AUDIT REPORT
ON
THE ACCOUNTS OF
POWER DIVISION, ITS ATTACHED
ENTITIES AND NEPRA
AUDIT YEAR 2019-20

AUDITOR GENERAL OF PAKISTAN

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS

ABC	Ariel Bundled cable
ACSR	Aluminum Conductor Steel Re-enforced
ADB	Asian Development Bank
AEDB	Alternative Energy Development Board
AES	Alternative Energy Scales
AGP	Auditor General of Pakistan
AJ&K	Azad Jammu and Kashmir
APCF	Annual Plant Capacity Factor
AR	Audit Report
ARE	Alternative Renewable Energy
B&C	Budget & Consolidation
BOD	Board of Directors
BOQ	Bill of Quantity
BOOT	Build Own Operate Transfer
BPS	Basic Pay Scale
BTA	Business Transfer Agreement
BTU	British Thermal Unit
CCPP	Combined Cycle Power Plant
CEO	Chief Executive Officer
CFL	Compact Florescent Lamps
CFO	Chief Financial Officer
COD	Commercial Operation Date
CP	Commercial Procedure
CP-48	Bank Accounts Reconciliation
CP-49	Collection and Remittance Summary (for security deposits)
CP-102	Weekly Schedule of Bank Remittances by Bank Branches
CP-104	Divisional Collections Cash Book
CPGCL	Central Power Generation Company Limited
CPP	Capacity Purchase Price
CPPA-G	Central Power Purchasing Agency Guaranteed
DAC	Departmental Accounts Committee
DDO	Drawing & Disbursing Officer
DG	Director General
DISCOs	Distribution Companies
DOP	Development of Power
EAD	Economic Affairs Division
ECC	Economic Coordination Committee
ECF	Energy Conservation Fund
EHV	Extra High Voltage
ELR	Energy Loss Reduction
EMB	Electrical Measurement Book
ENERCON	National Energy Conservation Center
EOT	Extension of Time

EPA	Energy Power Agreement
EPC	Engineering, Procurement and Construction
ERO	Equipment Removal Order
ERP	Enterprise Resource Planning
ESR	Employees Service Regulations
FAP	Foreign Aided Projects
FBR	Federal Board of Revenue
FC	Financial Closing
FD	Finance Director
FESCO	Faisalabad Electric Supply Company
FIA	Federal Investigation Agency
FIDIC	Federation Internationale Des Ingenieurs Conseils
FY	Financial Year
GENCOs	Generation Companies
GEPCO	Gujranwala Electric Power Company
GFR	General Financial Rules
GHCL	GENCO Holding Company Limited
GOP	Government of Pakistan
GSA	Gas Sales Agreement
GSC	Grid System Construction
GSO	Grid System Operation
GST	General Sales Tax
GT	Gas Turbine
GWh	Gigawatt Hours
HBS	Haveli Bahadur Shah
HESCO	Hyderabad Electric Supply Company
HP	Horse Power
HR	Human Resource
HSD	High Speed Diesel
HT	High Tension
IA	Implementation Agreement
IBRD	International Bank for Reconstruction and Development
IESCO	Islamabad Electric Supply Company
IPPs	Independent Power Producers
IT	Information Technology
JAC	Joint Advisory Committee
JICA	Japan International Cooperation Agency
JPGCL	Jamshoro Power Generation Company Limited
JV	Journal Voucher
KE	Karachi Electric
KESC	Karachi Electric Supply Company
KIBOR	Karachi Inter Bank Offer Rates
KPK	Khyber Pukhtunkhwa
KV	Kilo Volt
KVA	Kilo Volt Amps
KW	Kilo Watt

KWh	Kilo Watt Hours
LAC	Land Acquisition Collector
LC	Letter of Credit
LD	Liquidated Damages
LESCO	Lahore Electric Supply Company
LNG	Liquefied Natural Gas
LOI	Letter of Intent
LOS	Letter of Support
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
MFF	Multitranche Financing Facility
MIS	Management Information System
MKWh	Million Kilo Watt Hour
MOF	Market Operating Fee
MOU	Memorandum of Understanding
MPS	Management Pay Scale
MRN	Material Return Note
M&S	Monitoring and Surveillance
M&T	Metering and Testing
MSR	Material at Site Register
MTBF	Medium Term Budgetary Framework
MVA	Mega Volt Ampere
MW	Mega Watt
MWh	Mega Watt hour
NCPP	New Captive Power Plants
NEECA	National Energy Efficiency & Conservation Authority
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
OGDCL	Oil and Gas Development Company Limited
O&M	Operation and Maintenance
PAC	Public Accounts Committee
PAO	Principal Accounting Officer
PAP	Power Acquisition Programs
PC Poles	Pre-stressed Concrete Poles
PC-I	Planning Commission Proforma-I
PD	Project Director

PDFL	Pakistan Development Fund Limited
PDP	Proposed Draft Para
PEC	Pakistan Engineering Council
PEDO	Pakhtunkhwa Energy Development Organization
PEEIP	Pakistan Energy Efficiency Investment Program
PEPCO	Pakistan Electric Power Company
PESCO	Peshawar Electric Supply Company
PHPL	Power Holding Private Limited
P&D	Planning and Development
PITC	Power Information Technology Company
PMO	Project Management Office
PMU	Project Management Unit
PO	Purchase Order
POL	Petrol, Oil and Lubricants
PPA	Power Purchase Agreement
PPIB	Pakistan Power Infrastructure Board
PPRA	Public Procurement Regulatory Authority
PPTFC	Privately Placed Term Finance Certificate
PQEPC	Port Qasim Electric Power Company Ltd
PSDP	Public Sector Development Programme
PSO	Pakistan State Oil
PWP	Peoples Works Programme
QESCO	Quetta Electric Supply Company
RCO	Reconnection Order
RFO	Residual Fuel Oil
RLNG	Re-gasified Liquefied Natural Gas
RO	Revenue Officer
SAP	System Augmentation Program
SBLC	Standby Letter of Credit
SEPCO	Sukkur Electric Power Company
S&I	Surveillance & Intelligence
SNGPL	Sui Northern Gas Pipelines
SOP	Standard Operating Procedures
SPP	Small Power Producer
SR	Store Requisition
SRO	Statutory Regulatory Order
SSGCL	Sui Southern Gas Company Limited
STFF	Syndicated Term Finance Facilities
STG	Secondary Transmission and Grids
TA/DA	Travelling Allowance / Daily Allowance
T&D	Transmission & Distribution
T&T	Transmission and Transformation
TDS	Tariff Differential Subsidy
TESCO	Tribal Areas Electric Supply Company
T/L	Transmission Line
TOU Meter	Time of Use Meter

TPS	Thermal Power Station
VD	Voltage Drop
VO	Variation Order
WAPDA	Water and Power Development Authority
WCC	WAPDA Computer Centre

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 and NEPRA for the financial year 2018-19 as well as some observations pertaining to the previous audit years. The Directorate General Audit Power conducted audit of these entities during the year 2019-20 on test check basis with a view to reporting significant findings to the stakeholders. A sectoral analysis of overall power sector is added in the report, highlighting macro-level issues being faced in the sector, their impact and required strategic considerations.

The main body of the Audit Report includes important issues and audit findings. Relatively less significant issues have been listed in Annexure-I as MFDAC.

Audit findings indicate the need for adherence to the regularity framework besides strengthening of internal controls to avoid recurrence of similar violations and irregularities. The observations included in this report have been finalized in the light of discussions in the 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].

