 Irregular payment to IPPs without standardized policy – Rs.53,333 million

According to the Section 9.8 (a) (I) of Power Purchase Agreement, the Power Purchaser shall pay the company the amount shown on the invoice delivered, less deductions for any disputed amounts or portions of amounts shown in the invoice, (f) payment received by either party shall be applied against outstanding invoices on the " first in, first out, principles. According to Ministry of Power Division's letter No. PF-05(06)2017-18 dated: 19th March, 2018 "to keep the system running, it is proposed that already approved amount of Rs.80 billion by the Economic Coordination Committee (ECC) of the cabinet for the purpose of rolling-off of existing facilities of (i) Rs.15.00 billion (ii) Rs.40.00 billion and (iii) Rs.25.00 billion.

In CPPA(G), a payment of Rs.53,334 million was disbursed among IPPs by applying weighted average method for making payments against IPPs' invoices during the year 2017-18. Moreover partial payments were made against some invoices in contravention to PPA. The application of weighted average method was not judicious as invoices pertaining to previous years were ignored and interest accrued on them was not paid. Moreover, the said method was hastily adopted on verbal orders without any formal approval. By adopting this method payment was made to Hamza Sugar Mills and Huaneny Shandong Ruye Energy whereby they received proportionately more payments than other IPPs. Furthermore, the disbursement was made without deduction of pending liquidated damages. Hence, payment of Rs.53,334 million to IPPs was made without observing any standardized policy and PPA provisions, which was irregular.

Non-adherence to PPA provision resulted in irregular payment of Rs.53,334 million to IPPs without standardized policy during the Financial Year 2017-18.

The matter was taken up with the management in April, 2018. The management replied that the payments to IPPs were made based on verified billing of each IPP by achieving the payment level of 79% of the billing. Invoices of the IPPs were cleared on FIFO basis. The payments made on the basis of aging would have resulted in non-payment to new entrants especially Coal based power plants causing default of CPEC projects. Moreover, there was no loss to the power generator as mark-up was paid on outstanding balances. The reply was not agreed to as 79% weighted average on current balances was worked out on verbal orders instead of written. Moreover, weighted average should have been worked out on aging of invoices rater than billing / payment ratio, which was irregular payment mechanism.

Audit recommends that the management needs to inquire the matter for fixing responsibility regarding irregular payments to IPPs without observing ECC directions and pre-audit checks.

(Draft Para No. 1535/2018-19)

20.4.5 Non-settlement of loan note receivable from NTDC - Rs.42,412.17 million

According to Article-III (3.11), "any assets, receivable or liability relating to the Market Operations required to implement the terms of this Agreement not known to NTDC and discovered by either Party after the date of closing but within a period of two (02) years thereof, shall be immediately transferred to CPPA. In case any such assets, receivable or liability relating to the Market Operations are discovered and transferred, it is expressly agreed between the Parties that the Purchase Price shall accordingly be adjusted in the manner provided in Clause-3.7.

In CPPA(G), purchase price of Rs.42,412.17 million was calculated on the basis of the actual book value of the market operations undertaking (excluding the transferred employees) between both parties but the settlement of such amounts was not made to date.

Non-adherence to BTA agreement resulted in non-settlement of loan note receivable of Rs.42,412.17 million from NTDC up to the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that CPPA(G) was pursing constantly for recovery of receivables from DISCOs.

The DAC in its meeting held on December 20-21, 2018 directed the management to expedite the efforts for recovery of receivable from the distribution companies under verification by Audit within fortnight. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

(Draft Para No. 545/2018-19)

20.4.6 Non-adjustment of advances given to GENCOs / IPPs - Rs.39,272.10 million

According to Clause-8.1 regarding Initial Settlement and Billing Procedures 8.1.1, "initially CPPA(G) shall follow the same procedures for settlement and billing, as followed by CPPA(G) of NTDC, for a transition period not longer than two years. At the end of that period new procedures described in Clauses-8.2 to 8.8 shall come into effect. The initial procedures are described in Clause-8.1 and 8.8.3 to 8.6 will also apply".

In CPPA(G), advances of Rs.39,272.10 million were paid to GENCOs / IPPs for procurement of fuel from Pakistan State Oil (PSO) but the said advances were not adjusted against the energy purchase invoices of the said Companies.

Non-adherence to PPA resulted in non-adjustment of advances of Rs.39,272.10 million given to GENCOs / IPPs up to the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in December, 2018. The management replied that advances of Rs.39.27 Billion have been adjusted vide Note 16.1 of the financial statements. The difference between Rs.40.658 and Rs.39.272 i.e. Rs.1.386 billion was the net payable to GENCOs. The reply was not acceptable as no documentary evidence was provided in support of reply.

The DAC in its meeting held on December 20-21, 2018 directed the management to get verified adjustment of advances given to the GENCOs from Audit within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1529/2018-19)

20.4.7 Unjustified payment for idle capacity of power plants – Rs.33,904 million

According to the Section-3.1(a) of Power Purchase Agreement (PPA), the Company shall from and after the Commercial Operation Date subject to the terms of this agreement: (i) make available to the Power Purchaser the Declared Available Capacity at the contract capacity, (ii) deliver and sell Despatch Net Electrical Output to the Power Purchaser at the Interconnection Point and (iii) provide to the Power Purchaser the Ancillary Service.

In CPPA(G), out of 78 IPPs (including 13 Govt. owned) Capacity Purchase Invoices of 16 IPPs amounting to Rs.101,147 million were received from various IPPs out of which Rs.33,904 million were verified for payment on account of idle capacity without purchasing energy. Audit held that when IPPs had declared their power generation capacity why it was not purchased by CPPA. This resulted in undue benefit to the IPPs by National Power Control Centre (NPCC). At the time, when the country was facing acute shortage of energy, there was no justification to pay for idle capacity. In view of the forgoing, NPCC's poor planning resulted in extra financial burden on CPPA which ultimately accumulated into circular debt, gave undue favor to IPPs, and was a constant burden on the consumers.

Thus the PPA clause gave advantage to IPPs which resulted in payment of idle capacity without purchasing electricity during the Financial Year 2017-18.

Audit recommends that management should review the document (PPA) along with investigating reasons for non-purchase of power from IPPs at their generation capacity so that public interest could be safeguarded.

(Draft Para No. 1539/2018-19)

20.4.8 Loss due to compensation claimed by IPP on account of transmission line tripping - Rs.14,472.59 million

According to Power Purchase Agreements, the power purchaser shall indemnify and defend the company for itself and as trustee for its officers, directors and employees against, and hold the Company, its officers, directors and employees harmless from, at all times after the date hereof any and all losses incurred, suffered, sustained or required to be paid, directly or indirectly, by, or sought to be imposed upon, the company, its officers, directors and employees, for personal injury or death to persons or death to persons or damage to property arising out of any negligent or intentional act or omission by the power purchaser in connection with this agreement.

In CPPA(G), a power purchase agreement was signed on April 18, 2015 between with M/s Port Qasim Electric Company (Pvt.) Limited relating to 1320 MW (660*2) MW Coal Fired Power Generation Complex at Port Bin Qasim Karachi. The plant faced more than thirty (30) incidents of transmission line tripping after achieving the Commercial Operation Date (COD) on April 25, 2018, which resulted in tremendous generation loss and damage to the equipment of the Company. Accordingly, IPP lodged a claim of US$ 119.129 million equivalent to Rs.14,472.59 million against the CPPA as it was the contractual responsibility of CPPA to avert the situation of frequent tripping of transmission line. This fact proved that CPPA did not take any precautionary measure to avert the loss of the company.

Non-adherence to Power Purchase Agreement resulted in loss of Rs.14,472.59 million due to lodging of compensation claim lodged by IPP for transmission line trappings during the year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that NTDC was requested to rectify the faults on the transmission lines connecting the Port Qasim Power Plant in order to avoid frequent tripping of 500 KV transmission line. The reply was not acceptable as no departmental inquiry was conducted to fix responsibility of loss as well as no action was taken against the responsible.

The DAC in its meeting held on December 20-21, 2018 directed the management to get relevant record verified from Audit within a week. Further progress was not reported till finalization of the report.

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

(Draft Para No. 717/2018-19)

20.4.9 Non-invoicing of claims regarding saving of working capital by IPPs – Rs.13,469 million

According to Power Purchase Agreement (PPA) signed between IPPs and NTDC / CPPA, RFO based IPPs are required to maintain fuel stocks of 30 days or 20 days at full load whereas the HSD based IPPs are required to maintain fuel stock level of 7 days.

In CPPA(G), fourteen (14) Independent Power Producers (IPPs) had not maintained the fuel stock limits and saved thereby working capital of Rs.13,469 million for the period ending December, 2016. However, neither the amounts were disallowed / disputed against the invoices served by the IPPs nor issued the claim invoices on account of saving working capital to the IPPs.

Non-adherence to the PPA resulted in non invoicing of claims regarding saving of working capital of Rs.13,469 million by IPPs up to the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that there was no provision in the PPA to deal with a situation where the company was not adhering to the clause of PPA which put the liability of maintaining fuel inventory on the Company. The reply was not tenable as maintaining of fuel inventory was mandatory as per PPA as per referred above.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce copy of PPA for non-raising of invoices of working capital to Audit for verification within one week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding non-invoicing of fuel besides fixing responsibility.

(Draft Para No. 513/2018-19)

20.4.10 Unauthentic payment to HUBCO on account of unaudited O&M Cost - Rs.9,449 million

HUBCO was granted consent for replacement of O&M operator with the condition that the proposed change in O&M Operator would in no way impact the existing rate of variable and fixed cost component of O&M cost as envisaged in PPA. According to Section-26.1 of the implementation Agreement dated November 29, 1994 between GoP and the Hub Power Company Ltd. "on reasonable notice and for reasonable cause given to the company, GoP shall have the right to have a firm of independent chartered accountants to conduct additional audits of the company at GoP`s expense.

In CPPA(G), an amount of Rs.9,449 million was paid to HUBCO for O&M cost out of Rs.5,333 million approved by ECC for making payment in Power Sector. Whereas the Financial Statements of HUBCO for the Financial Year 2016-17 showed an amount of Rs.3,158 million booked under the said head of accounts. Further HUBCO was granted consent for change of O&M operator subject to condition that the said replacement would in no way impact the existing rate of variable and fixed cost component of O&M cost as envisaged in PPA. But replacement of O&M operator resulted into substantial variation in O&M cost as stated in CPPA(G) letter dated May 30, 2018. The said scenario warranted additional audit by GoP itself for arriving at the factual position in the light of Section-26.1 of the Implementation Agreement but the same was not done.

Violation of consent letter for replacement of O&M operator and Implementation Agreement resulted in unauthentic payment of Rs.9,449 million up to the Financial Year 2017-18.

The matter was taken up with the management in April, 2018 and reported to the Ministry in November, 2018. The management replied that there was no provision in power purchase agreement to provide the required documents. The reply was not acceptable as the Clause-26.1 was violated.

The DAC in its meeting held on December 20-21, 2018 directed the management to confirm from the Power Division that Clause-26.1 of Implementation Agreement was still applicable or not and inform Audit accordingly. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding non-conducting of Audit as per Implementation Agreement besides fixing responsibility.

