



**SPECIAL STUDY REPORT
ON
PROCUREMENT & INVENTORY
MANAGEMENT IN
HYDERABAD ELECTRIC SUPPLY
COMPANY (HESCO)
FOR THE FINANCIAL YEARS
2013-14 TO 2018-19
AUDIT YEAR 2019-20**

AUDITOR GENERAL OF PAKISTAN

PREFACE

The Auditor General conducts audits in terms of Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with Sections 8 and 12 of the Auditor General's (Functions, Powers, Terms and Conditions of Service) Ordinance 2001. The Special Study on Procurement & Inventory Management in HESCO was carried out accordingly.

The Directorate General of Audit (Power) conducted this Special Study on Procurement & Inventory Management in HESCO from July to August, 2019 for the period 2013-14 to 2018-2019 with a view to report significant findings to relevant stakeholders. The main objective of the study was to examine if procurement and management of inventory was being made in economical, efficient and transparent manner in HESCO. Other objectives included assessment on test check basis whether the management complied with applicable laws, rules and regulations in managing its inventory. Recommendations of this study report prescribe specific actions aimed at improving upon the existing practices of Procurement & Inventory Management in the Company. The report has been finalized in light of discussion held in Departmental Accounts committee meeting.

The Special Study 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: 30 MAR 2022

Sd/-
Muhammad Ajmal Gondal
Auditor General of Pakistan

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ABBREVIATIONS AND ACRONYMS

ACSR	Aluminum Conductor Steel-Reinforcement cable
ADB	Asian Development Bank
BER	Bid Evaluation Report
BoD	Board of Director
CE	Chief Engineer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COVID-19	Corona-Virus Disease - 2019
CSIS	Computerized Stores Inventory System
CTs	Current Transformers
DAC	Departmental Accounts Committee
DISCOs	Distribution Companies
ECNEC	Executive Committee of the National Economic Council
EoT	Extension of Time
ERP	Enterprise Resource Planning
FAT	Factory Acceptance Test
GM	General Manager
GRN	Goods Receipt Note
GSC	Grid Station Construction
GSO	Grid System Operation
GTN	Goods Transfer Note
HESCO	Hyderabad Electric Supply Company
HR	Human Resource
IFB	Invitation for Bid
JV	Journal Voucher
KEMA	Koen Electronic Media Agency
KM	Kilo Meters
KV	Kilo Volt
LD	Liquidated Damages
LME	London Metal Exchange
LoA	Letter of Acceptance
LOI	Letter of Intent
MIS	Management Information System
MVA	Mega Volt Ampere
NEPRA	National Electric Power Regulatory Authority
NTDC	National Transmission and Despatch Company

O&M	Operation and Maintenance
O.M.	Observation Memorandum
PC-I	Planning Commission Proforma I
PEL	Pak Electron Limited
PEPCO	Pakistan Electric Power Company
PKR	Pakistan Rupee
PMU	Project Management Unit
PO	Purchase Order
PPRA	Public Procurement Regulatory Authority
PSDP	Public Sector Development Programme
ROW	Right of Way
RP3	Line Relay Panel
SEPCO	Sukkur Electric Power Company
SR	Store Requisition
STGs	Secondary Transmission line and Grid Stations
T/F	Transformers
TOD	Time of Day
TOR	Terms of Reference
USAID	US AID
WAPDA	Water and Power Development Authority
WCIS	WAPDA Computerized Inventory System
XEN	Executive Engineer

EXECUTIVE SUMMARY

The Directorate General of Audit Power conducted Special Study on Procurement & Inventory Management in Hyderabad Electric Supply Company (HESCO) from July to August, 2019. The main objective of the audit was to find out whether the procurement was made in economical, efficient and transparent manner and in accordance with the prevailing rules and regulations.

During study the entire inventory management system was examined right from planning to procurement and handling of inventory in stores. Certain lapses were found in procurement of inventory of costly items like distribution transformers, conductors and electricity meters. Similarly, inventory was being managed through old and obsolete WAPDA Computerized Inventory System (WCIS) due to which the management was unable to maintain the desired level of correlation between the demand and supply of material. Similarly, movement of stock in the field and its utilization lacked transparency & efficiency which needs adequate check and balance. Hence, an integrated information system and system based work-flow would assist in ensuring efficient and effective inventory management. The study results have been compiled keeping in view the existing gaps in inventory management processes and relevant procedures.

a) Key Audit Findings

- i. Loss due to re-tendering for procurement of conductor -Rs.16.23 million¹
- ii. Loss due to issuance of purchase order to 3rd lowest bidder - Rs.3.14 million²
- iii. Irregular award of contract to non-responsive bidder Rs.46.32 million³
- iv. Irregular award of purchase order without considering the other bid-Rs.15.19 million⁴
- v. Irregular issuance of purchase order by decreasing 50% quantity-Rs.9.96 million⁵
- vi. Non forfeiture of Performance Guarantee owing to supply of inferior quality 132KV Line Relay Panel - Rs.29.09 million⁶
- vii. Non-renewal of performance guarantees –Rs.3.17 million⁷
- viii. Irregular issuance of inspection certificate of material–Rs.35.79 million⁸

¹ Para-4.22

² Para-4.32

³ Para-4.9

⁴ Para-4.23

⁵ Para-4.28

⁶ Para-4.13

⁷ Para-4.31

- ix. Blockage of funds due to un-necessary purchase of material - Rs.202.38 million⁹
- x. Irregular receipt of material without type tests - Rs.13.33 million¹⁰
- xi. Irregular award of purchase order without type test reports–Rs.16.55 million¹¹
- xii. Non-recovery from suppliers - Rs.423.39 million¹²
- xiii. Non up-gradation of outdated computerized stores inventory system (CSIS)¹³
- xiv. Non-return of damaged / dismantled transformers to stores - Rs.43 million¹⁴
- xv. Non-completion of 132KV transmission line project under ADB financing – Rs.353.41 million¹⁵

⁸ Para-4.12

⁹ Para-4.5

¹⁰ Para-4.25

¹¹ Para-4.21

¹² Para-4.1

¹³ Para-4.3

¹⁴ Para-4.10

¹⁵ Para-4.2

b) RECOMMENDATIONS

In view of the key audit findings, the following measures / suggestions are recommended for the management of HESCO to improve its Inventory Management: -

- Purchases may be made in competitive manner through proper evaluation of bids by adhering Public Procurement Rules and bidding clauses;
- Performance guarantee needs to be forfeited in case of default on the part of suppliers and expired performance guarantee be got extended.
- The material needs to be properly inspected to ensure its receipt in accordance with the standard specifications without any alteration in joint inspection clause;
- Un-necessary procurement and retention of material over & above the Reserve Stock Limit needs to be avoided and procurement be made within the same year for which it was planned;
- Type test of the material need to be ensured as per bidding documents / P.O. clauses and not to be waived off in lieu of extended warrantee.
- All the outstanding recoveries need to be made from the suppliers;
- The outdated Computerized Stores Inventory System (CSIS) needs to be updated;
- Asset management measures need to be beefed up in order to reduce the frequent instances of damage of electrical equipment and incidents of breakdown;
- The management is required to ensure judicious utilization of World Bank/ADB loans and working capital for procurement of material, through proper cost estimation/analysis;
- Economy, efficiency and transparency needs to be ensured in the inventory management system to maximize the benefit by allocating minimum financial and human resources besides taking appropriate action for any lapses in the matter.

1. INTRODUCTION

The company was incorporated on April 23rd, 1998 and certificate for commencement of business was obtained on July 1st, 1998 from NEPRA under section 146(2) of Companies Ordinance 1984. The registered office of the Company is situated in Hyderabad.