Sd/-

(Javaid Jehangir)
Auditor General of Pakistan

Islamabad
Dated: 20 FEB 2020

EXECUTIVE SUMMARY

The Directorate General Audit Power carries out audit and evaluation of Power Division, its attached entities and NEPRA on behalf of the Auditor General of Pakistan as envisaged in Article 170(2) and further elaborated in Section 8 & 15 of Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. Director General Audit (Power) has the mandate to conduct audit of 150 formations working under the Power Division. Out of these formations the Directorate General Audit (Power) carried out compliance audit of 95 formations, during the audit year 2019-20. Subject report includes significant issues and audit findings which were highlighted in the compliance audit exercise. This report covers compliance of the auditee formations to the applicable laws, rules and procedures as well as assessment based on transparency and performance parameters. Moreover, the report also contains comments on the annual audited financial statements of 11 entities. Audit comments on financial statements of 14 entities could not be reported as the management failed to submit their audited accounts to this office by December 31st, 2019.

a. Sectoral analysis of the Power Sector for the financial year 2018-19

The power sector represents a broad canvas of entities ranging from government ministries to public sector entities and private power producing firms all having linkages with one another and having stakes in the power sector domain of the country. Some of the major players include, DISCOs: (10) Companies supplying, distributing and selling power (electricity) in their designated areas, CPPA-G: the power sector market operator, NEPRA: the authority determining power tariffs, IPPs: firms providing energy based on contracts with GoP and fuel supply agents such as PSO, SNGPL etc.[1]

The Power Division under the Ministry of Energy as prescribed in Para 31B Schedule-II in the Rules of Business-1973 is exclusively assigned the responsibility to deal with matters pertaining to the power sector including aspects such as development of energy, engaging in power sector contracts, managing electric utilities etc.

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[1] Annexure-A: Role of major players in power sector

i) Goal of the Power Division

The Goal of the Power Division [2]*"is to develop the most efficient and consumer centric power generation system that meets the needs of its population and boosts its economy in a sustainable and affordable manner"*. In order to achieve its Goal the following three medium term outcomes were assigned to the Division:

- Improving fuel mix for power generation with an aim to reduce reliance on expensive imported fuel.
- Improvement in efficiency, conservation and cost effectiveness of power generation.
- Reduction in circular debt.

ii) Budget profile and utilization of Power Division

The Non-development budget profile and utilization for the Power Division during the last two financial years remained as followed:

Table No. 1

(Rs. in million)

Demand No. 28	Final Budget 2017-2018	Expenditure 2017-2018	Unspent Budget %	Final Budget 2018-2019	Expenditure 2018-2019	Unspent Budget %
Main Secretariat	313.65	287.72	(8.27)	8,880.91	649.68	(92.68)

(Source: Appropriation Accounts of the Federal Government 2017-18 & 2018-19)

Planning, effective implementation and optimum use of resources are all linked with sound budget management and utilization. The performance of the division in this respect remained un-satisfactory as reflected in the above table.

iv) The High-Price Energy Mix

The energy-mix is the most vital factor in power sector as it determines the cost of energy to be notified by the government. Electricity demand of Pakistan is being met through a variety of fuel based sources like Residual Fuel Oil (RFO), Gas / RLNG, Coal and through other indigenous sources like Hydel, Nuclear, Wind and Solar. As on June 30, 2019 the national installed energy capacity stood at 32,809 MW and the

[2] MTBF of Federal Government 2019-2022 Pg.-99

de-rated energy capacity was 29,763 MW. Only 25.20% of energy was being produced from cheap hydel-resources and 5.46% from renewable sources whereas the remaining 4.18% from Nuclear and 65.16% was from other expensive thermal sources. This reflects that the energy mix is highly skewed towards expensive fuel constituents. [3]

v) Surplus number of power purchase agreements

The power sector in Pakistan now has at its disposal excess energy capacity significantly more than the current or short term expected demand of the country. The available power generation capacity in the FY 2018-19 stood at 31,986 MW including IPP based power having a volume of 17,680 MW. On the other hand peak generation demand remained at 20,795 MW and 21,425 MW during the FY 2017-18 and 2018-19 respectively. This implies that excessive capacity payments are being made to the IPPs as per binding PPAs without purchase of energy from these power producers.

Moreover new IPP Power Projects with capacity of 7500 MW of energy are due to be made part of the national grid system in the coming 03 to 04 years. Prudent planning is required to ensure utilization of excess energy and for avoiding the risk of making material capacity payments without any consumption of energy.

vi) Revenue Shortfall at the end of DISCOs

In the FY 2018-19, 93,887 MKWh units worth Rs.1,341,658 million were billed to consumers against which recovery of Rs.1,060,680 million was made indicating a recovery percentage of 79.06%.[4] The shortfall resulted in less receipt of revenue by the DISCOs. Revenue shortfall in DISCOs showed managerial inefficiencies and policy bottlenecks constraining CPPA-G to pay-off its energy procurement liabilities.

Compared with last financial year there was an improvement of 01% in the revenue recovery. Still, recovery shortfall of 21% posed significant operational challenge for DISCOs. Recovery in HESCO, TESCO,

[3] Annexure-B: High price energy mix

[4] Annexure-C: Revenue shortfall

(PDP No.615 & 974/2019-20)

QESCO & SEPCO was 54.17, 18.92, 24.29 & 38.54 % only (in the financial year 2018-19). Major policy interventions are needed to save the subject DISCOs from practical insolvency.

vii) Line losses over and above the limit allowed by NEPRA

NEPRA has determined certain percentage of admissible T&D losses for DISCOs that are in built in the tariff. Losses beyond the limit set by NEPRA meant financial losses for the company as well as cyclic increase in the CPPA-G receivable amounts pertaining to the DISCOs. The trend of T&D losses in DISCOs and the financial impact thereof in the last two years is as follows:

Table No. 2

Years	Units	2017-18	2018-19
Units sold	M.kWh	91,902	93,887
Allowed T&D losses	%	15.7	15.8
Actual T&D losses	%	18.3	17.7
Excess losses of discos	%	2.8	1.9
Excess unit lost	M.kWh	2,824	2,263
Rate per unit	Rs.	13.06	15.58
Impact of excess loss	Rs. in Million	37,529	35,798

(Source: PEPCO Data FY -2017-18 & 2018-19)

The above table shows impact of excess loss of Rs.35,798 million beyond NEPRA targets in the power sector during the FY 2018-19. This implies that performance of DISCOs in reducing T&D losses remained unsatisfactory[5]. Moreover it also shows that the development initiatives being made in these companies for enhancing the power transmission and distribution system are yet to make any appreciable impact.

viii) Huge receivables from running and dead defaulters

Over the years the volume of receivables from running and dead energy defaulters have increased significantly and it has become an important cause for power sector debt accumulation. As on June 2019, the total receivables from running and dead defaulters amounted to Rs.572,179 million. (Rs.476,932 million pertained to running defaulters and

[5] T&D Losses
(PDP No. 377, 592, 807 & 914/2019-20)

Rs.95,247 million to dead defaulters respectively.).[6] Such huge amount of receivables has added to the financial crunch in the power sector that demands immediate consideration and intervention.

ix) DISCOs' receivables from the government

Due to late payment of government subsidies i.e. tariff differential subsidy, agricultural subsidy for tube-wells, other provincial government subsidies, subsidy to AJK government and outstanding payments from K-electric Rs.549.2 billion were held up as on June 2019. [7]These receivables are adding up into the overall circular debt of the power sector.

x) Circular Debt in Power Sector

The phenomenon of *Circular Debt*[8] arises when one party in a supply chain faces cash flow inadequacies to discharge its obligations to its suppliers effecting the entire supply chain and causing liquidity crunch. As on June 30, 2019 the total amount of circular debt stood at Rs.1,517,511 million including PHPL loans of Rs.809,840 million as detailed below:

Table No. 3

(Rs. in million)

Circular Debt on 30TH June, 2019								
Fiscal Years	**CPPA Payable to Power Producers**					**Payable by PHPL**		**Total**
	Energy Payment	**Capacity Payments**	**LPS**	***Others**	**Total**	**Principal**	**Markup**	
1	**2**	**3**	**4**	**5**	**6 = 2+3+4+5**	**7**	**8**	**9 = 6+7+8**
2017-18	289,512	161,444	73,743	19,199	543,898	583,488	32,747	1,160,133
2018-19	227,421	369,553	95,368	15,330	707,671	805,787	4,053	**1,517,511**

(Source: CPPA-G data for the financial year 2017-18 & 2018-19)

The major constituents of the circular debt include out-standing capacity payments of Rs.369,553 million and energy payments of Rs.227,421 million. The overall circular debt has increased from Rs.1,160,133 million in FY 2017-18 to Rs.1,517,511 million in FY 2018-19 registering an increase of Rs.357,378 million or 31% in the subject financial year.