(Draft Para No. 111/2018-19)

20.4.11 Loss due to payment of interest on delayed payments to IPPs – Rs.5,576.18 million

According to Power Purchase Agreements (PPAs), "late payments by either party of amounts due and payable under the Agreement shall bear interest at a rate per annum equal to the Delayed Payment Rate."

In CPPA(G), an amount of Rs.5,576.18 million was paid to IPPs on accounts of interest on delayed payments. Had the payment been made within specified period, loss of Rs.5,576.18 million on account of interest on delayed payments could have been avoided.

Non-adherence to the provision of Power Purchase Agreement resulted in loss of Rs.5,576.18 million on account of payment of interest on delayed payments to IPPs during the year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that payment was made on account of late payment charges to the IPPs due to piling of circular debt with the passage of time. The reply was not tenable as justification for delay in payments to IPPs was not provided.

The DAC in its meeting held on December 20-21, 2018 directed the management to get verified from Audit as to no delay did occur in the process of pre-audit conducted by the CPPA(G). Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 716/2018-19)

20.4.12 Recoverable overpayment along with interest on account of fixed component from sugar mills- Rs.4,190 million

According to NEPRA Tariff determination dated June 25, 2014, fixed component was allowed to be paid up to 45% of the Annual Plant Capacity Factor (APCF)/

In CPPA(G), an amount of Rs.3,390 million on account of fixed component was paid to four sugar mills i.e. M/s JDW-11, M/s JDM-III, M/s Chiniot Power Limited and RYK Mills Limited in excess of the threshold of 45% of APCF. A total payment of Rs.3,390 million plus mark up of Rs.800 million was required to be recovered from the said sugar mills, which was not done.

Non-adherence to the NEPRA tariff determination resulted in recoverable over payment of Rs.4,190 million along with interest on account of fixed component in excess of APCF from sugar mills during financial year 2016-17.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that recovery had been effected from the sugar mills owners.

The DAC in its meeting held on December 20-21, 2018 directed the management to get recovery verified from Audit within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 714/2018-19)

20.4.13 Loss due to delay in completion of Power Purchaser Interconnection Works - Rs.2,467.04 million

According to section 6.5 (b) of the Power Purchase Agreement (PPA), "if Power Purchaser has not completed, commissioned and energized the Power Purchaser Interconnection Works by the date required in this section 6.5, as such date may be extended as provided in this section 6.5, and such delay causes a delay in the Commissioning of the Complex, the Required Commercial Operations Date shall be extended Day-for Day until the date on which the Power Purchaser Interconnection Works are completed". And in addition to that, "the Power Purchaser shall pay to the Company monthly, in arrears, (and prorated for any portion of a Month) an amount equal to the Carrying Costs plus, fifty percent (50%) of the "Insurance Component", and fifty percent (50%) of the "Fixed O&M Component" of the Capacity Price computed on the basis of the Contract Capacity".

In CPPA(G), a Power Purchase Agreement (PPA) was signed between Star Hydro Power and National Transmission and Despatch Company on March 8, 2012. The Power Purchaser i.e NTDC failed to construct Interconnection Works prior to Schedule Commercial Operation Date. Resultantly, M/s Star Hydro raised compensation invoices of Rs.2,467.04 million pursuant to Section 6.5 (b) of PPA.

Non-adherence to Power Purchase Agreement by non-construction of Interconnection Facilities prior to Schedule Commercial Operation Date resulted into loss of Rs.2,467.04 million up to the March 2018.

The matter was taken up with the management during April, 2018 and reported to the Ministry in November, 2018. The management replied that no payment on account of compensation invoices for Rs.2,467.04 million pursuant to Section 6.5 (b) of PPA had been made to the Company so far, the matter was disputed between NTDC and M/s Star Hydro. Therefore, the recovery of the loss was not possible. The reply was not agreed to as reasons for inordinate delay was not provided.

The DAC in its meeting held on December 20-21, 2018 directed the management to share the outcome of dispute resolution with Audit in order to proceed further in the matter within fortnight. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter at Ministry level for non-completion interconnection works besides fixing responsibility.

(Draft Para No. 110/2018-19)

20.4.14 Loss due to procurement of energy at higher rates - Rs.2,288.79 million

According to Economic Dispatch Merit Order for the month of December, 2017, units were available for the generation of energy on RFO, GAS at cheap rates from the other power plants bearing Serial No. 01 to 38 instead of KAPCO IPP.

In CPPA(G), Energy Purchase Price (EPP) of Rs.7,150.918 million was paid to M/s KAPCO for procurement of 636.986 MKWh energy units at the rate Rs.11.19, Rs.11.02 and Rs.18.68 per KWH during December, 2017. As per economic dispatch merit order, some other IPPs with cheaper rate of EPP with the same fuel consumption were available, which were not taken into consideration for procurement of energy. The procurement of energy by ignoring the IPPs having cheaper rate caused loss of Rs.2,288.79 million on account of extra cost.

Non-adherence to Economic Dispatch Merit Order resulted in loss of Rs.2,288.79 million due to procurement of energy at higher rates during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that matter pertained to NPCC which was involved in preparation of Economic Dispatch order. Hence CPPA was not involved in this case. The reply was not agreed to as energy was purchased at higher rates in the presence of cheaper energy of power plants.

The DAC in its meeting held on December 20-21, 2018 directed the management of NPCC to carry out Administrative probe as to why Energy was procured at higher rates when cheap energy was available in the Economic Dispatch order and inform Audit accordingly. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s directives besides fixing responsibility.

(Draft Para No. 730/2018-19)

20.4.15 Non-deduction of withholding income tax on payment made to NTDC - Rs.1,751.68 million

According to Section-153(1) of Income Tax Ordinance, "every prescribed person making a payment in full or part including a payment by way of advance to a resident person or permanent establishment in Pakistan of a non-resident person - a) for the sale of goods; b) for the rendering of or providing of services; c) on the execution of a contract, other than a contract for the sale of goods or the rendering of (or providing of) services, shall at the time of making the payment, deduct tax from the gross amount payable at the rate specified in Division-III of Part-III of the First Schedule".

In CPPA(G), FBR had raised the demand of Rs.1,751.68 million on account of withholding income tax @ 8% on payment made by CPPA to NTDC against Use of System Charges. The recovery of said income tax was made from the bank accounts of CPPA on May 18, 2017 and October 24, 2017 due to default being withholding agent. This withholding tax liability to be adjusted from monthly payments of NTDC on account of use of system charges collected from DISCOs instead of creating receivables against NTDC as "income tax liability of NTDC".

Non-adherence to Income Tax Ordinance, 2001 resulted in non-deduction of income tax of Rs.1,751.68 million on payment made to NTDC up to the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The Management replied that matter was still subjudice in the Honorable Lahore High Court. Hence, no further action could be taken till the final judgment of the Court.

The DAC in its meeting held on December 20-21, 2018 directed the management to pursue the case vigorously and inform Audit accordingly. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to inquire the matter for fixing responsibility regarding non-deduction of withholding tax from payment of UoSC to NTDC.

(Draft Para No. 508/2018-19)

20.4.16 Irregular payment to IPP without power purchase agreement - Rs.850 million

According to NEPRA Tariff Determination Para 10(f) & 11 in respect of M/s Fatima Energy Limited, "all invoicing and payment terms are assumed to be in accordance with the 2006 standardized PPA. The determined tariff and terms and conditions be incorporated in the Power Purchase Agreement between FEL and CPPA(G)".

In CPPA(G), an amount of Rs.850 million was paid on accounts of procurement of energy from M/s Fatima Energy Limited without signing Power Purchase Agreement. In the absence of PPA, authenticity of payment could not be ascertained. Hence, payment of Rs.850 million was irregular.

Non-execution of power purchase agreements with IPP resulted in irregular payment of Rs.850 million to IPP up to the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that fuel cost component and Ash Disposal in the tariff approved by NEPRA was paid to the Fatima Energy with the approval of BoD. The reply was not tenable as the payment was made despite NEPRA's Tariff Determination.

The DAC in its meeting held on December 20-21, 2018 directed the management to get verified Tariff approval of NEPRA from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter besides fixing responsibility.

(Draft Para No. 830/2018-19)

20.4.17 Irregular procurement of energy in absence of EPA and in violation of NEPRA decision - Rs.702.26 million

According to NEPRA decision dated August 29, 2017 regarding disputed sections or clauses of draft EPA between CPPA(G) and Pakhtoonkhwa Energy Development Organization (PEDO), which is summarized as follows: i) NEPRA had favored PPFME & CLFME on similar grounds as given to Malakand-III, Baloki, Bhikki and Haveli Bahadure Shah Projects; ii) Hydrological Risk was allowed in favor of the sellers; iii) the power producer is entitled to 10% of the tariff for energy delivered in excess of estimated annual energy; iv) EPA modeled on the basis of Take-and-Pay has not been accepted; v) all the payments from COD to signing of EPA (accumulated to the tune of more than Rs.1,100 million) may be paid by CPPA(G).

In CPPA(G), electricity of Rs.702.26 million was procured from Pehur Hydro Project owned by Pakhtunkhwa Energy Development Organization (PEDO) by setting aside the disputed Sections / Clauses of Energy Procurement Agreement

(EPA) Since, the EPA was not executed and was under dispute for which NEPRA had given its decision, hence procurement of energy was irregular and at risk.

Non-adherence to NEPRA decision resulted in irregular procurement of energy amounting to Rs.702.26 million during the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that the Energy Purchase Agreement was signed between CPPA(G) and PEDO on take and pay basis which was in the interest of the electricity consumer. The reply was not agreed to as the NEPRA decision was violated.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce tariff record and BoD approval for verification to the Audit within week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 594/2018-19)

20.4.18 Extra cost due to non-procurement of cheapest energy from Gulf Power Company – Rs.571.76 million

According to Power Purchase Agreements (PPA) signed with Gulf Power Gen Private Limited Lahore, Energy Purchase Price (EPP) cost per KWH is Rs.10.04.

In CPPA(G), a PPA was signed with M/s Gulf Power Gen Private Limited on May 24, 2017 at fixed fuel cost of 229.32 gram per KWH. The capacity of the plant was 83 MW and the cost of EPP was Rs.10.04 per KWH. Instead of procuring the energy from much cheaper source, the said IPP, M/s KAPCO was directed to generate 497.183 MKWH at a cost of Rs. 11.19 per KWH on furnace oil during the month of December, 2017 as per dispatch order. The EPP cost of KAPCO ie. Rs.11.19 per KWH was higher than that of Gulf Power Gen Private Limited i.e Rs. 10.04. Resultantly, electricity was procured at the extra cost of Rs.571.76 million with excess rate of Rs.1.15 per KWH.

Poor management resulted in extra cost of Rs.571.76 million due to non-procurement of cheapest energy from Gulf Power Company during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that Gulf

Power Project, was not available for dispatch as per Merit Order list issued by System Operator.

The DAC in its meeting held on December 20-21, 2018 directed the management to get it verified from the Chief Engineer, NPCC as to whether Gulf Power Project, was available for dispatch as per merit order list and inform audit accordingly. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 761/2018-19)

20.4.19 Unjustified capacity purchase payment to HUBCO - Rs.449 million

According to Clause-11 of the GFR, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money and expenditure should not be prima facie more than the occasion demands.