The principal activity of the Company is distribution and supply of electricity within defined geographical boundaries. The Company had obtained distribution license from National Electric Power Regulatory Authority (NEPRA) with the mission to provide un-interrupted electric supply and quality service to all the customers at the minimum possible cost. HESCO provides electricity to 12 districts of the Sindh Province through 4 Operation Circles, 15 Operation Divisions and 67 Operation Sub-divisions along with 6 Construction Divisions, 5 M & T Divisions and GSO formalities.

In order to have an effective control over procurement and movement of material / equipment in HESCO, a Computerized Stores Inventory System (CSIS) was installed in 1992. The said system was less responsive in addressing issues like preparation of Annual Procurement Plan, Competitive Statement for Procurement, Inventory Movement, Inventory Valuation & Utilization Status. In order to overcome the above deficiencies, HESCO needs to adopt an Enterprise Resource Planning (ERP) system.

DISCOs Accounting Manual was updated to meet the standards of NEPRA's uniform system of accounts policies, procedures, reporting requirements, business processes and such other items that would be consistent with an ERP environment and in compliance with International Accounting Standards as applicable in Pakistan. The accounting manual also outlines the accounting policies and procedures regarding inventory management to be followed by the DISCOs.

The Directorate General of Audit Power conducted Special Study on Inventory Management in Hyderabad Electric Power Company (HESCO) during July to August, 2019 from planning to procurement and handling of inventory in stores. Certain irregularities were found, which have been duly highlighted in the report alongwith recommendations.

2. STUDY DELINEATION

2.1 Scope of study

Scope of study was to provide an overall review of the Inventory Management System of HESCO for the period from 2013-14 to 2018-19.

2.2 Beneficiaries of study

The study would be beneficial to the management of HESCO and policy makers in particular and public in general.

2.3 Audit Objectives/TORs of the study

- i. To review Inventory Management System of HESCO
- ii. To evaluate the inventory system, as to what extent procurement, stocking and disbursement of material was made in an economical, efficient and transparent manner in accordance with the prevailing rules and regulations.
- iii. To examine whether Public Procurement Rules 2004 were observed in letter and spirit and proper cost estimation /analysis of major items of procurement was done before floating of tenders.
- iv. To assess whether the procurement was made at competitive rates, timely and need based.
- v. To assess if Reserve Stock limit of Inventory was observed in order to avoid unnecessary procurement.

3. METHODOLOGY

The methodology adopted during the execution of special study on test check basis was as under:

- Interview-cum-discussion with the management regarding procurement and inventory system of HESCO.
- Review of rules, regulations, processes and procedures governing procurement and stocking of the material.
- Review of compliance to PPRA Rules, 2004 in procurement of material.

Data was collected through requisition of record during execution of the study. The data was available in the offices of Manager Material Management,

Chief Engineer PMU, and related Regional/Field Stores, Warehouse and C-type stores. Main data was collected from the following sources.

- Procurement Plans
- Tendering Process
- Bidding Documents
- Bid Evaluation Reports
- Award of Purchase Orders / Contract agreements
- Stores Ledgers
- Material Allocation Orders
- Material Returns
- CSIS generated Reports

The qualitative, quantitative and comparative analysis of data regarding Inventory Procurement and Management System in HESCO was made. On the basis of such data analysis, the discrepancies have been reported in study results.

4. STUDY RESULTS

4.1 Non-recovery from suppliers - Rs.423.39 million

According to Rule-7 (g) Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall also formulate significant policies of the Public Sector Company, which may include write-off of bad or doubtful debts, advances and receivables.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was observed that the receivables of Rs.423.39 million from suppliers were appearing in trial balance since long. A specific provision was equally booked against the said receivables considering it bad / doubtful debts, which ultimately leads to loss of the Company. Moreover, details of such suppliers were not forthcoming from the record.

Inefficient financial management resulted in non-recovery of Rs.423.39 million from suppliers up to the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that the said amount had been reduced up to Rs.244.21 million.

The DAC in its meeting held on September 02, 2020 directed the management to get the record verified from Audit within 15 days. No record was produced till finalization of the report.

Audit recommends that the management needs to comply with the DAC's directives, besides expediting recovery / adjustment of remaining receivables and giving detailed justification for the delay in recovery and creating provision against receivables.

(O.M No. 5.32)

4.2 Non-completion of 132KV transmission line project under ADB financing – Rs.353.41 million

According to Rule-2A(a) of Public Sector Companies Corporate Governance Rules, 2013, “the business of the Public Sector Company is carried

on with integrity, objectivity, due care and professional skills appropriate to the nature and scale of its activities.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was observed in PMU that a turnkey contract for construction of 132KV Transmission line (Lot-I &II) was awarded to M/s LSN & Sean (JV-Consortium) Korea on 04.10.2014 with a completion period of 425 days upto 29.01.2016 & 22.01.2016 for Lot I & II respectively. The contractor could not complete the work within scheduled completion period and even caused further lapse of a period of 3.5 years. Slow pace of work resulted not only in delay in completion of work but also non-utilization of loan proceeds had to be borne by the Company from its own sources (PSDP) amounting to Rs.353.41 million as the ADB loan 2727 for Tranche-II was closed on 30.06.2018.

Inefficient Project Management resulted in non-completion of 132KV Transmission line under ADB financing – Rs. 353.41 million upto the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that the construction of 132 KV, T/Line delayed due to unforeseen reasons of paddy crops and ROW issues. After resolving the said obstacles, the work was started in full swing but again stopped due to COVID-19 pandemic.

The DAC in its meeting held on September 02, 2020 did not agree with the stance and directed the management to submit revised reply within 15 days to Audit. No revised reply was received till finalization of the report.

Audit recommends that the management needs to ensure compliance with DAC's decision.

(O.M No. 5.56)

4.3 Non up-gradation of outdated computerized stores inventory system (CSIS)

The authority introduced computerized stores inventory system (CSIS) in 1992. The objectives of CSIS were to give an overall view of the store's

inventory, establish procedures for the various types of stores transaction and provide detailed instructions to prepare various stores transactions.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was observed that old CSIS failed to achieve the desired objectives and became obsolete to meet the IT needs of the company. Moreover, System bugs were also present in the solution which reduced its viability. Despite budgetary allocation of Rs.323 million under PSDP during 2018-19, the system could not be upgraded / shifted to modern ERP system dully integrated with all the management functions, and to generate extensive MIS reports to assist in the decision-making process more efficiently and accurately.

Non up-gradation of inventory management system despite budgetary allocations indicated poor management operations of the company upto the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that a comprehensive action plan for ERP implementation was approved by the BOD in its 161st meeting. The tender for appointment of consultant was under process.

The DAC in its meeting held on September 02, 2020 did not agree with the stance and directed the management to submit revised reply within 15 days to audit. No revised reply was reviewed till finalization of the report.

Audit recommends that the management needs to ensure compliance with DAC's decision.

(O.M No. 5.37)

4.4 Non-disposal of unserviceable material lying in stores - Rs. 300 million

As per clause 1.4 of Manual of WAPDA Disposal Procedure “unserviceable vehicle and material / equipment are to be dispose off timely”

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it came to notice that

dismantled & unserviceable electrical material valuing Rs.300 million was lying in open yards of Regional Stores and adverse environmental condition causing deterioration and further decrease in its value. No efforts were made for carrying out survey reports of such material for its early disposal as forthcoming from record provided to audit.

In efficient asset management resulted in non-disposal of unserviceable material valuing Rs.300 million up to the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that the survey / verification reports of scrap material / vehicles had been prepared and auction was under process.