[6] Annexure-D: Huge receivables from running and dead defaulters (PDP No.175, 651, 657, 1014 & 1030/2019-20)

[7] Annexure-E: DISCOs receivables from the government (PDP No.595 & 596)

[8] Circular Debt in Power Sector (PDP No.1142, 1144 & 1183/2019-20)

xi) Adhocism in Debt management

PHPL loans represent an adhoc-mechanism adopted by management to pay-off pending CPPA-G liabilities to the IPPs. PHPL loans and their financial impact are an extra uncovered cost related to the purchase of energy. In this context during the financial year 2018-19, on 1st March, 2019, Ministry of Energy (Power Division) raised Shariah-compliant financing amounting to Rs.200 billion through PHPL by way of issuance of Sukuk bonds to partially settle the circular debt of the energy sector. 70 properties of DISCOs/GENCOs were sold and leased back from Meezan Bank Ltd (head of a consortium of banks) along with issuance of Sukuk Bonds. This implies that power sector government properties may face a risk of en-masse sale/transfer out to private bodies on account of default in any principal re-payments.

xii) Status of Donor Funded Programs during the FY 2018-2019

Development partners have been providing funds to different projects in the power sector. These included programs supported by ADB, Word Bank, JICA and USAID. A major objective of these projects was enhancement and strengthening of the power sector at both distribution and transmission levels.

xiii) Loan Utilization

Five (5) ADB Efficiency and Distribution Enhancement Investment Programs were closed during financial year 2018-19.The projects against said ADB loans had been started for enhancement of transmission lines, construction of grids etc. with a total funding of US$ 684.20 million. But despite revision of closing dates of the said loans ranging from June 30, 2018 to September 16, 2019 the loan amounting to US$ 188.14 million i.e. 27% remained unutilized.[9] Hence significant under-utilization of loan was a major shortcoming and poor performance of the management.

Likewise five (5) other ADB loans were also allocated to DISCOs/ NTDC/ GENCO for enhancement of distribution and transmission lines etc. with a total funding of US $ 990 million by ADB during 2014-15,

[9] Annexure-F: Under-utilized loan
(PDP No. 1135 & 1171/2019-20)

2016-17 and 2018-19.[10] No expenditure could be made upto the year 2018-19. Non-utilization of these loans up-to the year 2018-19 reflected poor project management, thereby denying the timely achievement of the desired objectives.

xiv) Re-payment of loans

As highlighted in the aforesaid para different development partner loans had drawn to a close during the FY 2018-2019. This indicated that the re-payment of the borrowed funds was now becoming due on the power sector companies with respect to such closed loans. However it was observed that no power sector company was paying back its donor funded loans creating more debt issues for the federal government[11]. The Ministry of Energy (Power) Division, may make efforts for ensuring re-payment of loans by concerned organization, as per agreed schedule.

xv) Sustainability Challenges

From the above discourse it is apparent that debt and its management remained the key high risk area in the power sector during FY 2018-2019. The nature of debt in the power sector had diversified causing its impact to be more complex and multifaceted. From simple loans to more recent BOOT model arrangements, all represented different manifestations of debt in the power sector each having unique payback dynamics based on sound guarantees. Making new projects, adding energy capacity and enhancing the power infrastructure alone will not alleviate the issues that are being faced in the sector. If the root causes of circular debt and its offshoots as highlighted above are not addressed, new interventions would become un-sustainable. Hence a strong National Policy of Energy Sustainability is needed in order to ensure that all the initiatives being introduced in the power sector remain financially viable.

Moreover, considering the present gap between power demand and excessive production capacity there is a strong case for assessing future energy needs of the country and having a balanced energy development

[10] Annexure-G: Un-utilized loans

[11] Repayment of Loans
(PDP No.521, 770, 1011 & 1134/2019-20)

strategy which not only addresses the issues of adequate timely demand for energy but also avoids production of surplus energy.

b. Scope of audit

This office has the mandate to conduct audit of 150 formations working under the Power Division under the Ministry of Energy. Total expenditure and receipt[12]of these formations were Rs.356.44 billion and Rs.935.04 billion respectively for the financial year 2018-19.

Audit coverage relating to expenditure for the current audit year comprises 95 formations of Ministry of Energy (Power Division) having a total expenditure of Rs.331.80 billion for the financial year 2018-19. In terms of percentage, the audit coverage for expenditure is 93.08% of auditable expenditure.

Audit coverage relating to receipts for the current audit year comprises 95 formations of Ministry of Energy (Power Division) having total receipts of Rs.800.04 billion for the financial year 2018-19. In terms of percentage, the audit coverage for receipts is 85.56% of auditable receipts.

Moreover, in a few cases audit observations identified during audit year 2017-18 have been reviewed and added as paras in the subject report based on the value and significance of respective observation.

In additional to this compliance audit report, the Directorate General Audit, Power, Lahore conducted 42 Financial attest audits of Foreign Aided Projects, 01 Special Audit and 01 Special Study. Reports of these audits are being published separately.

c. Recoveries at the instance of audit

As a result of audit, a recovery of Rs.316,414.10 million was pointed out in this report. Recovery effected from January to December 2019 was Rs.3,702.44 million[13] which was verified by audit.

d. 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

[12] This amount includes recoveries resulting from previous audit reports.

environment of the audit organization. Field activity included review of record, analysis of system data / reports, site visits and discussion with management. High value and high risk items were selected on professional judgment basis for substantive testing.

e. Audit Impact

As a result of the subject compliance audit review of power sector entities both at a macro/ strategic level and at an in-depth operational level, through highlighting major issues management was facilitated into taking significant actions both in the short term and on a longer term basis. For example on the recommendation of Audit, an evaluation exercise of the assets of DISCOs and GENCOs is being undertaken. Similarly the management resolved to come-up with a viable plan for clearing of the accumulating volume of locally arranged financing loans, as was stressed by audit.

At the operational level management launched anti-theft drive in HESCO and SEPCO involving removal of illegal connections and securing the feeders. Ariel Bundled Cables (ABC) were also being deployed in these areas to prevent kunda connections. Similarly the transmission and distribution infrastructure was being enhanced to reduce the line losses in the DISCOs. These initiatives were in-line with the persistent audit observations flagging the shortcomings and proposing way-forward.

f. Comments on Internal Controls and Internal Audit Department

An effective internal control mechanism is instrumental in smooth functioning of the organization and helps the management to achieve its objectives. Since, the power sector is diverse in its business activities hence, the internal controls regulating those activities of power sector are equally diversified. A close audit review of the internal controls helped identify the weaknesses and ineffectiveness of these controls in different fields of activities.

In this context observations were highlighted where timely accountal of material was not being done by the field staff as per procedure.[13]Similarly many reports defined for the maintenance and

[13] PDP Nos. 258 & 654/2019-20

monitoring of feeders were not being populated, resulting in poor management of feeder-losses.[14] Internal controls in the important areas of cash reconciliation and revenue collection were also found un-satisfactory in different highlighted cases. Fraud in payment of pension in PESCO & LESCO[15] and a revenue fraud in IESCO[16] were highlighted on such subjects in the report.

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 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 made its effectiveness questionable.