In CPPA(G), Capacity Purchase Price (CPP) payment of Rs.449 million was made to M/s HUBCO out of loan facility of Rs.53,334 million against invoice pending since June, 2017. Since, the loan facility was to be used to discharge only Energy Purchase Price (EPP) liability of all IPPs, hence, special treatment to HUBCO by paying it capacity purchase price of Rs.449 million along with EPP was unjustified.

Financial mismanagement resulted in unjustified capacity purchase of Rs.449 million to HUBCO during the financial year 2018-19.

The matter was taken up with the management in May, 2018. The management replied that capacity purchase payments had to be made according to PPA in full inspite of such variation in electrical output due to variation in demand. The reply was not relevant as no justification of special treatment to HUBCO was provided.

Audit recommends that the management needs to inquire the matter for fixing responsibility regarding unjustified capacity purchase payment out of loan facility.

(Draft Para No. 1538/2018-19)

20.4.20 Non-recovery/adjustment of liquidity damages - Rs.430.49 million

According to Section 9.5 (c) of PPA that each party shall have the right to set off any amounts due and payable by it to the other party under this agreement against any and all amounts then due and payable to it by the other party under this agreement. Such rights of set off shall relate only to amounts that are then due and payable to and by a party, and are undisputed or have been determined to be payable by the Expert through arbitration under Article 18.

In CPPA(G), liquidity damages claims amounting to Rs.430.49 million remained unrecovered /unadjusted against the payables to Power Producers since March, 2018. Pre-audit checks in accordance with relevant Power Purchase Agreement were required to be ensured while making payment to IPPs, which was not done.

Non-adherence to Power Purchase Agreement resulted in non-recovery / adjustment of liquidity damages amounting to Rs.430.49 million up to March, 2018 during financial year 2017-18.

The matter was taken up with the management in April, 2018 and reported to the Ministry in November, 2018. The management replied that LD could not be adjusted unilaterally as it was disputed by the IPPs.

The DAC in its meeting held on December 20-21, 2018 directed the management to share outcome of dispute resolution with the Audit. Moreover, a detailed report of Ministry of Energy be furnished to Audit regarding frequent incurrence of dispute on LD. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 652/2018-19)

20.4.21 Irregular payment on account of newly structured pay and allowances without approval of Finance Division - Rs.409.11 million

According to office memorandum of Finance Division dated June 26, 1999, revision of Pay Scales / Salaries / Allowances in Corporations, Autonomous / Semi Autonomous bodies will require clearance from the Finance Division to ensure a rational basis and a degree of uniformity in such revision.

In CPPA(G), a new pay and allowances structure and grades of the supervisory and executive staff was approved by the Board of Directors and implemented on May 30, 2016. The said new pay structure was different from government owned Basic Pay Scales (BPS) / Management Pay Scales (MPS) and was implemented without approval of Finance Division. Hence, payment of Rs.409.11 million on account of pay and allowances was irregular.

Non-adherence to Finance Division's instructions resulted in irregular payment of Rs.409.11 million on account of newly structured pay and allowances during the Financial Year 2016-17.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that pay & allowances were paid to the Executive & Supervisory staff with the approval of BoDs. The reply was not agreed to as the Government rules were violated.

The DAC in its meeting held on December 20-21, 2018 directed the management to obtain concurrence of the Finance Division regarding pay & allowances allowed to the Executive & Supervisory staff of CPPA(G) and inform Audit accordingly within fortnight. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 530/2018-19)

20.4.22 Irregular payment on account of reimbursement of withholding tax on dividends - Rs.96.27 million

According to the Section 150 of Income Tax Ordinance 2001, "Every person paying a dividend shall deduct tax from gross amount of the dividend paid at the rates specified in Division-III, part-I of first schedule". The rates of the tax as specified in Division-III Part-I of first schedule should be reduced to 7.5% in case of dividends paid by a company set up for power generation.

In CPPA(G), different IPPs had withheld tax amounting to Rs.96.27 million on the payment of dividends to their shareholders and deposited the same into Government Exchequer. Late on, the IPPs had claimed reimbursement of this tax being pass through item and CPPA made payment. The dividend paid by IPPs to their shareholders was personal income of shareholders and they adjusted it against their income as per income tax returns filed by them in FBR. The respective companies had deducted tax at source as a withholding agent and deposited in Government Treasury which was not the revenue of the withholding agent as claimed by them in the form of pass through item. Hence, reimbursement of withholding tax of Rs.96.27 million to the respective IPPs was irregular.

Non-adherence to the income tax Ordinance 2001 resulted in irregular payment of Rs.96.27 million on account of reimbursement of withholding tax on dividends during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that reimbursement of withholding tax on dividends was made as pass through item on the direction of NEPRA. The reply was not tenable as the payment was not a part of input cost.

The DAC in its meeting held on December 20-21, 2018 directed the management to obtain clarification from competent forum in order to proceed further in the matter within fortnight. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 720/2018-19)

20.4.23 Irregular reimbursement of workers profit participation fund - Rs.60.73 million

According to the Companies Profits (Workers Participation) Act 1968, Fund is established by the company for depositing profit out of net profit earned.

In CPPA(G), an amount of Rs.60.73 million was paid to labour on account of workers profit participation fund, which was reimbursed subsequently to different IPPs. Since, the worker profit participation fund was paid out of the net profit earned by the company, hence, it was not expenditure. Therefore, reimbursement of workers profit participation funds as pass through item was irregular. Moreover, evidence in support of establishment of fund was not produced. In absence of which, authenticity of fund could not be ascertained.

Non-adherence to the worker Participation Act resulted in irregular reimbursement of workers profit participation fund amounting to Rs.60.73 million during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that reimbursement of workers profit participation fund was made as pass through item on the direction of NEPRA. The reply was not tenable as the payment was not a part of input cost.

The DAC in its meeting held on December 20-21, 2018 directed the management to obtain clarification from competent forum in order to proceed further in the matter under verification by Audit within fortnight. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 721/2018-19)

20.4.24 Wasteful expenditure on account of late payment charges – Rs.22.85 million

According to Clause-d Section-9.6 of Power Purchase Agreement (PPA), "late payments by either party of amounts due and payable under this agreement shall bear interest at a rate per annum equal to the Delayed Payment Rate".

In CPPA(G), late payment charges of Rs.22.85 million were paid to various Independent Power Producers (IPPs) through invoices. The late payment charges could have been avoided by managing recovery of receivables of Rs.1,067 billion from DISCOs.

Poor financial management resulted in wasteful expenditure of Rs.22.85 million on account of late payment charges up to the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that payment was made on account of late payment charges to the IPPs due to piling of circular debt with the passage of time. The reply was not tenable as no justification for delay in payment was provided.

The DAC in its meeting held on December 20-21, 2018 directed the management to get verified from Audit as to no delay did occur in the process of pre Audit conducted by the CPPA(G). Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 649/2018-19)

20.4.25 Non recovery from IPPs on account of services rendered by NTDC - Rs.16.68 million

According to Section 9.5 (c) of PPA that each party shall have the right to set off any amounts due and payable by it to the other party under this agreement against any and all amounts then due and payable to it by the other party under this agreement. Such rights of set off shall relate only to amounts that are then due and payable to and by a party, and are undisputed or have been determined to be payable by the Expert through arbitration under Article 18.

In CPPA(G), an amount of Rs.16.68 million was recoverable since December, 2016 from four IPPs against various services rendered by NTDC. The said amount could have been recovered through adjustment from payments made out of Rs.53.334 billion if CPPA(G) had applied pre-audit checks in accordance with Power purchase Agreement.

Non-adherence to pre-audit checks in accordance with Power Purchase Agreements resulted in non recovery of Rs.16.68 million from IPPs on account of services rendered by NTDC up to March, 2018 during financial year 2017-18.

The matter was taken up with management in April, 2018 and reported to the Ministry in November, 2018. The management replied that recovery would be effected from the IPPs.

The DAC in its meeting held on December 20-21, 2018 directed the management to get recovery verified from Audit within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to expedite the recovery from the IPPs.

(Draft Para No. 616/2018-19)

20.4.26 Excess payment on account of office rent – Rs.11.48 million

According to Ministry of Housing & Works memo No. F.12 (65)/2011-policy dated March 27,2017, rate of rent of commercial buildings in Islamabad /Rawalpindi has been revised with effect from March 17,2017 regarding other floors from Rs.40 per Sq.ft to Rs.80 per Sq.ft in respect of Blue Area, Super Market, F-8 Markz, F-10 Markz & E-7

In CPPA(G), an amount of Rs.38.99 million was paid to Mrs. Shaheen Muhammad on account of office building rent acquired at the rate of Housing & Works an amount of Rs.11.48 million was excess paid to the owner of building.

Non adherence to the rates specified by Ministry of Housing & Works resulted in excess payment of Rs.11.48 million on account of office rent during financial year 2016-17.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that office building was hired at the prevailing market rates with the approval of BoD. The reply was not tenable as the rates allowed by the Ministry of Housing & Works were not followed.

The DAC in its meeting held on December 20-21, 2018 directed the management to regularize the matter from the competent forum under verification by Audit within fortnight. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No.715/2018-19)

20.4.27 Irregular appointment and promotion of Manager Taxation - Rs.10.90 million

As per recruitment procedure of Govt. of Pakistan Maximum age limit is fixed for recruitment and advertisement accordingly.

In CPPA(G), Mr. Muhammad Asad was initially appointed as Manager Taxation on probation for a period of six months extendable for further period not exceeding six months on May 17, 2016. Later on, the officer was promoted as Deputy General Manager (Corporate Accounts & Treasury) on July 10, 2017. The appointment and promotion of an officer as Manager Taxation was irregular as maximum age limit was not mentioned in the advertisement being a mandatory requirement. Hence, salary of Rs.10.90 million paid to the said officer was also irregular.

Non-adherence to prescribed procedure resulted in irregular appointment and promotion of Manager Taxation and payment of salary of Rs.10.90 million thereof up to the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that Manager Taxation was employed as per Human Resource Manual duly approved by the BoD. The reply was not tenable as the Government recruitment rules were violated.

The DAC in its meeting held on December 20-21, 2018 directed the management to get recruitment process verified from Audit within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter for non-observance of Government recruitment rules besides fixing responsibility.

(Draft Para No. 732/2018-19)

20.4.28 Loss due to imposition of fine by NEPRA - Rs.10 million

As per decision of NEPRA dated November 22, 2017, Authority declares CPPA as delinquent under Rule 4(13) of the NEPRA (Fines) Rules, 2002 and impose a penalty of Rs.10 million on it. In case of non-execution of PPA within three month of this order, a fine of Rs.0.50 million per day shall be imposed on the CPPA. Furthermore, CPPA is also directed to initiate disciplinary proceedings against its employees responsible for the aforesaid violation.

In CPPA(G), a show cause notice was issued by NEPRA on May 25, 2017 due to non-execution of Power Purchase Agreement (PPA) and non-procurement of power from Pehur HPP. Consequently, fine of Rs.10 million was imposed upon CPPA.

Non-adherence to NEPRA's decision / Rules resulted in loss of Rs.10 million due to imposition of fine up to the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that matter was still subjudice in the Honorable Islamabad High Court. Hence, no further action could be taken till the final judgment of the Court.