The DAC in its meeting held on September 2, 2020 directed the management to get the record verified from Audit within 15 days. No record was produced till finalization of the report.

Audit recommends that the management needs to ensure compliance with DAC's decision.

(O.M No. 5.49)

4.5 Blockage of funds due to un-necessary purchase of material - Rs.202.38 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.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was noticed that electrical & other material worth Rs.202.38 million, lying in Regional / Field stores, remained slow-moving / inactive as some of it was lying un-issued since 1997. This scenario indicated that the material, in question, was procured without forecasting / assessing the actual demand and ignoring the basic concept of inventory management i.e. maximum stock level, minimum stock level and re-

ordering level. Had the material been procured as per actual demand with due care, blockage of funds could have been avoided.

Non-adherence to Authority's instructions resulted in blockage of funds of Rs.202.38 million due to un-necessary purchase of material upto the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that all types of active and slow moving material were being issued to the operational, construction and GSO formations as per their demand, hence, the same were not purchased without forecasting / assessing the actual demand.

The DAC in its meeting held on September 02, 2020 did not agree with the stance of the management and directed to submit revised reply to Audit for verification within 15 days. No reply was received till finalization of the report.

Audit recommends that the management needs to comply with the DAC's directives besides utilizing the said material expeditiously.

(O.M No. 5.12)

4.6 Non-completion of delivery of material by suppliers – Rs.193.18 million

As per clause 9 of P.O. "the warranty certificate would be furnished that the goods supplied conform exactly to the specifications laid down in the contract and the brand new and that in the event of the material being found defective or not conforming to the specifications/governing supply at the time of delivery and for a period of 24 months from the date of completion of supply, you will be held responsible for all losses and that the unacceptable goods shall be substituted with the acceptable goods at your expense and cost.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was noticed that material valuing Rs.193.18 million was not received against various purchase orders issued to different suppliers/ manufacturers. Neither any action against the defaulters was taken nor were efforts made to get the entire material delivered from the suppliers / manufacturers.

Non adherence to the clauses of purchase orders resulted in non-completion of delivery of material valuing Rs.193.18 million up to the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that all the pending material amounting to Rs. 140.573 million had been received in stores. However, an amount of Rs. 52.622 million had been forfeited against 06 purchased orders.

The DAC in its meeting held on September 02, 2020 directed the management to get the record verified from Audit within 15 days. No record was produced till finalization of the report.

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

(O.M No. 5.14)

4.7 Non-rectification of discrepancies in inventory highlighted through MIS exception reports - Rs.154.36 million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rules-2013, "the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders".

During Audit of Procurement and Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was observed that various types of MIS exception reports amounting to Rs. 154.36 million such as excess receipts, nil issue, short receipt generated by CSIS/MIS were reported to Regional Stores for necessary remedial / correctives actions. However, no such action was taken by the respective Regional Stores. In the absence of clearance of such discrepancies in inventory balances, authenticity of stores inventory could not be ascertained.

Weak internal controls resulted in non-rectification of discrepancies in CSIS/MIS exception reports amounting to Rs.154.36 million up to financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that the discrepancies in CSIS / MIS exception reports were very old and the rectification process required careful attention. However, corrective steps were taken to reduce discrepancies.

The DAC in its meeting held on September 02, 2020 directed the management to submit revised reply to Audit for its verification within 15 days. No revised reply was produced till finalization of the report.

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

(O.M No. 5.45)

4.8 Poor planning resulting in non-procurement of material through ADB Loan – Rs.52.12 million

According to Rule-2A(a) of Public Sector Companies Corporate Governance Rules, 2013, “the business of the Public Sector Company is carried on with integrity, objectivity, due care and professional skills appropriate to the nature and scale of its activities.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was observed that the Invitation for Bid (IFB) for tender No.ADB-TR-III-HESCO-051(S)-Goods-2017 comprising 09 lots regarding procurement of 132KV Grid station and T/Line material with estimated value of Rs.52.12 million was opened on 14.11.2017. The case was referred for approval to the BoD for getting the procurement of material out of PSDP funds i.e. HESCO's own resources instead of ADB funding as inspection/delivery of material could not be completed upto 30.06.2018. Hence, poor planning and financial management put extra burden on the company's exchequer due to non-procurement of said material under ADB financing.

Poor planning resulted in non-procurement of material valuing Rs.52.12 million through ADB loan upto the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that in 02-Lots out of 09, procurement of material could not be matured.

The DAC in its meeting held on September 02, 2020 directed the management to submit revised reply and get verified the action taken against the supplier within 15 days. No further action was reported till finalization of the report.

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

(O.M No. 5.53)

4.9 Irregular award of contract to non-responsive bidder Rs.46.32 million

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

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it came to notice that a tender No.126 was opened on 02.07.2013 for supply of tower material and two firms i.e. M/s PECO Lahore and M/s Lion Steel Industries participated in tendering process. NTDC being evaluator recommended the case for award of contract to M/s PECO Lahore and declared M/s Lion Steel Industries as non-responsive. Contrary to recommendations of NTDC, the HESCO's bid evaluation committee recommended M/s Lion Steel for award of contract. Accordingly, the Purchase Order amounting to Rs.46.32 million was awarded on 04.04.2014 with a delivery period of 120 days upto 02.08.2014. The supplier failed to fulfill his contractual obligations regarding delivery of goods as evident from a show cause notice for black listing the firm was issued on 09.02.2015. After two years, the supplier offered the material for inspection on 10.03.2016 but the NTDC refused to entertain the inspection call of M/s Lion steel being HESCO's own decision. Hence, the award of purchase order was unjustified being in contradiction to the technical evaluation carried out by NTDC.

Non-adherence to standard procedures for award of contract led to favouritism and non-transparent procurement process for tower material valuing Rs.46.32 million upto the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that purchase order was placed upon M/s Lion Steel Lahore on the recommendations of the HESCO Bid evaluation Committee as per approval of Competent Authority. Accordingly, material was inspected and received in HESCO.

The DAC in its meeting held on September 02, 2020 did not agree with the stance of the management and directed that an inquiry be held at PEPCO level as well as take necessary action and submit report thereon to Audit. No further progress was reported till the finalization of report.

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

(O.M No. 5.7)

4.10 Non-return of damaged / dismantled transformers to stores - Rs.43 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.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was noticed that 358 new/reclaimed transformers of various capacities valuing Rs.43 million were issued to field formations against maintenance / augmentation works but the damaged dismantled transformers were not returned by the field formations even after lapse of 13 years. No disciplinary action was taken against the defaulters for return of damaged / dismantled transformers to store.

Non-adherence to Distribution Stores Material resulted in non-return of damaged / dismantled transformers worth Rs.43 million to stores upto the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that 146 damaged transformers remained to be returned to store as per current status and field formations had been instructed to return the same to store.

The DAC in its meeting held on September 02, 2020 directed the management to reconcile the difference, get the completed action verified from Audit besides expediting the pending actions. Further progress was not reported till finalization of the report.

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

(O.M No. 5.36)

4.11 Unjustified booking of provision against store shortage – Rs.39.98 million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rules-2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders”.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was observed in Regional Store Hyderabad that a provision was made in the accounts against store shortage amounting to Rs.39.98 million. However, detail of subject provision was not available on record. Moreover, no administrative/disciplinary action was initiated against officers / officials responsible for the shortcomings.

Non-adherence to Authority's instructions resulted in unjustified booking of provision against store shortage of Rs.39.98 million up-to the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that as per our record there was no shortage of material from 2013-14 to 2018-19.

The DAC in its meeting held on September 02, 2020 did not agree with the stance and directed the management to submit revised reply within 15 days to Audit. No revised reply was produced till finalization of the report.