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. Moreover internal controls need to be strengthened by continuous review and taking measures to stop recurrence of lapses in future.

g. Key Audit Findings:

i. Loss of Rs.4,033.45 million due to fraud, embezzlement, misappropriation and theft was pointed out in 21 cases.[1]

ii. In 21 cases human resource / employ related irregularities involving Rs.263.12 million were highlighted.[2]

[1]Para-2.1.6, 2.1.15, 6.4.3, 7.5.34, 7.5.37, 11.5.6, 12.5.21, 12.5.29, 12.5.30, 12.5.37, 13.5.18, 13.5.21, 14.5.7, 14.5.14, 14.5.18, 14.5.22, 15.4.6, 15.4.15, 16.4.6, 16.4.17, 17.4.7

[2]Para-1.4.5, 7.5.30, 8.4.17, 8.4.21, 9.5.17, 10.4.28, 10.4.29, 10.4.30, 10.4.31, 10.4.41, 11.5.21, 11.5.22, 12.5.22, 12.5.28, 13.5.23, 16.4.13, 20.3.1, 20.3.2, 20.3.4, 20.3.5, 26.4.3

[14] PDP Nos.377, 592, 807 & 914/2019-20

[15] PDP Nos.587 & 857/2019-20

[16] PDP No.499/2019-20

iii. 64 varied irregularities of Rs.107,328.81 million pertained to procurement of electrical equipment, civil / electrification works, consultancy services and contractual mismanagement.[3]

iv. In 50 cases violations of Regulatory laws & regulations involving an amount of Rs.184,153.07 million were highlighted.[4]

v. In 108 cases involving an amount of Rs.63,775.42 million, violation of internal rules & regulations of audited entities was pointed out.[5]

vi. In 04 cases, irregularities of Rs.1,194.84 million pertained to the management of accounts with commercial banks.[6]

vii. In 50 cases recoveries of Rs.2,604,093.52 million were highlighted.[7]

[3]Para-2.1.10, 4.4.2, 5.4.1, 7.5.1, 7.5.5, 7.5.6, 7.5.7, 7.5.8, 7.5.9, 7.5.11, 7.5.12, 7.5.13, 7.5.14, 7.5.15, 7.5.16, 7.5.17, 7.5.18, 7.5.20, 7.5.21, 7.5.23, 7.5.25, 7.5.26, 7.5.28, 7.5.31, 7.5.36, 8.4.4, 8.4.12, 8.4.20, 8.4.22, 8.4.25, 9.5.7, 10.4.4, 10.4.26, 11.5.8, 11.5.12, 11.5.16, 11.5.17, 11.5.18, 11.5.19, 11.5.20, 12.5.11, 12.5.19, 12.5.36, 13.5.10, 13.5.14, 13.5.15, 13.5.16, 13.5.17, 13.5.19, 13.5.25, 14.5.13, 14.5.16, 16.4.5, 16.4.14, 21.4.3, 21.4.7, 21.4.8, 21.4.9, 23.3.3, 24.4.1, 24.4.3, 24.4.5, 25.4.2, 26.4.4

[4]Para-2.1.2, 3.4.1, 4.4.1, 6.4.1, 6.4.2, 7.5.3, 7.5.10, 8.4.1, 8.4.2, 8.4.13, 8.4.28, 9.5.3, 9.5.16, 10.4.5, 10.4.7, 10.4.10, 10.4.13, 10.4.17, 10.4.18, 10.4.23, 10.4.35, 11.5.3, 11.5.10, 12.5.1, 12.5.10, 12.5.25, 12.5.32, 12.5.35, 13.5.1, 13.5.2, 13.5.8, 13.5.11, 13.5.24, 14.5.1, 15.4.2, 15.4.3, 16.4.2, 16.4.7, 16.4.18, 17.4.3, 17.4.8, 18.4.3, 19.3.1, 19.3.2, 21.4.5, 21.4.6, 22.4.4, 23.3.1, 23.3.2, 26.4.1

[5]Para-1.4.6, 2.1.3, 2.1.7, 2.1.9, 2.1.11, 2.1.14, 3.4.2, 5.4.2, 5.4.6, 7.5.4, 7.5.24, 7.5.35, 8.4.3, 8.4.5, 8.4.6, 8.4.8, 8.4.9, 8.4.11, 8.4.14, 8.4.16, 8.4.19, 8.4.23, 9.5.1, 9.5.4, 9.5.5, 9.5.6, 9.5.8, 9.5.9, 9.5.10, 9.5.12, 9.5.13, 9.5.15, 10.4.8, 10.4.9, 10.4.11, 10.4.15, 10.4.19, 10.4.22, 10.4.25, 10.4.27, 10.4.32, 10.4.33, 10.4.34, 10.4.36, 10.4.37, 10.4.38, 10.4.39, 10.4.40, 11.5.4, 11.5.5, 11.5.7, 11.5.9, 11.5.11, 11.5.13, 11.5.14, 12.5.3, 12.5.6, 12.5.7, 12.5.8, 12.5.9, 12.5.14, 12.5.15, 12.5.16, 12.5.18, 12.5.20, 12.5.23, 12.5.24, 12.5.27, 12.5.31, 12.5.34, 12.5.38, 12.5.39, 13.5.5, 13.5.7, 13.5.9, 13.5.12, 13.5.20, 13.5.22, 14.5.4, 14.5.5, 14.5.8, 14.5.9, 14.5.10, 14.5.11, 14.5.12, 14.5.19, 14.5.20, 15.4.4, 15.4.5, 15.4.7, 15.4.8, 15.4.9, 15.4.10, 15.4.11, 15.4.13, 15.4.14, 16.4.3, 16.4.4, 16.4.9, 16.4.10, 16.4.11, 16.4.12, 16.4.16, 16.4.20, 17.4.2, 17.4.4, 17.4.5, 20.3.3

[6]Para-5.4.5, 12.5.5, 16.4.8, 17.4.6

[7]Para-1.4.3, 1.4.7, 2.1.1, 2.1.4, 2.1.5, 2.1.12, 2.1.13, 2.1.16, 5.4.3, 5.4.4, 7.5.19, 7.5.27, 8.4.15, 8.4.18, 8.4.24, 8.4.27, 9.5.2, 10.4.1, 10.4.2, 10.4.12, 10.4.14, 11.5.1, 12.5.2, 12.5.13, 12.5.26, 12.5.33, 13.5.3, 13.5.4, 13.5.6, 14.5.2, 14.5.3, 14.5.6, 14.5.15, 14.5.17, 14.5.21, 15.4.1, 15.4.12, 15.4.16, 16.4.1, 16.4.19, 17.4.1, 17.4.9, 18.4.1, 18.4.2, 21.4.1, 21.4.2, 21.4.4, 21.4.10, 22.4.5, 26.4.2

h. Recommendations

i. Management may ensure strong supervision and improved internal controls in order to minimize fraud, embezzlement and theft cases. IT based interventions may be made in the operational activities to increase transparency and reduce the risk of fraud.

ii. Management may take necessary measures to rectify the lapses in the internal control to avoid recurrence of similar irregularities by investigating and fixing responsibility against responsible officers/ officials.

iii. Management may ensure that procurements are made in a transparent and efficient manner in-line with PPRA provisions and procedures prescribed for the execution of works are adhered to in letter and spirit.

iv Management may ensure that targets/limits set by NEPRA specifically on the items of line losses, billed recovery and operational cost limits are followed, fully.

iv. Management may improve capacity of its employees and overall quality of its operations in order to relevant commercial procedures and allied SOPs pertaining to the power sectors are well understood by the line staff and effectively implemented.

vi. IT based internal controls may be made to ensure real-time reconciliation of cash internally and with the banks reducing the risk of financial mismanagement.

vii Efforts based on sound planning and a systematic problem solving approach, having due involvement of all stakeholders, may be made to expedite recovery. This may include taking measures such as detailed feeder-wise analysis, taking action on extension of load cases from 1st instance of the event, large scale deployment of automated metering, maintenance of an integrated information system for the power sector and timely resolution of recovery related cases.

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 as private limited company on May 13, 1998, under Companies Ordinance, 1984. PEPCO is responsible for the management of National Transmission and Dispatch Company (NTDC), PITCL and ten (10) Distribution Companies (DISCOs) working under independent Board of Directors. PEPCO is engaged in monitoring and controlling the different activities of distribution companies including technical, financial, operational, personnel, legal and IT related activities as an agent of the Government of Pakistan.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY 2018-19 (Rs.in million)
1	Formations	01	01	589.36	470.78	-
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	N/A	N/A
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	Nil	N/A	N/A
4.	Foreign Aided Projects (FAP)	01	01	US$ 0.225	US$ 0.225	Nil

1.2 Comments on Financial Statements

1.2.1 Financial Overview

PEPCO is a management company tasked with supervisory role, hence it is not involved in commercial revenue generation.