The DAC in its meeting held on December 20-21, 2018 directed the management to pursue case vigorously and inform Audit accordingly. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 514/2018-19)

20.4.29 Loss due to payment on account of "Non-Project Missed Volume" - Rs.9.80 million

According to Energy Purchase Agreements, "Non-Project Missed Volume or NPMV" is the volume of Net Delivered Energy not delivered by the complex which non-delivery is due to a Non-Project Event(s). As per NEPRA Grid code CC 4.2(b), the preliminary estimate for connection fee and registration fee, fees shall be determined and shall be payable on submission of application for connection, and shall cover the reasonable costs of all works anticipated to arise from investigating the application to connect and preparing the associated offer to connect. This should include additional capital cost related to the new connection, and to make the connecting transmission system at par with the system before the connection.

In CPPA(G), a payment of Rs.9.80 million was made to Zorlu Enerji Pakistan Limited on account of NPMV. The extra payment was made only due to inefficiency of NTDC system as the project was ready to deliver the energy as per agreement but the NTDC system was not capable enough to sustain full load of wind power energy project. Hence, payment of Rs.9.80 million without taking benefit of wind power had gone waste and the company sustained loss to the stated extent.

Non-adherence to the instructions resulted in loss of Rs.9.80 million due to payment on account of Non-Project Missed Volume up to financial year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in November, 2018. The management replied that the construction of all transmission networks for evacuation of power from any power plant is the sole responsibility of NTDC under the Grid code. The reply was not tenable as loss of Rs.9.80 million added to the Circular Debt.

The DAC in its meeting held on December 20-21, 2018 directed the management to make loss good from the concerned quarter and inform Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter and to hold those responsible who failed to evacuate power after CoD.

(Draft Para No. 531/2018-19)

20.4.30 Non-recovery on account of key punch items - Rs.7.29 million

EMS-01 Server of NPCC Supervisory Control and Data Acquisition (SCADA) system was a part of punch list in respect of Three Gorges Third Wind Farm Pakistan (private) limited 49.5 MW Wind Power Project.

In CPPA(G), M/s Three Gorges Third Wind Farm Pakistan (Pvt.) Limited Promised on June 08, 2018 to share cost of US$ 0.060 million equivalent to Rs.7.29 million on account of EMS-01 Server of NPCC SCADA system being key punch item at the time of CoD of the plant. However, the said amount was not shared by the IPP.

Poor performance resulted in non-recovery of US$ 0.060 million equivalent to Rs.7.29 million on account of key punch items from IPP during the Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that M/s Three Gorges Third Wind Farm Pakistan (Pvt.) Limited promised to share cost of US$ 0.060 million as a gesture of good will. But there was no contractual liability of the firm. The reply was not tenable as payment of key punch item was not made by the IPP.

The DAC in its meeting held on December 20-21, 2018 directed the management to get recovery verified from Audit within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 831/2018-19)

20.4.31 Non-transparency in BoD Decisions

According to Public Sector Companies (Corporate Governance) Rules, 2013 notification issued on March 8, 2013:- Rule-3(2), the Board shall have forty percent of its total members as independent directors within the first two years of this notification, which shall be raised to a majority of independent directors in the next two years, and the majority shall be maintained subsequently. Rule-4, the Board shall elect its chairman from amongst the independent directors so as to achieve an appropriate balance of power, increasing accountability, and improving the Board's capacity for exercising independent judgment.

In CPPA(G), reconstruction of Board of Directors (BoD) was approved by Prime Minister and notified on December 27, 2013. In contrary of Public Sector Companies (Corporate Governance) Rules, 2013, the selected chairman and members of BoD were also representing Government subsidiary companies. Resultantly, they could not carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company. Executive and non-executive decisions, made under command of BoD in its 6th to 38th meetings, were against transparency as chalked out in Public Sector Company Rules.

Non-adherence to Public Sector Companies (Corporate Governance) Rules, 2013 resulted in non-transparency in executive and non-executive decisions formulated by BoD of CPPA up to the Financial Year 2017-18.

The matter was taken up with the management in May, 2018 and reported to the Ministry in December, 2018. The management replied that company has fully adhered to the Public Sector Companies Rules, 2013 in terms of transparency in executive and non-executive decision made by BoD of CPPA(G) up to the Financial Year 2017-18. The reply was not acceptable as the structure of BoD was not in line with Corporate Governance Rule.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce record relating to decision of BoD to Audit for verification within a week. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding non-observance of Corporate Governance Rule besides fixing responsibility.

(Draft Para No. 1528/2018-19)

20.4.32 Irregular execution of Power purchase agreement due to improperly located coal power plant

NEPRA in its determination of Tariff for 1320 MW Coal Power Plant located at Qadirabad, Sahiwal dated March 31, 2015 proposed site selection of the power plant near the coastal area in case of imported Coal.

In CPPA(G), a power plant of 1320 MW Capacity was installed at Qadirabad, Sahiwal instead of near coastal area in case of imported coal against NEPRA decision. It would lead to extra expenditure in terms of transportation of the coal from Karachi to Sahiwal on permanent basis and other relevant allied expenditure. Hence, Power Purchase Agreement (PPA) signed between CPPA(G) and Huaneng Shandong Ruyi (Pakistan) Energy (Pvt.) limited could not be termed as regular.

Non-adherence to NEPRA determination resulted in irregular execution of PPA on account of improper located coal power plant up to Financial Year 2017-18.

The matter was taken up with the management in September, 2018 and reported to the Ministry in November, 2018. The management replied that CPPA(G) had no role in the site selection of any power plant. Hence, there were no comment on the part of CPPA(G). The reply was not acceptable as condition of NEPRA's Tariff Determination was violated.

The DAC in its meeting held on December 20-21, 2018 directed the management to refer the para to NEPRA for further pursuance.

Audit recommends that the management needs to investigate the matter for fixing responsibility regarding irregular execution of PPA for coal based power plant at improper site.

(Draft Para No. 718/2018-19)

CHAPTER-21

POWER HOLDING PRIVATE LIMITED (PHPL)

21. POWER HOLDING PRIVATE LIMITED (PHPL)

21.1 Introduction

Power Holding Private limited was incorporated in 2009 under Companies Ordinance 1984 (now Companies Act 2017) as wholly owned and controlled by Government of Pakistan. It is a Special Purpose Vehicle (SPV) with core function to arrange bridge financing for repayment of liabilities of DISCOs and settle the circular debt of Power Sector on the terms and conditions approved by the Ministry of Finance with the concurrence of ECC. PHPL has a function to park the loan taken for the power sector by performing swap financing arrangements and negotiating financing terms of the loans obtained. PHPL executes the financing agreements with fund providers (Banks) and disburses the entire proceeds through CPPA-G for settlement of DISCOs liabilities towards power producers. All the financing facilities are secured against unconditional and irrevocable guarantees of the Government of Pakistan. The detail is as under:-

Sr. No.	Loan Facility		Tenure (in years)	Pricing	Rebate if any	Disbursement Date	Responsibility for Re-payment	
	Nature	Rs. in Billion					Principal	Interest
1.	Syndicate Term Finance Facility (STFF)	136.45	9	3 MK + 2%	1% on payment within 15 days	21.02.2012 Converted to new facility on 29.01.2017	PHPL	PHPL
2.	Term Finance Facility (TFF)	6.07	7	3 MK + 2%	1% on payment within 15 days	13.03.2012 Rescheduled in 21.03.2017	PHPL	PHPL
3.	TFF	15.00	7	6 MK + 2%	1% on payment within 30 days	08.09.2012 extended in 11.2015	PHPL	PHPL
4.	Privately Placed Term Finance Facility (PPTFC)	82.00	7	6 MK + 1%	-	10.09.2012	PHPL	PHPL
5.	STFF	30.95	5	6 MK + 2%	1% on payment within 30 days	21.05.2014	PHPL	PHPL
6.	STFF	25.00	5	3 MK + 2%	1% on payment within 15 days	31.12.2014	DISCOs	DISCOs
7.	STFF	40.00	5	3 MK + 2%	1% on payment within 15 days	30.01.2015	PHPL	PHPL
8.	STFF	7.49	5	3 MK + 2%	-	02.07.2015	Finance Division	Finance Division
9.	Islamic STFF	25.00*	7	6 MK + 2%	1.15% on payment within 30 days	29.04.2016	PHPL	PHPL
10.	(Islamic & Conventional)	30.00	5	6 MK + 2%	1.30% on payment within 30 days	09.03.2017	Finance Division	Finance Division

11.	(Islamic & Conventional)	41.00	5	6 MK + 2%	1.30% on payment within 30 days	22.06.2017	DISCOs	DISCOs
12.	STFF	80.00**	5	3 MK + 2%	1.30% on payment within 30 days	29.03.2018	PHPL	PHPL
13.	STFF	50.00	5	3 MK + 2%	1.30% on payment within 30 days	03.05.2018	PHPL	PHPL
14.	STFF	50.00	5	3 MK + 2%	1.30% on payment within 30 days	30.05.2018	PHPL	PHPL
	Total Loan	**618.96**						

* *Servicing of the facility and repayment shall be the responsibility of PHPL through levying of debt service surcharge.*

** *The servicing of the new proposed facility as well as the principal amount will be done through imposition of surcharge @ Rs.0.70/kWh after approval of NEPRA. For the interim (6 months), or tariff determination, whichever is earlier, the markup servicing will require GoP support, and the same will be treated as GoP equity in the DISCOs.* ***(Source: PHPL Data)***

The above table exhibits the pricing of loans obtained by PHPL to finance power sector of Pakistan. It is evident from the table that if PHPL makes interest payments during stipulated time it can save public money ranging from 1% to 1.30%. Therefore, PHPL should ensure timely disbursement of mark-up payments to avail agreed rebate in interest payments.

PHPL availed loan facility of Rs.618,961 million, out of which just Rs.35,473 million was repaid leaving outstanding loans of Rs.583,488 million along with accrued markup of Rs.32.75 million as on June 30, 2018. PHPL has so far made payment of Rs.153,118 million as markup on outstanding financing facilities excluding accrued interest.

21.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, "the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of financial year adopted by the company".

In PHPL, the Profit & Loss account and Balance Sheet of the company for the Financial Year 2017-18 could not be finalized by the management up till December 31, 2018.

21.3 AUDIT PARAS

21.3.1 Loss on account of liquidated damages due to non-payment of principal installments along with markup - Rs.25,804 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In PHPL Islamabad, a loan of Rs.82 billion was obtained from OGDCL on March, 2013 @ KIBOR + 1% on the Guarantee of Ministry of Finance on behalf of President of Pakistan. Due to late/non-payment of principal installments alongwith mark up, liquidated damages of Rs.25,804 million were accrued on the said loan facility, which caused loss to the stated extent.

Financial mismanagement resulted in loss of Rs.25,804 million on account of liquidated damages due to non-payment of principal installments along with markup to OGDCL up to the Financial Year 2017-18.

The matter was taken up with the management and reported to the Ministry in November, 2018. The management replied that the matter of restructuring of subject facility along with waiving off of liquidated damages on OGDCL payment had been taken up with Ministry of Energy and Ministry of Finance. The reply was not tenable as the LD charges on late payment of interest and principal amount were to be borne by the PHPL.

The DAC in its meeting held on December 20-21, 2018 directed the management to furnish updated position within 60 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to pursue the matter with Ministry for clearance of LDs to avoid the loss.