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

(O.M No. 5.38)

4.12 Irregular issuance of inspection certificate of material – Rs.35.79 million

As per Clause-6 of Letter of Intent (LOI), inspection of material will be carried out by the representatives of HESCO and NTDC (Design) at the works of the firm.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it came to notice that a purchase order No.01-223 dated 11.02.2014 valuing Rs.35.79 million was placed on M/s Tariq Electric (Pvt) Ltd Lahore for supply of 11KV Incoming/Outgoing Panels. Since, the approval of drawings against LOI was granted by NTDC, hence, Clause-10 of P.O required revision with inclusion of joint inspection by the representatives of HESCO and NTDC otherwise the inspection Clause-6 of LOI became deficient and controversial to the Clause-10 of P.O as pointed out by NTDC. Instead of joint inspection by revising the PO clause-10, HESCO made inspection by itself in violation of LOI, which was irregular as the representative of NTDC should have also been witnessed during inspection being the approving authority of design.

Non-adherence to LOI clause resulted in irregular issuance of inspection certificate in respect of Incoming / Outgoing Panels of Rs.35.79 million up to the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that M/s Tariq Electric (Pvt). Ltd. Lahore already possessed

the prototype approval for the supply of 11 KV Incoming & Outgoing Panels and had successfully supplied the same to HESCO as well as to other DISCOs. Therefore, HESCO being a purchaser decided to carry out the inspection through HESCO's own Engineers as per approved technical data / drawings from the office of CE (Design) NTDC, Lahore due to urgent requirement of field formations.

The DAC in its meeting held on September 02, 2020 did not agree with the stance of the management and directed that an inquiry be conducted at PEPCO level, to take necessary action and submit report thereon to the Audit. Further progress was not reported till finalization of the report.

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

(O.M No. 5.9)

4.13 Non forfeiture of Performance Guarantee owing to supply of inferior quality 132KV Line Relay Panel - Rs.29.09 million

As per clause No.16 of Purchase Order, the supplier is entirely responsible for the successful execution of the contract/PO in all respects in accordance with the terms and conditions as specified in the contract/PO including the schedule.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it came into notice that a purchase order No.01-242 dated 26.12.2014 for supply of relay panel (RP3) valuing Rs.29.09 million was placed on M/s Siemens Pakistan, which was recommended for consideration subject to removal of the observations / discrepancies highlighted in Bid Evaluation Report. The said firm was required to provide the relay panel in accordance with the specific technical parameters, but it failed to do so. However, GM NTDC (System Protection) recommended for acceptance of manufacturers' proposal subject to the condition that all the delay should rest on M/s Siemens with imposition of cost deduction for providing inferior / below specified equipment. Hence, inferior quality material against the tender specifications was procured instead of forfeiting the performance guarantee.

Non-adherence to P.O Clause resulted in acceptance of inferior quality 132KV Line Relay Panel amounting to Rs.29.09 million, instead of forfeiting performance guarantee upto the financial year 2018-19.

The matter was taken up with the management in September 2020. The management replied that the said firm was recommended for consideration subject to removal of the observations highlighted in bid evaluation report. However, liquidated damages of Rs.2.33 million were recovered due to delay in supply of material and no any inferior quality material was purchased.

The DAC in its meeting held on September 02, 2020 did not agree with the stance of the management and directed to hold inquiry at PEPCO level and take necessary action and submit report thereon to Audit. Further progress was not reported till finalization of the report.

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

(O.M No. 5.3)

4.14 Non delivery of material by the supplier – Rs 26.89 million

As per clause 2 (iii) and 7 of special terms and condition of Notification of Award dated 07.02.2017 to M/s Suzhou Porcelain Insulator Works Co, Ltd China C/O EMEC Trading Co, Lahore (the supplier) for supply of Fog Type Disc Insulators under Loan, 2972-PAK Tranche-III, the material shall be subjected to all tests as specifically mentioned in the specifications of bidding document and delivery of the material was to be made within 180 days from the date of signing of contract.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was noticed that the supplier M/s Suzhou Porcelain Indus Work Co Ltd China failed to complete the delivery of material amounting to Rs.26.89 million (US \$ 0.154+Rs.240,000) upto scheduled delivery date i.e. 09.10.2017. During Type Tests, the inspectors witnessed that the insulators were not manufactured according to specifications. Due to non-fulfillment of contractual obligations, action against the supplier was required to be taken, which was not done.

Non-adherence to the Notification of Award Clauses resulted in non-delivery of material valuing Rs 26.89 million up to the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that the contract was terminated by accepting the recommendation of committee.

The DAC in its meeting held on September 02, 2020 directed the management to submit revised reply and get verified the action taken against the supplier 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 decision.

(O.M No. 5.52)

4.15 Irregular waiver of type testing by accepting extended warranty of equipment Rs.26.23 million

As per clause 2 of Notification of Award "the material shall be subjected to all tests as specifically mentioned in the specifications of the bidding document."

During Special Study of Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was noticed that a contract No.ADB-Tranche-IV-HESCO-01-2014 (Lot-II & Lot-III) for procurement of Circuit Breakers, CTs and Lightning Arrestors valuing US \$ 0.166 million was placed upon with M/s Sieyuan Electric Ltd China (C/o M/s Suncrest Intercalation) on May 18, 2015. Technical data and drawings were approved by the evaluator (NTDC) subject to completion of successful type testing of equipment. Later on, the supplier requested for waiver of type testing by offering extended warranty, which was accepted by the HESCO in violation of Notification of Award.

Non-adherence of Notification of Award resulted in irregular waiver of type testing by accepting warranty of equipment - Rs.26.23 million up to the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that HESCO was in dire need of the said material and to

avoid further tendering process & delay extended warranty of 5 year was accepted in lieu of Type testing as per advice of NTDC Design Lahore. The material was installed on site and working satisfactorily without any complaint.

The DAC in its meeting held on September 02, 2020 did not agree with the stance of the management and directed to hold inquiry at PEPCO level, take necessary action and submit report thereon to the Audit. Further progress was not reported till finalization of the report.

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

(O.M No. 5.54)

4.16 Irregular award of purchase orders – Rs.24.94 million

According to Rule-31 of PPRA, “No bidder shall be allowed to alter or modify his bid after the bids have been opened. However, the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid.”

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was noticed that a tender No.199 was opened on 29.03.2017 for procurement of different types of electrical material in different lots. The NTDC (Design), being evaluator, recommended for considering the 2nd lowest bidder i.e. M/s SGWI Pvt. Ltd for placing purchase order of Lot-I & Lot-II on subject to (a) rectification of discrepancies as mentioned in evaluation report, (b) compliance in full with the tender provisions and (c) looking into the reasonability of prices by HESCO as the rates quoted by the firm were exorbitantly high. The Manager Material Management directed the said firm for compliance of the observations / discrepancies as per tender provisions. Instead of insisting for compliance to discrepancies, the management issued purchase order amounting to Rs.24.94 million on 01.08.2017, which was irregular as the material was accepted on the terms of supplier by superseding the bidding conditions. M/s SGWI offered discounted price on 29.03.2017 along with extended warranty for five years rather than addressing the observations / discrepancies in technical specifications.

Non adherence to PPRA Rules resulted in irregular issuance of purchase order amounting to Rs.24.94 million upto the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that after approval from competent authority, the purchase order was placed upon the said firm on discounted price. The technical data and drawings were approved by Design NTDC and material was jointly inspected by the representatives of NTDC and HESCO and inspection certificate was issued by Chief Engineer (SS Design) NTDC subject to extended warranty of 05 years.

The DAC in its meeting held on September 02, 2020 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 decision.