1.2.2 Extracts of the Financial Statements

Statement of Financial Position as at June 30, 2019

(Rs.in million)

	2018-19	%age	2017-18	%age	2016-17
Equity & Liabilities					
Issued, subscribed and Paid up Capital	7.100	-	7.100	-	7.100
Shareholders' Equity	7.100	-	7.100	-	7.100
Trade & Other Payables	65.314	(47.17)	123.619	839.94	13.152

Provision for Taxation	5.893	27.33	4.628	1,077.60	0.393
Total Current Liabilities	**71.207**	(44.48)	**128.247**	846.82	**13.545**
Total Equity & Liabilities	**78.307**	(42.14)	**135.347**	555.59	**20.645**
Assets					
Property & Equipment	6.867	(18.13)	8.388	263.60	2.307
Total Non-Current Assets	6.867	(18.13)	8.388	263.60	2.307
Current Assets					
Receivables from associated undertakings	2.032	598.28	0.291	-	0.292
Loans, Advances and Other Receivables	62.448	(21.17)	79.222	12,802.60	0.614
Interest accrued	-		-	(100)	0.249
Advance income tax	-		-	(100)	0.074
Bank Balances	6.960	(85.34)	47.446	177.33	17.109
Total Current Assets	**71.440**	(43.73)	**126.959**	642.09	**18.338**
Total Assets	**78.307**	(42.14)	**135.347**	555.59	**20.645**

(Source: Audited Financial Statement of PEPCO Financial Year 2018-19 – RSM Avais Hyder Liaquat Nauman, Chartered Accountant)

Statement of Profit & Loss Account
For the year ended June 30, 2019

(Rs.in million)

	2018-19	**%**	**2017-18**
Management Fee	471.446	27.35	370.201
Other income	5.239	(45.39)	9.595
	476.685	**25.51**	**379.796**
Administrative expenses	(470.781)	25.48	(375.184)
Finance cost	(0.001)	(35.95)	(0.002)
Profit before taxation	5.893	25.48	4.594
Provision for taxation	5.893	28.28	(4.594)
Profit/(Loss) for the year	-	-	-

(Source: Audited Financial Statement of PEPCO Financial Year 2018-19 – RSM Avais Hyder Liaquat Nauman, Chartered Accountant)

1.2.3 Comments on Audited Accounts:

i) Receivable from associates

Total receivables of the company were Rs.64.48 million during the year 2018-19. The major amount of Rs.62.45 million was receivable from employees on account of loans and advances and remaining amount of Rs.2.03 million was receivable from associated undertakings.

ii) Decrease in Bank Balances

The Bank balance of the Company decreased from Rs.47.45 million in the financial year 2017-18 to Rs.6.96 million as on June 30, 2019 registering a decrease of 85.33%. The management was required to work out and maintain sufficient working capital balance for smooth operation of the Company.

1.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.650.64 million were raised in this audit. The amount also includes recoverables of Rs.44.99 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Irregularities		
	A.	HR/Employees related irregularities	3.43
	B.	Irregularities pertaining to violation of entity's own rules / regulations	1.81
	C.	Recoveries	44.99
2.	Others		600.41

1.4 AUDIT PARAS

1.4.1 Non-utilization of ADB Loan-2439 – Rs.449.91 million

As per Loan Proceedings Time-table the Loan Closing date of ADB Loan 2439-PK (SF) was December 31, 2018.

In PEPCO, a loan agreement of US$ 10.00 million from Asian Development Bank was signed on November 29, 2008 but a substantial amount of US$ 2.81 million equivalent to Pak Rs.449.91 million was not utilized. The situation showed that the targets could not be achieved by the management for which the loan was obtained.

Non-adherence to the Loan Proceedings Time-table resulted in non-utilization of ADB Loan 2439 worth Rs.449.91 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management responded that reply along with supporting documents was submitted to Audit. Audit contended that neither reply nor any record thereof was provided.

The DAC in its meeting held on December 26, 2019 directed the management to get the record verified from Audit.

Audit recommends that the management needs to implement DAC's decision besides justifying non-utilization of loan.

(Proposed Draft Para No. 1135/2019-20)

1.4.2 Non-payment of principal amount of ADB Loan- Rs.114.98 million

As per article II, Section 2.04 of ADB agreement for (Power Distribution Enhancement Investment Program-Tranch-I, support project) the borrower shall repay the principal amount of the loan withdrawn from the loan account in accordance with the amortization schedule set forth in schedule 2 to the Loan Agreement.

In PEPCO, an amount of US$ 766,500 equivalent to Rs.114.98 million (1$ = Rs.150) was payable till August 15, 2019 as per above referred amortization schedule 2, but the same was not paid till November, 2019, thereby increasing financial burden on the borrower due to increase in dollar rate.

Non-adherence to loan agreement clause resulted in non-repayment of principal amount of ADB Loan worth Rs.114.98 million during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that ADB had issued revised amortization schedule according to loan utilized. The payment had been made by EAD up to August, 2019 on regular basis as per revised amortization schedule. There was no default on account of interest charges as the payment of principal amount was being made by EAD to ADB regularly. Moreover, necessary directions had been issued to DISCOs regarding payment to EAD.

The DAC in its meeting held on December 26, 2019 directed the management to get the record verified from Audit.

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

(Proposed Draft Para No. 1134/2019-20)

1.4.3 Non-implementation of recommendations of inquiry regarding irregularities of tube-well connections – Rs.38.53 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.

In PEPCO, an inquiry was conducted to probe into alleged malpractices of MEPCO employees causing loss to the company. The operational area of

MEPCO scrutinized during the inquiry was Ali Pur Sadaat, Sub-Division of Sujahabad. The inquiry established that the employees were involved in different irregularities some of which were as follows:

i. A random sample of 26 Permanently Disconnected (P. Disc.) consumers was taken and checked during inquiry and it was found that 24 meters in this sample listed as “P. Disc.” were in-fact healthy meters and active as per PITC data.

ii. MEPCO officials had shown an amount of Rs.7.25 million as outstanding amount against these P. / Disc. consumers, whereas PITC data revealed that actually Rs.17.98 million was outstanding against the consumers.

iii. 66 agriculture consumers were found running defaulters having age between 3-6 months with outstanding amount of Rs.20.55 million

The above inquiry illustrated that fake billing and other potential fraudulent malpractices were present in MEPCO. The internal controls were weak and there was lack of credibility in the operational and financial data being populated by MEPCO officers / officials. However it was found that despite clear recommendations of inquiry report regarding fixing responsibility besides other measures, no compliance from MEPCO or stringent follow-up from PEPCO was forthcoming from record.

Weak supervision and lack of internal controls had resulted in non-implementation of recommendations of inquiry regarding irregularities involving non-recovery of Rs.38.53 million (Rs.17.98 million + Rs.20.55 million) from consumers during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the initiation of disciplinary action / implementation of inquiry recommendations were under process as reported by CEO MEPCO.

The DAC in its meeting held on December 26, 2019 directed the management to refer the para to MEPCO with direction to ensure implementation of inquiry committee’s findings and intimate to Audit and PEPCO.

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

(Proposed Draft Para No. 891 & 899/2019-20)

1.4.4 Non-mutation of land - Rs.35.52 million

According to Section-42 of Land Revenue Act, 1967, "a person acquiring by inheritance, purchase, mortgage, gift, or otherwise, any right in an estate as a land owner, as a tenant for a fixed term exceeding one year, shall, within three months from the date of such acquisition, report his acquisition of right to the Patwari of the estate for recording such report in the record".

In PEPCO, land worth Rs.35.52 million was purchased for construction of 132 KV Grid Station at Qasimabad, Hyderabad, and Rs.35.52 million had been paid by HESCO through Cross Cheque No. 2260118041 dated March 18, 2015. The sale deed was registered between Nasir Ali and HESCO authorities, at the rate of Rs.7.00 million per acre but mutation of land was still under process.

Non-adherence to Land Revenue Act resulted in non-mutation of land amounting to Rs.35.52 million during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that as per inquiry report's recommendations, the land was not owned by Oshaque Rahoojo Builders, Rather it was purchased from Mr. Nasir Ali S/o Naurang Khan Soolangi. The mutation was under process. Compliance from HESCO was still awaited.

The DAC in its meeting held on December 26, 2019 directed the management to refer the para to HESCO with direction to intimate the status to Audit and PEPCO and get the matter verified from Audit.