(Draft Para No. 947/2018-19)

21.3.2 Irregular payment of additional charge allowance - Rs.1.32 million

According to Director Finance (Regulations) WAPDA dated July 02, 1988, "additional charge for vacant identical or higher post should not exceed three months. However, it may be extended by another three months with the approval of next higher authority. Immediately after the expiry of six months of the full additional charge of the particular vacant post, the post shall be treated as having been abolished.

In PHPL Islamabad, additional charge was granted to one Officer and two Officials for 44 months w.e.f. April 28, 2014. The grant of additional charge for more than six months was irregular. Hence, payment of Rs.1.32 million on account of additional charge allowance to the officers / officials was also irregular.

Non-adherence to Authority's rules resulted in irregular payment of additional charge allowance of Rs.1.317 million up to the Financial Year 2017-18.

The matter was taken up with the management and reported to the Ministry in November, 2018. The management replied that the payment of additional charge allowance was duly approved by the BoD of PHPL. The reply was not tenable as the additional allowance was allowed against the Rules & Regulation.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the concurrence of Finance Division GoP and provide it to Audit within 60 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 948/2018-19)

CHAPTER-22

PAKISTAN POWER PARKS MANAGEMENT COMPANY LIMITED (PPPMCL)

22. PAKISTAN POWER PARKS MANAGEMENT COMPANY LIMITED (PPPMCL)

22.1 Introduction

The Pakistan Power Parks Management Company Ltd (PPPMCL) was established under Companies Ordinance 1984 (now Companies Act 2017) on August 06, 2013 with the approval of Govt. of Pakistan under the administrative control of Ministry of Water & Power for establishing coal fired Power Plants with total generation capacity of 6600 MW alongwith construction of state of the art jetty and allied infrastructure. The purpose of this Company was to generate Cheap Energy from Coal Fire Power Plant at Gaddani Balochistan. Later on the Board of Directors in its meeting held on August 16, 2016 decided to wind up the company due to policy of the Ministry of Water & Power that no power plant on imported coal would be entertained. However, the company remained operative and expenditure of Rs.491.00 million was incurred up to May, 2018.

22.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, "the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of financial year adopted by the company".

In PPPMCL, the Profit & Loss account and Balance Sheet of the company for the Financial Year 2017-18 could not be finalized by the management up till December 31, 2018.

22.3 AUDIT PARAS

22.3.1 Abnormal delay in remittance of surplus funds to the Government - Rs.659.02 million

The BoD of Pakistan Power Parks Management Company Ltd (PPPMCL) in its 8th meeting held on August 16, 2016 decided to wind-up the Company. The revised Accounting Procedure issued by the Controller General of Accounts (CGA) vide letter dated June 20, 2012 clearly states that the offices holding Assignment Accounts will ensure that no money is drawn from Assignment

Accounts unless it is required for immediate disbursement. Money will not be drawn for deposit into chest or any bank account.

In PPPMCL, funds amounting to Rs.659.02 million were remitted to Govt. of Pakistan on March 22, 2018 contrary to the decision of BoD dated August 16, 2016 regarding winding up of the Company. This resulted into abnormal delay of twenty one (21) months in remitting of surplus funds to Government.

Non-adherence to the Accounting Procedure of the Controller General Accounts (CGA) has resulted into undue retention of public funds up to the Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in August, 2018. It was replied that funds were not deposited with the Government due to non-settlement of claims of Consultant i.e. M/s NESPAK. The reply was not tenable as BoD in its 9^{th} meeting held on January 30, 2017 approved the settlement of claims of the consultants at Rs.383.00 million whereas funds were remitted to Government on March 22, 2018 i.e with delay of almost thirteen (13) months.

The PAO did not hold any DAC despite request.

Audit recommends that the management needs to investigate the matter for fixing responsibility of irregular and undue retention of public funds besides its condo nation by the competent forum.

(Draft Para No. 13/2018-19)

22.3.2 Wasteful expenditure due to poor decision making - Rs.491 million

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

The PPPMCL was established under the Companies Ordinance 1984 on August 06, 2013 under the administrative control of Ministry of Water & Power for establishing coal fired Power Plants with total generation capacity of 6600 MW alongwith construction of state of the art jetty and allied infrastructure at Gaddani Balochistan. The BoD in its meeting held on August 16, 2016 decided to wind up the company due to policy of the Ministry of Water & Power that no power plant on imported coal would be entertained. However, the company remained operative and expenditure of Rs.491 million was incurred up to May,

2018. The scenario depicted poor/ irrational decision making which led to wasteful expenditure of Rs.491 million.

The violation of cannon of financial propriety resulted in wasteful expenditure of Rs.491 million up to the Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in August, 2018. It was replied that the expenditure could not be productive due to change in GoP policy/propriety. The reply was not acceptable as purpose for which company was formed could not be achieved. Hence expenditure has gone waste and caused loss to the National exchequer.

The PAO did not hold any DAC despite request.

Audit recommends that management needs to investigate the matter and fix responsibility of wasteful expenditure of Rs.491 million due to poor/ irrational decision making.

(Draft Para No. 30/2018-19)

22.3.3 Irregular expenditure incurred without signing of Consultancy Services Agreement - Rs.373 million

"The BoD of Pakistan Power Parks Management Company Ltd. (PPPMCL) in its 7th meeting held on June 08, 2015 constituted a committee with the directions to finalize the Consultancy Agreement with M/s NESPAK after evaluation and rationalization of the bill submitted by the M/s NESPAK".

In PPPMCL, an amount of Rs.373 million was paid to the Consultants M/s NESPAK without signing Consultancy Services Agreement for preparation of feasibility report in order to develop and operate the Pakistan Power Parks for 6600 MW energy at Gaddani (Balochistan). In the absence of Consultancy Services Agreement, the authenticity and genuineness of payment and deliverables by the consultant could not be ascertained. Moreover, it also led to undue benefit to the Consultants at the cost of National exchequer.

The violation of the BoD decision and Government Rules resulted in irregular payment of Rs.373 million to the Consultants without signing of consultancy Services Agreement up to the Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in August, 2018. It was replied that BoD in its 9th meeting held on January 30, 2017 approved the settlement of claims of the consultants at Rs.383 million. The reply was not agreed as Consultancy Services Agreement was mandatory before making payment to the Consultants.

The PAO did not hold any DAC despite request.

Audit recommends that the management needs to investigate the matter as to how the payment was made without any agreement besides fixing responsibility.

(Draft Para No. 15/2018-19)

22.3.4 Irregular payment of Salary Cost to M/s NESPAK - Rs.248.48 million

According to Pakistan Engineering Council Conduct and Practices Consulting Engineers Bye-laws 1986 approved by the Federal Govt. of Pakistan, "salary cost shall include the certain pays & allowance, benefit and facilities by whatever name is called, paid & payable to the employee on his behalf in accordance with the service rules of the consulting engineer for the employee" (list attached).

In PPPMCL Islamabad, an amount of Rs.248.48 million was paid to consultant M/s NESPAK on account of man months cost i.e. salary cost for preparation of Master Plan & Feasibilities Study, PC-I, Bidding Documents, Detailed Design and Construction supervision of 6600 MW Pakistan Power Park at District Lasbella, Gaddani, Balochistan. The supported record/document on the basis of which payment claimed by M/s NESPAK did not reflect employee wise detail of salary cost according to appendix-A of Pakistan Engineering Council Conduct and Practice Consulting Engineer Bye-laws 1986. The name of the technical staff, exact dates of man months cost and employee wise break up of man months cost were not mentioned/ supplied. In the absence of confirmation of all these requisites information/steps, authenticity of consultancy payment could not be ascertained and, hence, appeared to be doubtful payment.

Violation of Pakistan Engineering Council Conduct and Practices Consulting Engineers Bye-laws due to non-reflecting of salary cost break up resulted in to doubtful payment of Rs.248.48 million up to the Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in August, 2018. It was replied that M/s NESPAK was paid in accordance with Appendix-D, E & I of the Draft Consultancy Service Agreement and the total cost of Draft Consultancy Service Agreement was duly included in the PC-I. The reply was not tenable as employee-wise detail of salary cost in line with Pakistan Engineering Council Conduct and Practices Consulting Engineers

Bye-laws was not provided. Moreover, in the absence of any agreement the authenticity of salary cost could not be ascertained.

The PAO did not hold any DAC despite request.

Audit recommends that the management needs to inquire the matter and fix responsibility of doubtful payment.

(Draft Para No. 31/2018-19)

22.3.5 Avoidable operational expenditure due to inordinate delay in winding up of the Company - Rs.62.35 million

The Ministry of Water & Power vide No. 2(7)/2014/IC dated January 26, 2015 conveyed approval of Prime Minister for the following actions regarding fate of Pakistan Power Park Management Company Limited, Islamabad (PPPMCL): i) Officers and staff from the various ministries/ divisions to be sent back to their parent departments to avoid further expenditure. ii) All the work of the PPPMCL to be handed over to PPIB as per rules and policy.

During course of audit of Pakistan Power Parks Management Company (Private) Limited (PPPMCL) Islamabad, despite the clear cut directions of the Prime Minister, the closing of operations of the company was lingered and the cut-off date was approved by the BoD as March 31, 2018 in its 11th BoD meeting held on December 13, 2017. However, the company remained in operation up to May, 2018. Resultantly winding up of the company was delayed inordinately for almost three (03) years and an amount of Rs.62.35 million was incurred as operational expenditure of the defunct company.

Inordinate delay in implementation of directions of the Prime Minister has resulted into extra financial burden of Rs.62.35 million on public exchequer up to the Financial Year 2018.

The matter was taken up with the management in June, 2018 and reported to the Ministry in August, 2018. It was replied that consequent upon directions from the Ministry of Water and Power on January 26, 2015, M/s E & Y Chartered Accountants was asked by CEO PPIB to conduct audit of the company for the period w.e.f August, 2013 to January, 2015. Further in the light of BoD decision dated December 13, 2017, all the deputation staff of PPPMCL was repatriated on 31st December, 2017. The reply was not tenable as Ministry of Water & Power conveyed approval of the Prime Ministry regarding repatriation of staff and officer on January 26, 2015. Thereafter retaining the employees causing huge operational expenditure was irregular and unjustified.

The PAO did not hold any DAC despite request.

Audit recommends that matter needs to be investigated for fixing responsibility regarding irregular expenditure due to inordinate delay in implementation of Prime Minister's directives.

(Draft Para No. 24/2018-19)

22.3.6 Irregular payment of excessive pay & allowance to officers under Executive Grades (PEG I-IV) - Rs.22.37 million

The Finance Division (Regulations Wing) vide No. F.4(2)-R/2014 dated March 28, 2014 advised Ministry of Water & Power for adoption of Management Position Scales (MP-I, MP-II & MP-III) or Management Scales (M-I, M-II & M-III) in respect of employees of Pakistan Power Parks Management Company Ltd. (PPPMCL)." The Prime Minister Office vide No. PM's Office U.O 328/DS (EA-II)/2014 dated April 30, 2014 directed Ministry of Water & Power for seeking concurrence/ approval of the Finance Division for the proposed pay scales/ grades for the employees of PPPMCL."