(O.M No. 5.22)

4.17 Procurement of substandard Pad Mounted Transformers – Rs.24.48 million

As per Bid Evaluation Report of Tender-202(Lot-II), the technical bid offer of M/s PEL was considered as satisfactory subject to performance of complete Type Testing on offered pad mounted transformer along with complete LT arrangement and TOD energy meter as mentioned in tender specification as the Type Test submitted with bid was valid upto 21.03.2016.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was noticed that purchase order No.01-305 dated 31.07.2017 was placed on M/s Pak Electron (PEL) Ltd by HESCO & SEPCO for supply of 24 Pad Mounted Transformers valuing Rs 24.48 million with delivery period of 120 days. During sample checking, two transformers showed serious discrepancies in wrapping, insulation & alignment of winding. Resultantly, the entire lot of 24 transformers was rejected and declared poor workmanship on the part of supplier. Instead of taking necessary action against the said firm, all the substandard transformers were accepted with extended warranty in lieu of Type Tests by compromising on assurance of quality

and longer performance. Moreover, the supplier had not submitted the extended bank guarantee corresponding to extended warranty.

Non adherence to the recommendations of Bid Evaluation Report resulted in acceptance of substandard Pad Mounted transformers valuing Rs. 24.48 million upto the financial year 2018-19

The matter was taken up with the management in September, 2020. The management replied that the routine testing of 03 transformers was carried out jointly at manufacturer's works by the representatives of NTDC and HESCO, 02 transformers were de-tanked and quality / workmanship was found poor and further decided to open 12 transformers (11 from SEPCO and 01 from HESCO from the offered lot) and in case of any major defect, the whole lot would be rejected. After de-tanking of 01 Transformer, the offered transformers were declared acceptable with condition that M/s PEL Lahore would be responsible for all replacement under the 05-years extended warranty period without any additional cost including transportation, loading / unloading and inspection etc.

The DAC in its meeting held on September 02, 2020 The DAC directed the management to get the record verified from Audit within 15 days. No further action was reported till finalization of the report.

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

(O.M No. 5.17)

4.18 Irregular award of contract to non-responsive bidder – Rs.21.25 million

As per PPRA Rule 8 “The bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.”

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it came to notice that a tender No.195 (Lot-II) was opened on 28.03.2017 for supply of Grounding Conductor. Four (4) firms participated in bidding process. As per Bid Evaluation

Report (BER), M/s Pakistan Cables was recommended for placing order being responsive bidder. Contrary to the recommendation, P.O. amounting to Rs.21.252 million was awarded to M/s Fast Cables, which was declared as non-responsive in the said evaluation report.

Non-adherence to PPRA rules resulted in irregular issuance of purchase order amounting to Rs.21.25 million to a non-responsive bidder.

The matter was taken up with the management in September, 2020. The management replied that in bid evaluation, NTDC (Design) considered the 1st & 2nd lowest bidders i.e. M/s Mutahir Metal Works & M/s Fast Cables as non responsive respectively and recommended the 3rd lowest bidder i.e. M/s Pakistan Cables for award of Purchase Order being responsive. The HESCO Bid Evaluation Committee re-examined the bid and recommended to place an order upon M/s Fast Cable Lahore being 2nd lowest instead of 3rd lowest firm in the interest of company and to save an amount Rs.140,000/-

The DAC in its meeting held on September 02, 2020 did not agree with the stance of the management and directed to hold inquiry at PEPCO level, take necessary action and submit report thereon to the Audit. Further progress was not reported till the finalization of report.

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

(O.M No. 5.35)

4.19 Non-receipt back of ADB Stock material issued to other formations on loan basis – Rs.19.37 million

According to Rule-2A(a) of Public Sector Companies Corporate Governance Rules, 2013, “the business of the Public Sector Company is carried on with integrity, objectivity, due care and professional skills appropriate to the nature and scale of its activities.

During Audit of Procurement and Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was noticed that electrical material valuing Rs.19.37 million was allocated/released from ADB stock to other field formations on loan basis for works other than STGs. The issued material was

required to be returned to ADB Stock but return of the same was not forthcoming from record.

Poor inventory management resulted in non-receipt back of ADB stock material valuing Rs.19.37 million issued to other formations on loan basis up to the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that due to non-availability of material and keeping in view the importance of ongoing works, the competent authority allowed allocation of material to Manager Material Management (MMM). The procurement of STG material was in process and would be returned once the supplies received in the store of MMM.

The DAC in its meeting held on September 02, 2020 directed the management that the return of material be expedited under report to Audit. Further progress was not reported till the finalization of report.

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

(O.M No. 5.27)

4.20 Non-initiation of action against supplier for non-compliance with technical specification of material -Rs.19.44 million

As per clause B (iii) of Purchase Order, the material should conform to WAPDA Specifications. In case the supplier does not possess the prototype approval for the offered material within last three years, he shall have to obtain the prototype approval from the office of CE (Design) NTDC before start of mass production.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was noticed that a Purchase Order No.01-316 dated 23.11.2017 for supply of capacitors panel & 11KV Bus Coupler (Lot-III & V) against Tender No.193 was placed on M/s Siemens Pakistan Engineering Co. for delivery within 120 days. Technical data/drawings were approved by NTDC Design on 22.12.2017. During type testing activity arranged at NTDC Rawat Lab, the Bus Coupler could not qualify

for the heat run test and the supplier offered extended warranty of 2 years due to non-compliance of technical test. Consequently, the supplier did not only fail to deliver the supply within the scheduled time but also could not fulfil the technical parameters/specifications of costly equipment. Record showed that no action was taken by the management against the supplier for violation of terms & conditions of the purchase order.

Non-adherence to the Clauses of PO resulted in non-initiation of action against supplier for the supply of material valuing Rs 19.44 million upto the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that 12 Capacitor Panels were jointly inspected by the representatives of Design NTDC and HESCO and inspection certificate issued on 12.04.2018. Temperature rise test was successfully carried out during August 5-9, 2019 under witnessing of NTDC and HESCO Inspectors and inspection certificate was issued on 27.11.2019 for three (03) 11kV Bus Coupler panels.

The DAC in its meeting held on September 02, 2020 directed the management to get the record verified from Audit within 15 days. No record was produced till finalization of the report.

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

(O.M No. 5.39)

4.21 Irregular award of purchase order without type test reports – Rs.16.55 million

As per clause B (iii) of Purchase Order, the material shall conform to WAPDA Specifications. In case the supplier do not possess the prototype approval for the offered material within last three years, he shall have to obtain the prototype approval from the office of CE (Design) NTDC before start of mass production.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it came to notice that a letter of intent against Tender No.156 for the procurement of 132 kV CTs and PTs

amounting to Rs.16.55 million was placed on M/s Elmetec (Pvt) Ltd. on 22.12.2015. The technical data / drawings of material (132KV CTs) was provisionally approved subject to new type testing and compliance with the observations / comments noted. Subsequently on 13.04.2016, the clause of special condition-I (v) was amended as “accept the material on extended warranty of 04 years (backed by guarantee) against the subject purchase order as a special case” in lieu of prototype / type testing. This amendment was irregular being against the norms of bidding condition.

Non-adherence to the Clause of Letter of Intent resulted in irregular award of PO amounting to Rs.16.55 million without type test reports up to the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that 04 years extended warranty was accepted in lieu of type testing for 132KV Line CTs due to urgency and recommendations of Chief Engineer (Design) NTDC and approval of Competent Authority. Moreover, this warranty did not relieve the manufacturer from his responsibility to fulfill the principal technical parameter as per requirement of specification.

The DAC in its meeting held on September 02, 2020 did not agree with the stance of the management and directed to hold inquiry at PEPCO level, take necessary action and submit report thereon to the audit. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s decision.