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

(Proposed Draft Para No. 904/2019-20)

1.4.5 Loss due to non-recovery of penalty imposed on employees - Rs.3.43 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".

In PEPCO, as per inquiry dated June 17, 2017, an amount of Rs.3.43 million was recoverable from employees on account of passing / processing of bogus repair bill and drawl of extra electrical materials. However, recovery was not made from the officers / officials held responsible by the competent authority.

Non-adherence to the rules resulted in loss of Rs.3.43 million due to non-recovery of penalty from employees up to the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the inquiry report was sent to CEO QESCO for implementation of the recommendations.

The DAC in its meeting held on December 26, 2019 directed the management to refer the para to QESCO with the direction to ensure implementation of inquiry committee's findings and intimate to Audit and PEPCO.

Audit recommends that the management needs to implement the recommendations of inquiry committee's findings.

(Proposed Draft Para No. 898/2019-20)

1.4.6 Non-recovery due to non-regularization of extension of load cases - Rs.1.81 million

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

In PEPCO, as per Director (Vigilance) PEPCO letter dated February 12, 2019 in Ali Pur Sadaat Sub Division, eight (08) connections were checked and found running on extended load without the approval of competent authority. Neither the connections were disconnected nor regularized after recovery of additional security deposit and feeder rehabilitation charges amounting to Rs.1.81 million.

Non-adherence to Abridge Conditions resulted in non-recovery of Rs.1.81 million from consumers due to unauthorized extension of load during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the recommendations of the inquiry report were sent to SE (Op.) MEPCO Circle Multan for initiation of disciplinary action/implementation.

The DAC in its meeting held on December 26, 2019 directed the management to refer the para to MEPCO with direction to ensure implementation of inquiry committee's findings and intimate the status to Audit and PEPCO.

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

(Proposed Draft Para No. 900/2019-20)

1.4.7 Non-recovery of units charged - Rs.1.32 million

According to Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) efficient application of billing and collection procedure".

In PEPCO, as per Addl: DG (Surv) S&I PEPCO Memo dated August 27, 2019, 120,273 units worth Rs.1.32 million (120,273 x 11) had been charged to the various scarp tubewell connections but the recovery was not forthcoming from the record.

Non-adherence to Commercial Procedure resulted in loss of Rs.1.32 million due to non-recovery of units charged from the consumers up to the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the inquiry committee had been constituted, the report was sent to CEO MEPCO for implementation of the recommendations of the inquiry report. Final action against accused was still awaited from MEPCO.

The DAC in its meeting held on December 26, 2019 directed the management to refer the para to MEPCO with direction to ensure implementation of inquiry committee's findings and intimate the status to Audit and PEPCO.

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

(Proposed Draft Para No. 905/2019-20)

CHAPTER-2

COMMON ISSUES OF DISTRIBUTION COMPANIES (DISCOs)

2. COMMON ISSUES OF DISCOs

2.1 AUDIT PARAS

2.1.1 Non-removal of electrical equipment and non-recovery of arrears - Rs.93,165.04 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, 411,177 consumers of all categories defaulted to pay energy charges of Rs.93,165.04 million. The equipment removal orders (EROs) were issued but not implemented. The detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	No. of EROs	Amount (Rs.in million)
1.	FESCO	290/2019-20	937	8.66
2.	GEPCO	141, 599/2019-20	1,125	13,910.65
3.	HESCO	10, 924/2019-20	34,3250	44,969.96
4.	LESCO	45, 516, 642, 821, 1069/2019-20	14,118	7,882.56
5.	MEPCO	434, 443, 476, 496/2019-20	3,192	444.07
6.	PESCO	317, 353, 590/2019-20	44,519	2,486.50
7.	QESCO	439, 441, 575/2019-20	4,036	23,462.64
		TOTAL	**411,177**	**93,165.04**

Non-adherence to Authority's instructions resulted in non-removal of electrical equipment and non-recovery of energy charges amounting to Rs.93,165.04 million up to the financial year 2018-19.

The matter was taken up with the management during July to December, 2019 and reported to the Ministry during September to December, 2019. The management replied that in some cases amount had been recovered while efforts were being to recover the arrears. The reply was not agreed to as non-implementation of EROs was not justified.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to provide the recovery record to Audit for verification within a week and expedite the remaining recovery or execution of EROs. Further progress was not reported till finalization of the report.

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

2.1.2 Loss of revenue due to line losses beyond NEPRA's targets - Rs.31,177.50 million

NEPRA fixed targets of energy losses ranging from 8.65% to 31.95% for the financial year 2018-19 in respect of following DISCOs.

In DISCOs, the percentage of line losses was more than the targets of losses set by the NEPRA. Hence, 1,814.83 million units valuing Rs.31,177.50 million were lost beyond the NEPRA's target. The detail is as under:-

Sr. No.	Name of Company	Proposed Proposed Draft Para No.	NEPRA Target (%)	Actual %age of Loss	Units lost beyond NEPRA target (million)	Amount (Rs.in million)
1.	IESCO	914/2019-20	8.65%	8.86%	25.00	408.00
2.	HESCO	592/2019-20	22.59 %	29.50%	383.74	8,058.56
3.	MEPCO	*a(vii)/Exec. Sum.	15.00%	15.8%	154.94	2,413.97
4.	PESCO	807/2019-20	31.95%	35.8%	551.04	8,656.91
5.	QESCO	*a(vii)/Exec. Sum.	17.5%	23.6%	381.68	5,946.53
6.	SEPCO	377/2019-20	29.75 %	37.00%	318.43	5,693.53
	TOTAL				**1,814.83**	**31,177.50**

(Source: Sectoral Analysis para a(vii), Table–2)

Non-adherence to NEPRA's targets resulted in loss of revenue amounting to Rs.31,177.50 million on account of line losses during the financial year 2018-19.

The matter was taken up with the management during September to October, 2019 and reported to the Ministry during October to December, 2019. It was stated by the management that the reply of IESCO was under preparation, in HESCO matter was under investigation and SEPCO management replied that anti-theft campaign had been launched and due to securing of feeders, 79.45 MKWH units amounting Rs.1,032.80 million had been saved. Audit contended that no proper justification for line losses above NERPA targets was given.

The DAC in its meetings held during December 27-30, 2019 directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for line losses beyond NEPRA targets. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture within a month.

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

2.1.3 Blockage of funds due to non-completion / capitalization of works - Rs.25,949.40 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, 3,422 augmentation, rehabilitation and deposit works worth Rs.25,949.40 million were either lying incomplete or completed but not capitalized. 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	Proposed Draft Para No.	No. of works	Amount (Rs.in million)
1.	FESCO	1222/2019-20	102	59.01
2.	GEPCO	214, 581, 1196/2019-20	858	1,850.18
3.	HESCO	274, 509/2019-20	33	7,843.01
4.	IESCO	675,747,1180/2019-20	2235	2469.49
5.	LESCO	513/2019-20	51	48.17
6.	MEPCO	328/2019-20	14	3,682.96
7.	QESCO	241,398,402/2019-20	126	9,788.54
8.	SEPCO	531/2019-20	3	208.04
		TOTAL	**3422**	**25,949.40**

Non-adherence to WAPDA Distribution Rehabilitation Guidelines resulted in blockage of funds amounting to Rs.25,949.40 million due to non-completion / capitalization of works up to the financial year 2018-19.

The matter was taken up with the management during August to October, 2019 and reported to the Ministry during October to December, 2019. The management replied that some works had been completed / capitalized while remaining were under process. The reply was not agreed to as the works were not completed / capitalized within stipulated period.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to produce record of completed actions within a week and expedite completion / capitalization of remaining works besides justifying delay. Further progress was not reported till finalization of the report.

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

2.1.4 Recoverable amount from WAPDA and other entities - Rs.24,409.45 million

According to Para-5 (5) of Public Sector Companies Corporate Governance Rules, 2013 " the board shall establish a system of sound internal control, which will 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."