In PPPMCL Islamabad, In response to summary for seeking exemption from ban to fill posts in PPPMCL moved to the Prime Minister on February 12, 2014. The Prime Minster Office directed Ministry of Water & Power on April 30, 2014 to obtain concurrence from Finance Division. Whereas, the Finance Division already advised Ministry of Water & Power on March 28, 2014 for adoption of Management Position Scales or Management Scales for employees of PPPMCL. But contrarily, the BoD of PPPMCL on May 23, 2014 granted approval for payment of pay & allowances under Executive Grades. Accordingly, the officers of PPPMCL were paid under Executive Grades (PEG I-IV) up to October 2014. However, the Prime Minister Office categorically directed on August 05, 2014 for equating all scales with MP scales as per earlier decision of Finance Ministry which was implemented by the Company. But excess pay & allowances amounting Rs.22.37 million paid under Executive Grades up to October 2014 was required to be recovered from the employees.

Non-compliance of Prime Minister Office directions and advice of the Finance Division resulted into payment of excess pay & allowance amounting to Rs.22.37 million up to October, 2014.

The matter was taken up with the management in June, 2018 and reported to the Ministry in August, 2018. The management replied that on the directions of Ministry of Water & Power letter dated October 20, 2014, PPPMCL adopted

Equating the Executive Grade pay scale based with Management Position Scale w.e.f November, 2014. The reply was not tenable as the Finance Division advised Ministry of Water & Power on March 03, 2014 for adoption of Management Position Scales in respect of employees of PPPMCL.

The PAO did not hold any DAC despite request.

Audit recommends that the management needs to investigate the matter for fixing responsibility besides recovering the excess paid pay & allowances from the employees.

(Draft Para No. 14/2018-19)

22.3.7 Recoverable House Rent Allowance from allotees of Government residences – Rs.10.01 million

According to clause- 15(4-c) of Accommodation Allocation Rules 2002 (Ministry of Housing & Works), "an allottee who is transferred to an autonomous organization at the same station may retain the accommodation under intimation to the Estate Office and the total monthly house rent allowance payable to the allottee or his rental ceiling, whichever is more, will be payable into government treasury by the organization."

In PPPMCL, house rent allowance amounting to Rs.10.01 million in respect of four (04) employees having government allotted residences was paid to the employees along with their monthly pay & allowances instead of depositing into the government treasury by management. Resultantly, these employees simultaneously withdrew house rent allowance in addition to availing government allotted residence.

Non-adherence to the Accommodation Allocation Rules-2002 of resulted into loss of Rs.10.01 million up to the Financial Year 2017-18.

The matter was taken up with the management in June, 2018 and reported to the Ministry in August, 2018. The management replied that the house rent allowance was granted to the employees after receiving undertaking for depositing personally by these employees against Government allotted residences. The reply was not tenable as house rent allowance pertaining to employees availing Government allotted residence was to be paid into Govt. Treasury by the borrowing organization / department.

The PAO did not hold any DAC despite request.

Audit recommends that the management needs to fix responsibility for non-adherence to Accommodation Rules-2002 besides effecting recovery of Rs.10.01 million from the delinquents.

(Draft Para No. 12/2018-19)

CHAPTER-23

NATIONAL POWER PARKS MANAGEMENT COMPANY LIMITED (NPMCL)

23. NATIONAL POWER PARKS MANAGEMENT COMPANY LIMITED (NPPMCL)

23.1 Introduction

National Power Parks Management Company Private Limited was established and entrusted with the task to inject 2400 MW into the national system through government's own resources under the auspices of Ministry of Water & Power. The company has established two state of the art Re-gasified Liquid Natural Gas (RLNG) based Combined Cycle Power Plants; 1223 MW CCPP at Balloki, District Kasur and 1230 MW CCPP at Haveli Bahadur Shah, Jhang, which are providing cheap electricity to the national grid owing to their unparalleled latest technology and high efficiency since their commercial operations on 9th May, 2018 and on July 29th 2018 respectively. Engineering Procurement & Construction (EPC) contracts for both the projects were awarded in the last quarter of 2015 and Operation and Maintenance (O &M) contracts for both plants were awarded within 18 month of ground breaking.

23.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, "the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of financial year adopted by the company".

In NPPMCL, the Profit & Loss account and Balance Sheet of the company for the Financial Year 2017-18 could not be finalized by the management up till December 31, 2018.

23.3 AUDIT PARAS

23.3.1 Mis-procurement of works due to post bid reduction in prices – Rs.120,213.65 million

According to Rule-31 (1) of Public Procurement Rules-2004, "No bidder shall be allowed to alter or modify his bid after the bids have been opened. However the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid". According to PPRA's office memo No. F.3 (12)/DD-II/PPRA/2010 dated July 23, 2010, "Following laws for bid price matching: PPRA Rule-40. United Nations Commission on International Trade Law (UNCITRAL) Article 35, and Section 3 (f) of the Competition Ordinance, 2010.

In NPPMCL, two (02) ICB tenders for Engineer, procurement and construction of power plants of 1200 MW at Haveli Bahadur Shah and 1223 MW at Balloki were invited. M/s Power China and M/s Hebine quoted the lowest price of US$ 595.44 million and US$ 565.39 million in respect of said power plants. Later on, the bid prices were reduced to US$ 589.44 million and US$ 562.60 million, which were accepted and contracts awarded to the said contractors. The award of contracts amounting to US$ 1,152.05 million equivalent to Rs.120,213.65 million was irregular as change in the bid price was not allowed by PPRA Rules. Secondly reduction in price was indication of the fact that bidder was not the lowest responsive bidder.

Non-adherence to the PPRA Rules resulted in mis-procurement of works amounting to US$ 1,152.05 million equivalent to Rs.120,213.65 million due to post bid reduction in prices during the Financial Years 2014-15 to 2016-17.

The matter was taken up with the management in March, 2018 and reported to the Ministry in December, 2018. The management replied that voluntary discount by the lowest bidder was not banned under PPRA rules. The reply was not tenable as post bid reduction was disallowed in any case.

The DAC in its meeting held on December 20-21, 2018 directed the management to get the stance verified to Audit in support of view point. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to investigate the matter regarding non-observance of PPRA rules besides fixing responsibility.

(Draft Para No. 1531/2018-19)

23.3.2 Non-recovery of liquidated damages from Contractors - Rs.9,139 million

According to Schedule 10 (Para-3.5) of EPC Contracts for 1223 MW & 1230 MW Re-gasified Liquefied Natural Gas (RLNG) based Combined Cycle Power Plant (CCPP) at Balloki and Haveli Bahadur Shah, LD charges shall be imposed on the Contractor at the rate specified in the Contract Agreement in case completion of gas turbine No.1 and No.2 is delayed by the Contractor".

In NPPMCL, two contract valuing US$ 562.60 million & US$ 589.45 million for engineering, procurement and construction of 1223 MW RLNG based

CCPP at Balloki & Haveli Bahadur was signed with M/s HEI-HRL JV & M/s PCC-QE JV on November 02, 2015 & October 13, 2015. Both the contractors could not complete the work of gas turbines No. 01 & 02 of the said projects within stipulated completion period and the said turbines achieved commercial operation date subsequently. However, the LD charges amounting to Rs.9,139 million (Rs.4,685 million + Rs.4,454 million) were neither imposed nor recovered from both the Contractors.

Non-adherence to the provision of EPC Contracts resulted in non-recovery of liquidated damages amounting to Rs.9,139 million from Contractor up to the Financial Year 2017-18.

The matter was taken up with the management in March, 2018 and reported to the Ministry in May, 2018. The management replied that an amount of US$ 111.205 million was recovered from the contractors on account of LD charges in the shape of reducing LC opened for payments to the contractors. The reply was not acceptable being not substantiated with the documentary evidences.

The DAC in its meeting held on December 20-21, 2018 directed the management to provide recovery record to Audit for verification within 15 days. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 01/2018-19)

23.3.3 Non-submission of adjustment accounts and surrendering of unspent balance - Rs.4,290.97 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. According to Rule-10 (i) of GFR, "every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money".

In NPPMCL, funds amounting to Rs.734.97 million were placed upon the Land Acquisition Collector for land acquisition and property compensation and an amount of Rs.3,556 million was transferred to M/s SNGPL for construction of

Spur Gas Pipe Lines for RLNG based CCPP at Balluki and Haveli Bahadur Shah. The authenticity and bona fide use of the funds of Rs.4,290.97 million, placed upon the LAC & SNGPL, could not be ascertained as the adjustment accounts alongwith supporting documents were not provided to Audit. Moreover, unspent balance of Rs.640 million along with interest accrued thereon on account of deposit work for gas pipeline at Haveli Bahadur Shah was required to be recovered from SNGPL, which was not done.

Non-adherence to the instructions resulted in non-submission of adjustment accounts and surrendering of unspent balance amounting to Rs.4,290.97 million up to the financial year 2017-18.

The matter was taken up with the management in March, 2018 and reported to the Ministry in May, 2018. The management replied that the adjustment accounts were ready for verification and the matter for recovery of unspent balance was being pursued with SNGPL. The reply was not agreed to as neither the adjustment accounts were provided nor the unspent balance got recovered from SNGPL.

The DAC in its meeting held on December 20-21, 2018 directed the management to produce adjustment account for verification to Audit within a week besides pursuing the matter vigorously with SNGPL so that the unspent balance could be received back from SNGPL. No progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives.

(Draft Para No. 03 & 05/2018-19)

23.3.4 Loss due to award of O&M contract at higher rates – Rs.2,882.47 million

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

In NPPMCL, Six (06) qualified bidders had quoted their rates in response to tender for operation & maintenance of 1223 MW Combined Cycle Power Plant at Balloki. The O&M Contract was award to M/s TNB at price US$ 175.98 million. At the same time, another O&M contract for 1230 MW CCPP at Haveli

Bahadur Shah was also award to M/s SEPCO-III at a contract price of US$148.49 million. Since, both the said power plants were based on same plant & machinery and same type of fuel i.e. Re-gasified Liquefied Natural Gas (RLNG) and even HBS power plant was higher in capacity hence, award of O&M contract for power plant at Balloki at higher rates was not justified, which entailed loss of US$ 27.49 million equivalent to Rs.2,882.47 million due to non-competitive bidding.

Non-adherence to General Financial Rules resulted in loss of US$ 27.49 million equivalent to Rs.2,882.47 million due to award of O&M contract at higher rates during the Financial Years 2014-15 to 2016-17.

The matter was taken up with the management in March, 2018 and reported to the Ministry in December, 2018. The management replied that two separate and distinct procurement processes fulfilling all requirements of PPRA Rules resulting into award of contract to the lowest bidder. These two distinct procurement processes had fetched different prices. The reply was not tenable as no post bid cost analysis was made.