(O.M No. 5.29)

4.22 Loss due to re-tendering for procurement of conductor - Rs.16.23 million

According to Rule-2A(a) of Public Sector Companies Corporate Governance Rules, 2013, “the business of the Public Sector Company is carried on with integrity, objectivity, due care and professional skills appropriate to the nature and scale of its activities.

During Special Study of Procurement & Inventory Management in HESCO for the Financial years 2013-14 to 2018-19, it was noticed that LOI was issued against a tender T-116 (Lot-II) for procurement of 716KM Greely Conductor with approval of BoD on 15.03.2013, however, the firm withdrew its offer due to upward trend of LME and unstable US dollar due to which the same could not be matured. The same conductor was retendered through T-138 (Lot-II) which was opened on 08.07.2014 and M/s Eagle Cables Lahore was declared as the lowest qualified bidder with discounted bid price of Rs. 442,204 per KM as per Bid Evaluation Report of CE NTDC (Design). But the PO No. could not be placed upon the firm due to unknown reasons. Finally, 441 km Greely Conductor was procured vide PO No. 01-281 issued under tender T-161(Lot-I) opened on 31.03.2016 at a cost of Rs.479,000/km. Hence, the company had to bear an extra cost of Rs.16.23 million as compared to the bid price of previous tender T-138, causing loss to the stated extent ($479000-442204=36796*441$). The matter was also discussed in 115th BoD meeting wherein the management was directed to take action against officer / official involved in the above process on account of negligence and inefficiency. No progress was forthcoming regarding the implementation of BoD direction.

Inefficient procurement resulted in loss of Rs 16.23 million due to re-tendering for procurement of conductor upto the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that in compliance to BoD's directions, the Chief Executive Officer had constituted an inquiry committee to probe into the loss due to re-tendering of conductor amounting to Rs.16.23 million on 02.07.2020.

The DAC in its meeting held on September, 02, 2020 directed the management to finalize the inquiry held by CEO, take necessary action and submit report thereon to the Audit. Further progress was not reported till finalization of the report.

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

(O.M No. 5.1)

4.23 Irregular award of purchase order without considering the other bid - Rs.15.19 million

As per PPRA Rules 30(1) “All bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents. Save as provided for in sub-clause (iv) of clause (c) of rule 36 no evaluation criteria shall be used for evaluation of bids that had not been specified in the bidding documents.”

During Special Study of Procurement & Inventory Management in HESCO for the Financial years 2013-14 to 2018-19, it was noticed that a Tender No. T-208 (Lot-IV) was opened on 03.10.2017 and two bidders i.e. M/s Newage Cables and M/s Mutahir Metal Works quoted their rates for 9mm earth wire. The Bid Evaluation Report (BER) was prepared by NTDC (Design) and considered the single bid of Rs.81700/km offered by M/s Newage Cables, which was also endorsed by the HESCO committee and purchase order of Rs.15.19 million issued. In the whole process, the bid of M/s Mutahir Metal Works (lowest with Rs.78679/km) was completely ignored without any reason. Hence, evaluation of bid / issuance of P.O was irregular and caused loss to the company.

Non-adherence to PPRA rules resulted in irregular award of purchase order amounting to Rs.15.19 million without considering the other bid upto financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that the Bid Evaluation was carried out by Chief Engineer (TL) Design NTDC Lahore in which M/s Newage Cables (Pvt) Ltd Lahore was declared as lowest evaluated responsive bidder for (Lot-IV). Accordingly, the HESCO Bid Evaluation committee also recommended for placing purchase order upon the said firm and PO was issued, as per approval of Chief Executive Officer.

The DAC in its meeting held on September, 02, 2020 did not agree with the stance of the management and directed to hold inquiry at PEPCO level, take necessary action and submit report thereon to the Audit. Further progress was not reported till finalization of the report.

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

(O.M No. 5.11)

4.24 Irregular issuance of Purchase Order despite non-compliance with specification by supplier - Rs.14.25 million

As per Rule-29 of PPRA, "Procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents."

During Special Study of Procurement & Inventory Management in HESCO for the Financial years 2013-14 to 2018-19, it was noticed that LOI for procurement of 132kv Transformer CT was awarded to the lowest evaluated firm i.e., M/s PARAS Trading Co Hyderabad on 13.01.2016. The approved standards and specifications had required Type Testing Report of FGH Lab and foreign made supporting structure. Contrarily, the bidder defaulted on the mentioned standards by providing KEMA Lab Type Test report and PAK made steel supporting structure of CTs. The supplier did not submit confirmation of removal of observations but rather submitted revised tech. data / drawing by attending shortcoming on KEMA Type Test along with request to accept Pak made supporting steel structure with discounted value. The request of the supplier was accepted and P.O placed on 30.09.2016 with change in specification and without requiring Type Test Report and even amending the P.O value, which was irregular and tantamount to mis-procurement.

Non adherence to PPRA rules resulted in irregular issuance of PO causing mis-procurement of material amounting to Rs 14.25 million during the financial year 2018-2019.

The matter was taken up with the management in September, 2020. The management replied that the HESCO Bid Evaluation Committee recommended to place purchase order to the lowest evaluated responsive bidder i.e. M/s Paras Trading Co. Hyderabad for (Lot-I). The Manager (Design) instructed the firm to attend the short comings and discrepancies in the submitted technical data and drawings and re-submit the revised technical data & drawings. The Pak made

steel supporting structures were purchased on discounted value on the request of the firm.

The DAC in its meeting held on September, 02, 2020 The DAC directed the management to get the record verified within 15 days. Further progress was not reported till finalization of the report.

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

(O.M No. 5.19)

4.25 Irregular receipt of material without type tests - Rs.13.33 million

As per special conditions of P.O clause 1B (v), four copies of technical literature and drawings shall be supplied to CE (Design) NTDC within 15 days for approval prior to commencing the manufacturing of the ordered material.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was noticed that a tender No.167 was opened on 23.01.2015 for procurement of connectors. NTDC design and HESCO bid evaluation committee recommended to award contract / purchase order to M/s SGWI, being 2nd lowest bidder in Lot-I & II, at a cost of Rs.13.33 million. CE NTDC (Drawing) approved the technical data / drawings subject to compliance with the observations / remarks and type test reports. The supplier made the delivery, however, the confirmation of rectification of discrepancies and provision of verification of Type Test reports was not available in record. In the absence of verification / provision of successful type test reports, quality of equipment and transparency in procurement as per bidding documents could not be ascertained.

Non-adherence to Clause of purchase order resulted in irregular receipt of material amounting to Rs.13.33 million without type tests up to financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that the technical data and drawings were approved by Chief Engineer (Design) NTDC Lahore subject to compliance with the observations and complete type test report or verification of type test report during pre-

delivery inspection. The type test report had been verified by inspection team nominated by competent authority.

The DAC in its meeting held on September, 02, 2020 directed the management to get the record verified within 15 days from Audit. No record was produced till the finalization of report.

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

(O.M No. 5.24)

4.26 Irregular procurement of energy meter having unapproved technical data / drawing - Rs.10.47 million

As per Rule-29 of PPRA, procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Failure to provide for an unambiguous evaluation criteria in the bidding documents shall amount to mis-procurement.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it came to notice that against the Tender No. 234, LOI / PO amounting to Rs.10.47 million was placed on M/s KBK Electronics on 22.03.2019 for procurement of energy meters for grid metering. However, the clause requiring proto type approval of sample or approval of technical data / drawings was omitted from the LOI / PO without any reason. The NTDC refused to issue the approval of subject data/drawing and advised the management to settle the issue at its own level on account of the mentioned omissions in the LOI. Hence, procurement of energy meters without approval of data / drawings was irregular.