In DISCOs, huge amount of Rs.24,409.45 million was receivable from WAPDA and other entities of PEPCO/Power sector on account of pension, cash medical allowance and free electricity. Weak control over recovery from other formations resulted in accumulation of receivables within companies to the stated extent. The detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	Amount (Rs.in million)
1.	FESCO	1055/2019-20	6,294.35
2.	GEPCO	620/2019-20	469.65
3.	LESCO	1078/2019-20	15,035.00
4.	PESCO	1046/2019-20	1,191.03
5.	HESCO	671/2019-20	1,419.42
		TOTAL	**24,409.45**

Non-adherence to rules resulted in recoverable amount of Rs.24,409.45 million from WAPDA and other formations up to the financial year 2018-19.

The matter was taken up with the management during June, 2019 to October, 2019 and reported to the Ministry during November to December, 2019. The management replied that the receivable / payable balances could not be curtailed to zero. However, efforts were being made to reduce the outstanding balances.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to expedite clearance of receivables from other entities and further directed to devise a clearing house mechanism under the PEPCO for clearance of inter DISCOs / WAPDA dues on regular basis.

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

2.1.5 Non-recovery of detection charges / pending units from consumers - Rs.9,872.69 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) / Surveillance Teams of the company and detection charges of Rs.9,872.69 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	Proposed Draft Para No.	Amount (Rs.in million)
1.	FESCO	486, 1203/2019-20	446.85
2.	GEPCO	92/2019-20	4.89
3.	HESCO	111, 517, 758/2019-20	20.19
4.	IESCO	43, 157, 447, 549, 552/2019-20	92.04
5.	LESCO	491, 962, 963, 971, 1098, 1208/2019-20	495.92
6.	MEPCO	355, 912, 938/2019-20	32.45
7.	PESCO	104, 921/2019-20	36.18
8.	QESCO	425,560/2019-20	31.56
9.	SEPCO	277,348, 365, 379, 405, 698/2019-20	8,689.47
10.	TESCO	708/2019-20	23.14
		TOTAL	**9,872.69**

Non-adherence to Commercial Procedure resulted in non-recovery of detection charges amounting to Rs.9,872.69 million from the consumers up to the financial year 2018-19.

The matter was taken up with the management during September, 2018 to November, 2019 and reported to the Ministry during May to December, 2019. 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 DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to produce the recovery record of completed actions within a week and expedite recovery in remaining cases. Further progress was not reported till finalization of the report.

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

2.1.6 Loss due to theft of electricity - Rs.2,520.64 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.2,520.64 million was recoverable from 190,897 consumers involved in theft of electricity through illegal direct connections, tempering in meters and bogus installation of meters. Departmental and legal actions were not taken for fixing responsibility and recovery of the energy charges. The detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	No. of Cases	Amount (Rs.in million)
1.	FESCO	291/2019-20	474	22.44
2.	GEPCO	60, 71, 143, 144, 345/2019-20	1543	44.41
3.	HESCO	930/2019-20	120	14.98
4.	IESCO	548, 554, 577/2019-20	791	64.67
5.	LESCO	28, 641, 960, 1096, 1097, 1138, 1160/2019-20	11103	2,198.34

6.	MEPCO	08, 438, 442, 980/2019-20	173068	106.86
7.	PESCO	316, 633/2019-20	3792	58.73
8.	SEPCO	254/2019-20	6	10.21
		TOTAL	**190897**	**2,520.64**

Non-adherence to Authority's instructions resulted in loss of Rs.2,520.64 million due to theft of electricity up to the financial year 2018-19.

Audit was of the view that theft of energy was material business risk issue for all DISCOs and needed strong remedial measures in collaboration with all stakeholders enabling the DISCOs to reduce their losses.

The matter was taken up with the management during June to December, 2019 and reported to the Ministry during September to December, 2019. 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 DAC in its meetings held during December 26, 2019 to January 02, 2020 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 decision besides making the loss good.

2.1.7 Undue favour to the consumers by non-regularization of unauthorized extended load – Rs.1,936.28 million

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

In DISCOs, 5,963 consumers of different categories extended the load of their energy connections illegally without approval of competent authority. The field formations neither disconnected the energy connections nor regularized the un-authorized extended load in violation of the above condition. The detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	No. of Cases	Amount (Rs.in million)
1.	FESCO	200, 209, 210/2019-20	2,339	613.24
2.	GEPCO	56, 67, 72, 95, 142/2019-20	634	188.62
3.	HESCO	12, 98, 482, 745/2019-20	268	26.80
4.	IESCO	41, 161, 501, 502, 749/2019-20	417	178.31

5.	LESCO	24, 30, 470, 639, 798, 819, 840, 842, 958, 1056, 1067, 1068, 1104/2019-20	750	230.88
6.	MEPCO	87, 334, 428, 453, 494, 474, 498, 911, 937/2019-20	481	136.70
7.	PESCO	77, 319, 352, 589, 600, 635, 789, 972/2019-20	465	173.34
8.	QESCO	481, 565, 684/2019-20	378	150.20
9.	SEPCO	168, 298/201920	121	64.07
10.	TESCO	705/2019-20	110	174.12
		TOTAL	**5,963**	**1,936.28**

Non-adherence to the Abridged Condition of Supply resulted in non-recovery of Rs.1,936.28 million from consumers on account of additional security deposit, feeder rehabilitation charges and capital cost due to unauthorized extension of load up to the financial year 2018-19.

The cases highlighted above were only observed on sample basis and for greater number of similar cases could not be ruled out. Audit was of the view that due to poor load monitoring and allied internal control weaknesses such irregular extension of load cases had been projected in the DISCOs.

The matter was taken up with the management during July to November, 2019 and reported to the Ministry during September to December, 2019. The management replied that in some cases, extended load had been reduced / regularized after recovery of dues, while in remaining cases notices had been issued to the consumers.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to devise a built-in system so that the action could be initiated on the occurrence of event instantly. It was further directed to serve notices to the consumers strictly as per SoPs and after regularization of extended load, relevant record be provided to Audit for verification within a month. Further progress was not reported till finalization of the report.

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

2.1.8 Loss due to damage of electrical material – Rs.1,422.30 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".

In DISCOs, electrical material comprising distribution transformers and other items valuing Rs.1,422.30 million were damaged. In most of the cases, the administrative action was neither initiated nor finalized to find out the reasons for fixing responsibility. The detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	Amount (Rs.in million)
1.	FESCO	198, 203, 221, 224, 542/2019-20	292.78
2.	GEPCO	49, 139/2019-20	171.18
3.	HESCO	289, 604/2019-20	104.89
4.	IESCO	445, 550/2019-20	74.52
5.	LESCO	26, 837/2019-20	637.27
6.	MEPCO	330, 440/2019-20	44.65
7.	PESCO	350, 850/2019-20	4.04
8.	QESCO	427, 580/2019-20	30.70
9.	SEPCO	366/2019-20	62.27
		TOTAL	**1,422.30**

Non-adherence to the rules resulted in loss of Rs.1,422.30 million due to damage of electrical material up to the financial year 2018-19.

The matter was taken up with the management during June to October, 2019 and reported to the Ministry during September to November, 2019. The management replied that the transformers were damaged due to overloading, climatic effect and completion of useful life.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to conduct departmental inquiry to fix responsibility on the basis of M&T reports of transformers and provide the record of completed actions 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 decision besides making the loss good.

2.1.9 Non-disposal of off-road vehicles and unserviceable material - Rs.671.97 million

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

In DISCOs, off-road vehicles and unserviceable material / equipments worth Rs.671.97 million were not disposed off. The vehicles and material were kept in the open yards and exposed to the adverse environmental conditions causing deterioration and further decrease in salvage value. The detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	Amount (Rs.in million)
1.	FESCO	487, 765, 830/2019-20	120.79
2.	GEPCO	623/2019-20	6.39
3.	HESCO	735/2019-20	8.80
4.	IESCO	412, 695, 773/2019-20	65.02
5.	LESCO	38, 1077, 1082, 1157/2019-20	171.36
6.	MEPCO	257, 477, 723/2019-20	35.36
7.	PESCO	120, 218, 288, 456, 601, 804, 817/2019-20	205.29
8.	QESCO	454, 782/2019-20	41.15
9.	SEPCO	381/2019-20	13.31
10.	TESCO	847/2019-20	4.50
		TOTAL	**671.97**

Non-adherence to WAPDA Disposal Procedure resulted in non-disposal of off-road vehicles and unserviceable material worth Rs.671.97 million up to the financial year 2018-19.