The DAC in its meeting held on December 20-21, 2018 directed the management to submit record for verification. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

(Draft Para No. 1530/2018-19)

ANNEXURE

Annexure-I

MFDAC PARAS

Sr. No.	DP No.	Company	Subject	Amount (Rs. in million)
1	1389	PEPCO	Loss due to irregular grant of transport subsidy /conveyance allowance - Rs.3.14 million	3.14
2	1421	PEPCO	Un-reliable and understated assets due to non-revaluation of assets - Rs.67.11 million	67.11
3	1483	PEPCO	Loss due to damage and theft of energy savers in FESCO - Rs.0.20 million	0.20
4	598	GENCO-I	Loss due to non-charging of stamp duty on procurement - Rs.0.27 million	0.27
5	634	GENCO-II	Non recovery of outstanding building rent from Bank - Rs.25.57 million	25.57
6	635	GENCO-II	Non recovery of outstanding electricity dues from employees - Rs.4.56 million	4.56
7	1261	GENCO-II	Non-finalization of disciplinary cases	0.00
8	479	GENCO-III	Non-recovery of rent from MEPCO employees - Rs.12.50 million	12.50
9	482	GENCO-III	Non-clearance of long outstanding payables - Rs.164.29 million	164.29
10	484	GENCO-III	Non-recovery of standard rent from occupants other than GENCO-III - Rs.5.48 million	5.48
11	485	GENCO-III	Non-finalization of inquiry reports	0.00
12	517	GENCO-III	Non-recovery of standard rent from private occupants - Rs.1.2 million	1.20
13	518	GENCO-III	Doubtful procurement of material - Rs.3.87 million	3.87
14	543	GENCO-III	Irregular award of work order on quotations basis - Rs.0.92 million	0.92
15	648	GENCO-III	Extra expenditure on shifting of furnace oil - Rs.100.22 million	100.22
16	658	GENCO-III	Irregular execution of work - Rs.686.22 million	686.22
17	693	GENCO-III	Inordinate delay in construction of road - Rs.20.62 million	20.62
18	1306	GENCO-III	Irregular procurement of material and services - Rs.54.54 million	54.54
19	1066	GENCO-IV	Doubtful expenditure on account of HSD oil for disposal of ash - Rs.9.71 million	9.71
20	1068	GENCO-IV	Non-reconciliation with CPPAG - Rs.1,190.04 million	1,190.04
21	1070	GENCO-IV	Non-recovery of standard rent from occupants - Rs.1.11 million	1.11
22	1500	GHCL	Loss due to non-installation of UAE gifted power plant - Rs.201,448.99 million	201,448.99

23	1508	GHCL	Un-justified payment of office building rent - Rs.11.33 million	11.33
24	1516	GHCL	Non-completion of work in progress - Rs.318.86 million	318.86
25	1517	GHCL	Loss due to forced outages - Rs.660.72 million	660.72
26	8	NTDC	Extra expenditure on publishing of corrigenda in newspapers - Rs.1.32 million	1.32
27	16	NTDC	Irregular expenditure on publishing of tender in local newspapers - Rs.2.20 million	2.20
28	21	NTDC	Irregular expenditure on publishing of tender in local newspapers - Rs.2.84 million	2.84
29	37	NTDC	Non-adjustment of land & crops compensation / mobilization advances - Rs.129.06 million	129.06
30	106	NTDC	Non-return of dismantled towers to store - Rs.5.86 million	5.86
31	381	NTDC	Non-maintenance of inventory / assets registers - Rs.435.30 million	435.30
32	393	NTDC	Loss due to missing of tower material - Rs.12.80	12.80
33	469	NTDC	Irregular expenditure on publishing of tender in local newspapers - Rs.2.42 million	2.42
34	692	NTDC	Non-deduction of income tax - Rs.88.85 million	88.85
35	813	NTDC	Less deduction of income tax on sale of scrap - Rs.0.30 million	0.30
36	814	NTDC	Irregular issuance of material without gate pass - Rs.147.50 million	147.50
37	826	NTDC	Non-adjustment of surplus material - Rs.1.15 million	1.15
38	828	NTDC	Irregular storage of material of other formations - Rs.273.175 million	273.18
39	953	NTDC	Excess payment on account of trees to forest department - Rs.1.12 million	1.12
40	957	NTDC	Irregular payment to G.M services without documents - Rs.0.13 million	0.13
41	1238	NTDC	Irregular payment of remuneration to BoD members - Rs.2.81 million	2.81
42	1381	NTDC	Non-recovery of material transferred to DISCOs - Rs.606 million	606.00
43	142	FESCO	Irregular drawal of conveyance allowance - Rs.0.48 million	0.48
44	146	FESCO	Charging of same to same reading to consumers	0.00
45	294	FESCO	Non-recovery on account of advances, dacoity / robbery from employees - Rs.1.87 million	1.87
46	410	FESCO	Loss due to undue favor to consumer - Rs.2.83 million	2.83
47	559	FESCO	Unjustified pay and allowance of contract employees - Rs.1.00 million	1.00

48	712	FESCO	Unjustified charging of pay and allowances - Rs.0.42 million	0.42
49	939	FESCO	Less recovery of feeder rehabilitation charges from industrial consumers - Rs.1.77 million	1.77
50	1230	FESCO	Non-recovery of standard rent - Rs.0.86 million	0.86
51	1260	FESCO	Irregular expenditure incurred over and above the sanctioned budget - Rs.86.31 million	86.31
52	1277	FESCO	Irregular approval for payment of cost of deposit work in installments - Rs.1,159.29 million	1,159.29
53	1279	FESCO	Irregular retention of material without approved reserve stock limit - Rs.1,605.37 million	1,605.37
54	1350	FESCO	Loss due to bogus credit given to consumers - Rs.0.08 million	0.08
55	1491	FESCO	Unjustified execution / completion of works - Rs.158.35 million	158.35
56	1511	FESCO	Non-recovery of standard rent from private occupants - Rs.4.04 million	4.04
57	121	GEPCO	Loss due to non-charging of units for using low power factor by the consumers - Rs.0.27 million	0.27
58	198	GEPCO	Non-recovery of electricity cost from consumers - Rs.11.56 million	11.56
59	314	GEPCO	Irregular issuance of supply order - Rs.26.061 million	26.06
60	319	GEPCO	Irregular allotment of vehicle - Rs.1.02 million	1.02
61	320	GEPCO	Non-utilization of ADB loan Tranche-III - Rs.114.80 million	114.80
62	326	GEPCO	Unauthentic expenditure on account of POL due to non-production of record - Rs.24.18 million	24.18
63	394	GEPCO	Unauthentic expenditure on POL / repair of vehicles - Rs.2.73 million	2.73
64	428	GEPCO	Doubtful expenditure on account of work in progress - Rs.6.74 million	6.74
65	500	GEPCO	Irregular payment - Rs.30.95 million	30.95
66	502	GEPCO	Loss due to non charging of units for using low power factor by the consumers - Rs.0.70 million	0.70
67	968	GEPCO	Un-justified retention / non-remittance of funds to CPPA - Rs.71.87 million	71.87
68	977	GEPCO	Loss due to imposition of penalty by FBR - Rs.9.67 million	9.67
69	984	GEPCO	Non-debiting / billing of accepted audit notes by the revenue offices - Rs.10.10 million	10.10
70	990	GEPCO	Non-payment to contactors - Rs.24.95 million	24.95
71	992	GEPCO	Extraordinary increase on account of repair and maintenance - Rs.270.02 million	270.02
72	993	GEPCO	Non-recovery of interest income - Rs.41 million	41.00
73	1038	GEPCO	Loss due to double drawal of material - Rs.1.26 million	1.26

74	1042	GEPCO	Non-recovery on account of vehicles provided by GEPCO - Rs.12.85 million	12.85
75	1050	GEPCO	Loss due to irregular allotment of vehicle - Rs.1.67 million	1.67
76	1053	GEPCO	Irregular extension of load by installing lower capacity transformer - Rs.14.87 million	14.87
77	42	HESCO	Irregular expenditure on accounts of village electrification schemes without the coverage of coddle formalities - Rs.65.17 million	65.17
78	46	HESCO	Irregular expenditure on account of electrification of Qadri Housing Society - Rs.28.27 million	28.27
79	88	HESCO	Huge loss on account of non-recovery of GST & NJ surcharge from e-bills of employees - Rs.12.92 million	12.92
80	371	HESCO	Excess booking of 1.13 million units on 11KV feeders - Rs.11.39 million	11.39
81	1073	HESCO	Irregular release of withheld quantities - Rs.4.50 million	4.50
82	1409	HESCO	Loss of revenue due to overbilling by CPPA - Rs.899.46 million	899.46
83	1436	HESCO	Unjustified payment due to irregular retention of D.G HRA against the post of company secretary - Rs.0.29 million	0.29
84	1478	HESCO	Over payment to contractor due to excess measurement of BOQ items - Rs.6.21 million	6.21
85	305	IESCO	Excess drawal of transformers - Rs.5.00 million	5.00
86	349	IESCO	Un-justified debiting of detection bills - Rs.9.00 million	9.00
87	452	IESCO	Loss due to un-justified revision of detection bills - Rs.1.22 million	1.22
88	1321	IESCO	Unjustified expenditure incurred on POL - Rs.1.58 million	1.58
89	1366	IESCO	Less recovery of cost of power transformer - Rs.0.57 million	0.57
90	1369	IESCO	Non-recovery of amount of on account of deposit work - Rs.5.58 million	5.58
91	1373	IESCO	Non-return over of balance / spare material - Rs.6.67 million	6.67
92	1377	IESCO	Wasteful expenditure on account of training - Rs.1.53 million	1.53
93	1380	IESCO	Non-recovery from contractor on account of broken poles - Rs.0.79 million	0.79
94	1392	IESCO	Unspent balance against completed deposit works - Rs.51.79 million	51.79
95	1452	IESCO	Non-recovery of amount pointed out in internal inspection report – Rs.1,216.02 million	1,216.02

96	1523	IESCO	Irregular benefits extended to the officers on account of posting / transfer - Rs.3.35 million	3.35
97	64	LESCO	Loss due to irregular extension in due dates of bills given to industrial consumers - Rs.1,453.62 million	1,453.62
98	66	LESCO	Unjustified payment of taxes to FBR on account of free electricity to staff - Rs.80.46 million	80.46
99	67	LESCO	Recoverable hostel charges from officers residing in bachelor hostel - Rs.0.73 million	0.73
100	72	LESCO	Non-production of record against withdrawal of cash - Rs.0.25 million	0.25
101	98	LESCO	Loss due to non-repairing of minor faulted TOD / TOU meters - Rs.2.24 million	2.24
102	99	LESCO	Irregular award of supply order - Rs.106.91 million	106.91
103	107	LESCO	Irregular payment of meeting fees to Board members employed in government / semi government departments - Rs.1.96 million	1.96
104	112	LESCO	Recoverable amount from Mr. Abdul Rehman Ex-General Manager due to non-vacation of official residence - Rs.0.95 million	0.95
105	151	LESCO	Non-recovery of excess expenditure incurred over deposited amount from LDA - Rs.8.73 million	8.73
106	155	LESCO	Non-return of savings to sponsoring agencies - Rs.49.77 million	49.77
107	156	LESCO	Irregular payment on account of advance increments of MBA qualification - Rs.0.21 million	0.21
108	189	LESCO	Unjustified payment on account of POL - Rs.3.98 million	3.98
109	290	LESCO	Unauthentic expenditure - Rs.33.80 million	33.80
110	526	LESCO	Non-installation of material drawn from store - Rs.27.61 million	27.61
111	539	LESCO	Non-charging of testing fee and dehydration charges - Rs.0.53 million	0.53
112	540	LESCO	Excess drawal of material - Rs.47.41 million	47.41
113	560	LESCO	Blockage of funds due to un-presented cheques - Rs.2.13 million	2.13
114	927	LESCO	Loss due to non-functioning of abandoned feeders - Rs.175.00 million	175.00
115	928	LESCO	Non-obtaining of NOC from environment protection department - Rs.337.61 million	337.61
116	930	LESCO	Non-publication of the award of contracts as per ADB guidelines - Rs.542.34 million	542.34
117	934	LESCO	Non-deduction / recovery of income tax - Rs.4.55 million	4.55
118	966	LESCO	Loss due to non-deduction of sales tax - Rs.35.11 million	35.11
119	1002	LESCO	Irregular / unjustified payment of pension to pensioners - Rs.10.21 million	10.21