Non-adherence to PPRA Rules resulted in mis-procurement of energy meters for grid metering amounting to Rs.10.47 million up to the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that the technical data / drawings for the procurement of energy meters was approved by Chief Engineer (SS Design) NTDC Lahore.

Accordingly, inspection was carried out jointly by NTDC and HESCO representatives and inspection certificate issued by NTDC.

The DAC in its meeting held on September 02, 2020 directed the management to get the record verified from Audit within 15 days. No record was produced till finalization of the report.

Audit recommends the management to needs to comply with the DAC's directives.

(O.M No. 5.10)

4.27 Non-utilization of electrical material received under USAID – Rs.10 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.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was observed that electrical material received through USAID valuing Rs.10 million was lying unused in store since March, 2014 and caused blockage of funds.

Non adherence to Authority's instruction resulted in blockade of funds amounting to Rs.10 million due to non-utilization of material during the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that neither funds allocated nor any material procured by PMU under USAID during 2013-2018.

The DAC in its meeting held on September 02, 2020 did not agree with the stance of the management and directed the management to submit revised reply within 15 days to Audit. No revised reply was given till the finalization of report.

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

(O.M No. 5.51)

4.28 Irregular issuance of purchase order by decreasing 50% quantity - Rs.9.96 million

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

During Audit of Procurement and Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was noticed that a tender No.226/08 for supply of twenty one (21) control & relay panels was opened on 27.09.2018 and M/s NSI was declared lowest evaluated bidder for a bid of Rs. 20.07 million by the NTDC (Design) in December 2018. The offer of bid was valid for 120 days but further extended up to 30th March 2019. Upon second request for extension of bid validity up to 30.04.2019, the supplier agreed for extension subject to 50% decrease in the ordered quantity. Finally, a letter of intent was issued to supplier by decreasing quantity of control and relay panels from 21 to 10 valuing Rs.9.56 million. Hence, issuance of purchase order was irregular as the quantity intended to be purchased had to be decreased due to delay in bid evaluation.

Procurement mismanagement resulted in irregular issuance of PO by decreasing 50% quantity amounting to Rs. 9.96 million upto the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that the Letter of Intent (LOI) and Purchase order (PO) for the procurement of (ten) 10 Relay Panel RP-3 was placed upon M/s Network Services International (NSI) Lahore within the approval of the Competent Authority as per HESCO requirement but not on the terms of the supplier.

The DAC in its meeting held on September 02, 2020 did not agree with the stance of the management and directed to submit justification of loss to Audit for verification. Further progress was not reported till finalization of the report.

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

(O.M No. 5.28)

4.29 Irregular procurement of material by changing inspection clause of P.O - Rs 7.51 million

As per Clause-10 of purchase order regarding inspection, "the inspection of the material will be carried out at work premises by HESCO Committee authorized by the Competent Authority in accordance with the technical specification and drawings attached. Further Special Condition Clause- 1(V) of the said purchase order required the supplier that in case of absence of Proto type approval, it was his liability to get the approval of Drawings and Proto type sample from CE NTDC (Design) within 30 days from the date of issuance of purchase order".

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was observed that a contract for supply of conductor was awarded to a single bidder vide P.O.01-273 on 13.01.2016 with delivery period of 120 days upto 15.05.2016. First call of inspection was made by the supplier on 25.04.2016, which was conducted on 29.07.2016 and delivery of material was received on 03.08.2016 but no inspection certificate was found attached in the PO File. It was worth mentioning here that the inspection clause 10 of the purchase order was inconsistent with the special condition clause 1 (V) and it was also altered by excluding the representative of CE NTDC, as was narrated in the LOI. All this led to the conclusion that change in inspection clause was made deliberately and the substandard material was procured and received without inspection, which tantamount to mis-procurement.

Procurement mismanagement resulted in mis-procurement of material valuing Rs. 7.51 million upto the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that HESCO, being purchaser, decided to carry out the inspection as per clause-10 of the purchase order through own Engineers as per

approved technical data / drawings from the office of CE (Design) NTDC, Lahore. Hence, no substandard material was procured.

The DAC in its meeting held on September 02, 2020 did not agree with the stance of the management and directed them to hold an inquiry at PEPCO level, take necessary action and submit report thereon to the Audit. Further progress was not reported till finalization of the report.

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

(O.M No. 5.16)

4.30 Irregular issuance of material without observing codal formalities – Rs.7.50 million

According to Rule-2A(a) of Public Sector Companies Corporate Governance Rules, 2013, “the business of the Public Sector Company is carried on with integrity, objectivity, due care and professional skills appropriate to the nature and scale of its activities.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was noticed that electrical material including distribution transformers valuing Rs.7.50 million were issued from Regional Store as per verbal instructions on the pretext of emergency to the field formations. However, necessary documentation i.e. incident reports, preliminary survey reports, approved estimate of works, demand request, release orders approved by the competent authority, accountal/consumption record was not forthcoming from record even after lapse of a considerable time period. In absence of proper documentation and regularization of the matter from competent authority, the chances of misappropriation of electrical material could not be ruled out.

Non-adherence to Rules resulted in irregular issuance of electrical material valuing Rs.7.50 million up to the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that all the material was issued after fulfilling codal formalities.

The DAC in its meeting held on September 02, 2020 directed the management to get the record verified from Audit within 15 days. No record was produced till finalization of the report.

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

(O.M No. 5.43)

4.31 Non-renewal of performance guarantees –Rs.3.17 million

As per Contract Sub Clause-4.2, the performance guarantees should be valid and enforceable until the contractor has executed and completed the works. As per Purchase Order Sub Clause-VII, the supplier is bond to extend warranty upto 5 years from the date of completion of total supply.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was noticed that performance guarantees against two (2) purchase orders No.01-224 & 01-257 dated 11.02.2014 & 23.02.2015 were expired on 12.08.2018. However, renewal of these guarantees upto 12.08.2021 was not forthcoming from record.

Non-adherence to the Contract Clause resulted in non-renewal of performance guarantees amounting to Rs.3.17 million upto the financial year 2018-19.

The matter was taken up with the management in September 2020. The management replied that the firm had again been requested for providing the extended guarantees, which was expected to be received soon and would be submitted for verification to Audit.

The DAC in its meeting held on September, 02, 2020 directed the management to fix responsibility for the lapse and report thereon be shared within 15 days. Further progress was not reported till finalization of the report.

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

(O.M No. 5.4)

4.32 Loss due to issuance of purchase order to 3rd lowest bidder - Rs.3.14 million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rules-2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders”.

During Special Study of Procurement & Inventory Management in HESCO for the Financial years 2013-14 to 2018-19, it came to notice that a purchase order No.01-256 dated 16.02.2015 was placed to third lowest bidder i.e. M/s N.M Enterprises Lahore for supply of grounding set at a cost of Rs.4.43 million with unit rate of Rs.7600/- while ignoring the 1st and 2nd lowest bidders. The offer of the 1st lowest bidder i.e. M/s Al-Amin Enterprises Lahore was for Rs.1.743 million with unit rate of Rs.2990/-. Moreover, just 08 months ago, the same material was purchased from M/s Al-Amin vide purchase order No.01-230 dated 06.06.2014. Placement of order to 3rd lowest bidder resulted in extra cost of Rs.3.14 million, which caused loss to the Company.