120	1114	LESCO	Loss due to non-repairing of damaged TOD / TOU meters - Rs.2.52 million	2.52
121	1137	LESCO	Non-rectification of discrepancies / shortage of material of newly constructed grid stations	0.00
122	1172	LESCO	Recoverable amount from officers - Rs.0.36 million	0.36
123	1178	LESCO	Unjustified/ irregular payment of foreign travelling allowance to officer - Rs.0.46 million	0.46
124	1466	LESCO	Loss due to extension in due date of payment to industrial consumers - Rs.407.85 million	407.85
125	607	MEPCO	Loss due to ignoring 1st lowest bidder - Rs.5.64 million	5.64
126	619	MEPCO	Irregular procurement of material in violation of PPRA Rules - Rs.4.76 million	4.76
127	621	MEPCO	Loss due to payment of sales tax without sales tax invoice - Rs.1.03 million	1.03
128	665	MEPCO	Non-return of material issued on loan basis to the contractors - Rs.26.17 million	26.17
129	666	MEPCO	Loss due to purchase of disputed land - Rs.5.00 million	5.00
130	843	MEPCO	Irregular execution of LT Proposal against the Distribution rehabilitation guidelines - Rs.1.81 million	1.81
131	845	MEPCO	Loss due to running of industrial connection from distribution transformers - Rs.1.08 million	1.08
132	863	MEPCO	Non-recovery of energy charges from private consumers - Rs.6.97 million	6.97
133	998	MEPCO	Non-deduction of withholding tax from the retained amount of service charges on account of PTV license fee - Rs.2.61 million	2.61
134	570	PESCO	Blockage of government funds due to non-surrendering of PSDP budget savings - Rs.1,201.28 million	1,201.28
135	571	PESCO	Irregular expenditure incurred on works over and above the administrative approval and technical sanction - Rs.396.13 million	396.13
136	804	PESCO	Loss due to less supply of power transformer - Rs.35.58 million	35.58
137	808	PESCO	Loss due to non completion of work in scheduled time period - Rs.192.48 million	192.48
138	822	PESCO	Irregular payment of items in excess over BOQ items of works - Rs.19.66 million	19.66
139	823	PESCO	Loss due to levy of commitment charges for non-utilization of loans - Rs.258 million	258.00
140	1105	PESCO	Non-availability of record of material drawn from store - Rs.9.35 million	9.35
141	1185	PESCO	Non recovery of cost of illegal issuance of transformers and other material from store - Rs.21.07 million	21.07

142	1186	PESCO	Non-handing over of completed works to operation sub divisions - Rs.46.80 million	46.80
143	1193	PESCO	Wasteful expenditure on engagement of consultants - Rs.1.29 million	1.29
144	1280	PESCO	Non-reduction in green house gases emission due to non-distribution of CFLs - Rs.1.14 million	1.14
145	1314	PESCO	Uneconomical engagement of PESCO Police Stations	0.00
146	1527	PESCO	Irregular auction of custom paid vehicles - Rs.0.81 million	0.81
147	583	QESCO	Infructuous expenditure incurred on construction of grid station and transmission line - Rs.106.56 million	106.56
148	593	QESCO	Investment at risk under ADB Loan-2972 Tranche-III - Rs.1,583.33 million	1,583.33
149	698	QESCO	Loss of revenue due to line losses beyond NEPRA's targets - Rs.470.55 million	470.55
150	743	QESCO	Non-production of record regarding consultancy agreement	0.00
151	871	QESCO	Irregular capitalization of maintenance works - Rs.2.82 million	2.82
152	1168	QESCO	Non-recovery of standard rent from employees - Rs.5.60 million	5.60
153	1210	QESCO	Non-recovery on account of industrial support package - Rs.245.34 million	245.34
154	1251	QESCO	Non-reshuffling of staff for years together	0.00
155	125	SEPCO	Non-recovery of less charging of material cost to consumer - Rs.0.89 million	0.89
156	132	SEPCO	Unjustified credits to permanent disconnected consumer - Rs.1.25 million	1.25
157	259	SEPCO	Loss due to excessive auxiliary consumption - Rs.42.56 million	42.56
158	264	SEPCO	Non-placement of Circuit Breaker / Lightning Arrestor /110 V-DC Battery Bank in System - Rs.7.06 million	7.06
159	376	SEPCO	Non-recovery of system up-gradation and rehabilitation charges - Rs.7.49 million	7.49
160	377	SEPCO	Misuse of CMD VII-B and PMSDG's Funds by including Grid station cost in estimates - Rs.11.50 million	11.50
161	434	SEPCO	Irregular inclusion of contingency charges in the estimates - Rs.16.49 million	16.49
162	473	SEPCO	Irregular award of contracts at discounted rates - Rs.2.01 million	2.01
163	735	SEPCO	Irregular procurement of transportation services on quotation basis instead of open competitive bidding - Rs.0.65 million	0.65
164	737	SEPCO	Non-achievement of envisaged benefits due to inefficient utilization of PSDP Funds - Rs.1,225 million	1,225.00

165	740	SEPCO	Loss due to non-return of vehicles & office equipment by the consultant - Rs.1.20 million	1.20
166	1093	SEPCO	Loss due to non-recovery of excess payment / penalty imposed to employees - Rs.3.52 million	3.52
167	1095	SEPCO	Irregular payment of meeting fees to board members employed in government / semi government departments - Rs.0.77 million	0.77
168	1096	SEPCO	Non-recovery of MDI / fixed charges of agreed audit notes - Rs.6.03 million	6.03
169	249	TESCO	Overcharging of installation charges - Rs.5.18 million	5.18
170	251	TESCO	Irregular payment through CFC (Cash for chest) - Rs.4.44 million	4.44
171	311	TESCO	Irregular expenditure without supporting documents - Rs.1.66 million	1.66
172	528	TESCO	Less recovery of capital cost from the marble factories - Rs.1.13 million	1.13
173	659	TESCO	Non-recovery of standard rent from illegal occupants - Rs.1.15 million	1.15
174	1262	TESCO	Non recovery / non-return of material issued on loan basis to the contractors - Rs.81.31 million	81.31
175	1281	TESCO	Non-recovery of meter security - Rs.47.11 million	47.11
176	1303	TESCO	Non-completion of supply of stores at the risk and cost of firms - Rs.55.61 million	55.61
177	230	PITC	Non-carrying out of stock verification of assets - Rs.121.86 million	121.86
178	335	PITC	Irregular drawal of remuneration of BOD meetings by the Company Secretary	0.00
179	512	CPPA(G)	Unjustified payment made on account of Directors' remunerations - Rs.15.61 million	15.61
180	546	CPPA(G)	Non-adjustment of temporary advances give to employees – Rs.7.07 million	7.07
181	547	CPPA(G)	Irregular payment of arrears of premature increments - Rs.1.04 million	1.04
182	650	CPPA(G)	Undue favor to Hamza Sugar mills due to non-finalization of disputed amount of liquidated damages - Rs.24.57 million	24.57
183	651	CPPA(G)	Misprocurement of internet services without open competitive bidding - Rs.2.05 million	2.05
184	719	CPPA(G)	Unjustified payment to a legal firm Rs.1.00 million	1.00
185	729	CPPA(G)	Irregular reemployment of official after superannuation and payment of salary - Rs.0.64 million	0.64
186	731	CPPA(G)	Irregular approval of power policy and execution of power purchase agreements	0.00
187	770	CPPA(G)	Irregular payment of gratuity to reemployed employees - Rs.2.77 million	2.77
188	771	CPPA(G)	Irregular payment of meeting fee to the members of BoD - Rs.4.63 million	4.63

189	896	CPPA(G)	Loss due to energy purchased at higher rate against miscalculation of economic dispatch order - Rs.407.28 million	407.28
190	1403	CPPA(G)	Irregular appointment of staff and payment of salary thereof - Rs.5.03 million	5.03
191	1480	CPPA(G)	Less remittance on account of energy collection by the distribution companies - Rs.199,205 million	199,205.00
192	1536	CPPA(G)	Loss due to accumulation of Circular Debt – Rs.172,832 million	172,832
193	1139	PHPL	Irregular payment of meeting fees to BoD members - Rs.1.41 million	1.41
194	1141	PHPL	Imprudent expenditure on POL and R&M of vehicles - Rs.6.29 million	6.29
195	1153	PHPL	Unjustified claim of Finance Division for equity injection in DISCOs on account of markup paid in respect of STFF	0.00
196	1481	PHPL	Irrational payment of principal installment and markup by CPPA(G) on behalf of Finance Ministry - Rs.3.09 million	3.09
197	1534	PHPL	Non-transfer of profit to Finance Division - Rs.51.18 million	51.18
198	17	PPPMCL	Loss due excess deduction of income tax for non-registration with FBR as filer - Rs.2.39 million	2.39
199	18	PPPMCL	Unjustified payment of pay & allowances due to unnecessary appointment of Deputy General Manager (Corporate Affairs) - Rs.9.30 million	9.30
200	19	PPPMCL	Non deduction of income tax at source - Rs.0.25 million	0.25
201	20	PPPMCL	Irregular payment of medical claim - Rs.0.62 million	0.62
202	22	PPPMCL	Irregular expenditure due to violation of decision of Central Working Development Party (CWDP) - Rs.48.25 million	48.25
203	23	PPPMCL	Irregular payment of direct cost to M/s NESPAK - Rs.23.76 million	23.76
204	25	PPPMCL	Irregular payment due to violation of Pakistan Engineering Council Conduct and Practices Consulting Engineers Bye-Laws - Rs.156.60 million	156.60
205	27	PPPMCL	Loss due to excess deduction of income tax on the profit of Term Deposit Receipt - Rs.1.35 million	1.35
206	28	PPPMCL	Irregular / doubtful payment to the Consultants for execution of civil works and third party payment - Rs.53.00 million	53.00
207	29	PPPMCL	Less deduction of income tax at source - Rs.9.64 million	9.64
208	32	PPPMCL	Non-production of record - Rs.373.00 million	373.00
209	33	PPPMCL	Irregular decision of winding up of the Pakistan Power Parks Management Company Limited	0

210	2	NPPMCL	Non-recovery of cost of failed reliability run test from contractor - Rs.528.53 million	528.53
211	6	NPPMCL	Irregular payment of meeting fees to BoD members employed in government owned company and Ministry - Rs.1.64 million	1.64
212	7	NPPMCL	Irregular expenditure in excess than provision of revised PC-I - Rs.7.86 million	7.86
213	1532	NPPMCL	Loss on account of markup due to over payment - Rs.1.17 million	1.17
214	1533	NPPMCL	Avoidable expenditure on account of LC commission - Rs.277.12 million	277.12
			Total	**596,236.70**