Uneconomical procurement resulted in loss of Rs.3.14 million due to issuance of PO to the third lowest bidder upto the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that M/s FMS, trading Co. Lahore and M/s Al-Amin Enterprises Lahore were considered / declared technically and financially non-responsive. Therefore, M/s N.M Enterprises Lahore was evaluated lowest responsive bidder and was recommended for award of contract by the bid evaluation committee of design department NTDC. Hence, there was no instance to award the contract to lowest bidder, but the contract was awarded to the evaluated lowest responsive bidder.

The DAC in its meeting held on September, 02, 2020 directed the management to provide the report of the technical committee of NTDC to Audit for verification within 15 days. No further action was reported till finalization of the report.

Audit recommends the management to needs to comply with the DAC's directives.

(O.M No. 5.6)

4.33 Undue favour to supplier by relaxing bidding condition – Rs.2.73 million

As per Rule-29 of PPRA, procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Failure to provide for an unambiguous evaluation criteria in the bidding documents shall amount to mis-procurement.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it came to notice that being single bidder for 11/132kV Post Insulator, M/s EMCO stood the lowest evaluated responsive bidder in Tender No. T-140 & T-186 subject to fulfilling the conditions mentioned in Bid Evaluation Reports (BERs) prepared by NTDC. But in BER of T-186, it was pertinently pointed out that the respective firm had a history of offering equipment on extended warranty in lieu of Type Testing and recommended not to accept such an offer in future since type testing was essential to ascertain design characteristics and long term performance of offered material. However, the said firm put the condition before the management either to pay extra for type testing or to accept an extended warranty certificate upto 05 years in lieu of type testing. Instead of taking action against the supplier, the management amended the clause of P.O valuing Rs.2.73 million by accepting extended warranty. Hence, undue favor was given to supplier by compromising on technical standard, which was irregular as changing integral part / condition of bidding document had affected the essence of bidding process.

Non-adherence to PPRA rules resulted in undue favour to supplier through relaxing bidding condition - Rs.2.73 million.

The matter was taken up with the management in September, 2020. The management replied that the said firm had intimated that the type test report of 11/ 132kV Post Insulators from an independent lab was not available and offered extended warranty upto 05-years in lieu of type testing. The request of the firm

was considered / accepted by HESCO Bid Evaluation Committee and was approved by the competent authority in the interest of Company.

The DAC in its meeting held on September, 02, 2020 did not agree with the stance of the management and directed to hold inquiry at PEPCO level, take necessary action and submit report thereon to the Audit. Further progress was not reported till finalization of the report.

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

(O.M No. 5.8)

4.34 Loss due to issuance of purchase order to 2nd Lowest bidder -Rs.1.05 million

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

During Special Study of Inventory Management in HESCO for the Financial years 2013-14 to 2018-19, it was observed that a tender No. T-132 was opened on 03.07.2013 for supply of 11kv Incoming & Outgoing panels. Chief Engineer (NTDC Design) had declared M/s PEL as lowest responsive bidder with bid amount of Rs.29.53 million and recommended to place purchase order subject to successful completion of type tests and an enhanced warranty for three years being the lowest bidder and for introducing new technology in Pakistan. However, HESCO's own Bid evaluation committee recommended the placement of PO upon 2nd lowest bidder at a cost of Rs.30.59 million. The issuance of PO to 2nd lowest bidder resulted in extra cost of Rs.1.06 million causing loss to Company to the stated extent.

Non-adherence to PPRA rules resulted in loss of Rs.1.06 million due to placement of order to 2nd lowest bidder upto the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that the firm had intimated that the prototypes were submitted to Design NTDC for approval and type testing was in process in a

foreign lab. The HESCO's Bid Evaluation Committee was of the opinion that the HESCO could not afford the time for approval of type testing, hence it was recommended to place purchase order upon M/s Tariq Electric Lahore being the 2nd lowest responsive bidder. Hence, the said decision was made by the HESCO Bid Evaluation Committee in the interest of Company.

The DAC in its meeting held on September 02, 2020 directed the management to justify urgency and violation of rules besides clarification that either test was carried out or not. Further progress was not reported till finalization of the report.

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

(O.M No. 5.26)

4.35 Non-maintenance of ADB Tranche / loan wise separate inventory accounts by Regional Store

As per Section 2.09 (a) of Loan agreement, each DISCO shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with accounting principles acceptable to ADB.

During Special Study of Procurement & Inventory Management in HESCO for the financial years 2013-14 to 2018-19, it was observed that no separate Tranche-wise inventory accounts / records for the material procured under ABD loan was prepared. In the absence of complete ADB Tranche wise inventory record i.e. stock ledgers, value ledgers, GRNs, SRs, reconciliation statements and consumption record, authenticity of store's accounts pertaining to ADB material could not be ascertained.

Non-adherence to the provisions of the loan agreement resulted in non-maintenance of Tranche wise separate inventory accounts of ADB material upto the financial year 2018-19.

The matter was taken up with the management in September, 2020. The management replied that the Tranche wise inventory accounts of ADB material had been prepared and provided to Audit during execution of Special Study.

The DAC in its meeting held on September, 02, 2020 did not agree with the stance of the management and directed to submit revised reply within 15 days to Audit. No revised reply was received till finalization of the report.

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

(O.M No. 5.58)

5. CONCLUSION

A transparent and efficient Inventory Management System is a pre-requisite for effective and efficient operations & service delivery. At present, the Inventory Management is based on outdated legacy system and there are procedural lapses in the procurement procedures and maintenance of stores. Violations of PPRA provisions have also been highlighted in the report. Hence, strong adherence to procurement procedures, allied rules & regulations along with an IT based Integrated Inventory Management System is required in order to ensure transparency and improvement in operational capacity of HESCO.

LIST OF PARAS
(MFDAC)

ANNEX-I

Sr. No.	Para No.	Subject	Amount (Rs. in million)
1	5.2	Undue favour to supplier by changing bidding clause	17.84
2	5.20	Irregular purchase order without proper evaluation of the bid of single bidder	52.98
3	5.23	Loss due to damage of distribution transformers	674.77
4	5.25	Irregular decrease in tendered quantity after opening of bid	44.60
5	5.30	Abnormal delay in evaluation of bids and award of contracts	765.35
6	5.31	Suspicious confirmation of physical stock by verification committee	2011.40
7	5.40	Non availability of spare accessories of 10/13MVA Power Transformer	4.60
8	5.44	Irregular issuance of new transformers against maintenance works	5.15
9	5.47	Irregular issuance of new transformers against damage	106.14
10	5.48	Irregular issuance of purchase orders at post bid reduced rates	1.26
11	5.50	Non utilization or disposal of spare/unserviceable Power Transformers	30.10
12	5.55	Irregular grant of extension of time (EOT) for release of LD	2.45
13	5.57	Non supply of power transformer	47.50
14	5.59	Non-utilization of electrical material procured under ADB loan	24.21
15	5.61	Non receipt back of 20/26 MVA Power Transformer provided on loan basis to SEPCO	39.03
16	5.62	Non confiscation of bid security in favour of HESCO	0.32
17	5.5	Loss due to non-replacement of damaged transformer under warranty period	34.50

18	5.13	Procurement failure due to non-issuance of P.O within bid validity period	76.50
19	5.18	Non issuance of purchase order to supplier	5.84
20	5.21	Undue favour to supplier by alteration in joint inspection clause	5.48
21	5.33	Non-return of electrical material drawn temporarily by field formation	65.74
22	5.34	Irregular issuance of electrical material to other DISCOs	31.72
23	5.41	Substandard procurement of distribution transformers	26.86
24	5.42	Non return of damaged transformer to stores	11.32
25	5.46	No enquiry on fake delivery of material	2.94
26	5.60	Irregular procurement of GSO maintenance material out of savings	\$5.56
27	5.63	Misuse of PSDP funds for procurement of tower material for ADB financed works	2.50