The matter was taken up with the management during June to December, 2019 and reported to the Ministry during September to December, 2019. The management replied that in some cases material had been auctioned while in other the cases disposal process was under way.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to produce the record of completed actions within a week 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.

2.1.10 Loss due to non-replacement of electrical material damaged during warranty period – Rs.330.19 million

According to 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, distribution transformers and other equipment worth Rs.330.19 million were damaged under warranty period and not got replaced from the manufacturers / suppliers as required under the clauses of purchase orders. The detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	Amount (Rs.in million)
1.	FESCO	52, 231, 766/2019-20	32.06
2.	GEPCO	625/2019-20	23.27
3.	IESCO	160, 574, 696/2019-20	38.68
4.	LESCO	9/2019-20	5.09
5.	MEPCO	122, 265, 429, 724,1035/2019-20	32.13
6.	PESCO	74, 119, 216, 315, 884/2019-20	190.92
7.	QESCO	783/2019-20	1.51
8.	SEPCO	384/2019-20	6.53
		TOTAL	**330.19**

Non-adherence to warranty clause of purchase orders resulted in non-replacement of electrical material worth Rs.330.19 million damaged within warranty period, from manufacturers / suppliers up to the financial year 2018-19.

Audit was of the view that not getting under warranty goods replaced well in time showed unsatisfactory maintenance of Company assets by the DISCOs.

The matter was taken up with the management during August, 2018 to October, 2019 and reported to the Ministry during June to December, 2019. The management replied that in some cases replaced material had been received from suppliers whereas replacement of balance material was under process.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to produce record of completed actions within a week and ensure replacement of remaining material expeditiously. Further progress was not reported till finalization of the report.

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

2.1.11 Non-recovery of cost of independent feeders from consumers – Rs.323.08 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, thirty one (31) industrial consumers running on mixed load feeders had extended the load illegally above 1000 KW hence, qualified for provision of electricity through independent feeders by recovering the cost of Rs.323.08 million, which was not done. The detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	No. of cases	Amount (Rs.in million)
1.	FESCO	953/2019-20	7	43.75
2.	GEPCO	466/2019-20	2	37.67
3.	IESCO	771/2019-20	2	15.00
4.	LESCO	677, 839, 1075, 1103, 1156/2019-20	13	71.72
5.	PESCO	1013/2019-20	2	5.00
6.	QESCO	424, 559/2019-20	4	32.00
7.	TESCO	130/2019-20	1	117.94
		TOTAL	**31**	**323.08**

Non-adherence to Authority's instructions resulted in non-recovery of Rs.323.08 million from consumers on account of cost of independent feeders during the financial year 2018-19.

The matter was taken up with the management during March to December, 2019 and reported to the Ministry during September to December, 2019**.** The management replied that notices had been issued to the consumers.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to expedite recovery of departmental dues for independent feeders 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 fixing responsibility.

2.1.12 Loss due to non-recovery of pending energy dues against temporary connections - Rs.297.99 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, energy dues of Rs.297.99 million were pending 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 detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	Amount (Rs.in million)
1.	GEPCO	137/2019-20	1.04
2.	HESCO	694/2019-20	0.94
3.	IESCO	553/2019-20	10.50
4.	LESCO	29, 514, 796, 799, 838, 864, 1062, 1076, 1093/2019-20	271.16
5.	MEPCO	432/2019-20	2.78
6.	PESCO	793/2019-20	11.57
		TOTAL	**297.99**

Non-adherence to tariff condition resulted in loss of Rs.297.99 million due to non-recovery of energy dues from temporary consumers up to the financial year 2018-19.

The above cases were only found on sample test check basis and more cases in DISCOs could not be ruled out. Audit was of the view that pending dues for temporary connections indicated poor internal control as sufficient security deposit should have been obtained against energy being supplied to temporary consumers supply.

The matter was taken up with the management during June to November, 2019 and reported to the Ministry during September to December, 2019. The management replied that some of the amount had been recovered from consumers while efforts were being made to recover the balance amount.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to produce record of completed actions within a week 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 decision besides fixing responsibility.

2.1.13 Non-recovery of energy dues from consumers after court decisions in favour of DISCOs - Rs.260.89 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, 926 court cases involving an amount of Rs.260.89 million were decided in favour of the companies. The amount of decided court cases was required to be recovered from the consumers, which was not done. The detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	No. of Cases	Amount (Rs.in million)
1.	FESCO	173/2019-20	35	2.35
2.	GEPCO	83, 145/2019-20	115	18.56
3.	HESCO	19/2019-20	19	5.42
4.	IESCO	158/2019-20	18	2.18
5.	LESCO	515, 645, 810, 1059, 1158/2019-20	275	162.47
6.	MEPCO	88/2019-20	463	52.10
7.	PESCO	632/2019-20	1	17.81
		TOTAL	**926**	**260.89**

Non-adherence to Commercial Procedure resulted in non-recovery of energy dues of Rs.260.89 million from consumers up to the financial year 2018-19.

The matter was taken up with the management during July to November, 2019 and reported to the Ministry during September to December, 2019. The management replied that in some cases amount had been recovered, some of the consumers approached next higher courts whereas in remaining cases recovery was under process.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to produce the record of completed actions to Audit within a week 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 decision.

2.1.14 Non-renewal/forfeiture of performance guarantees – Rs.202.63 million

According to the conditions of contract, "The Contractor shall provide Performance Security to the Employer in the prescribed form. The said Security shall be furnished or caused to be furnished by the Contractor within 28 days after the receipt of the Letter of Acceptance. The Performance Security shall be of an amount equal to 10% of the Contract Price stated in the Letter of Acceptance.

In DISCOs, performance bank guarantees amounting to Rs.202.63 million submitted by the contractors were expired. The performance guarantees were to be renewed which was not done thereby putting the interest of the company at risk. Efforts were not forthcoming from record for renewal / forfeiture of the said performance guarantees. The detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	Amount (Rs.in million)
1.	GEPCO	918/2019-20	46.35
2.	MEPCO	197, 300, 725/2019-20	65.05
3.	PESCO	248, 851/2019-20	9.49
4.	QESCO	399/2019-20	31.88
5.	SEPCO	530/2019-20	49.86
		TOTAL	**202.63**

Non-adherence to the conditions of contracts resulted in non-renewal / forfeiture of performance guarantees amounting to Rs.202.63 million up to the financial year 2018-19.

The matter was taken up with the management during July to October, 2019 and reported to the Ministry during September & December, 2019. The management replied that some of the guarantees had been got extended while remaining guarantees were under process for extension in period.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 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 decision.

2.1.15 Loss due to theft of electrical material and vehicles - Rs.77.25 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 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 material and vehicles valuing Rs.77.25 million were stolen by unknown culprits in 262 cases. Though FIRs were lodged with the concerned police station(s) but no administrative inquiry / action was carried out / finalized for fixing responsibility. The detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	No. of Cases	Amount (Rs.in million)
1.	FESCO	54, 204, 211, 827/2019-20	42	14.83
2.	GEPCO	57, 64, 96, 140, 582/2019-20	33	8.90
3.	IESCO	46, 155, 159, 451/2019-20	29	8.26
4.	LESCO	35, 468, 638, 763, 836, 858, 1071, 1108/2019-20	62	22.78
5.	MEPCO	85, 336, 436, 493/2019-20	43	11.06
6.	PESCO	215, 631, 788/2019-20	52	7.47
7.	QESCO	778/2019-20	1	3.95
		TOTAL	**262**	**77.25**

Non-implementation of rules for safeguarding the companies' assets resulted in loss of Rs.77.25 million due to theft of electrical material and vehicles during the financial year 2018-19.

The matter was taken up with management during June to December, 2019 and reported to the Ministry during September to December, 2019. The management replied that FIRs were lodged and in some cases departmental inquiries were finalized while in remaining cases administrative and legal actions were under process. The reply was not agreed to as proper measures for safeguarding of valuable assets were not adopted.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to pursue the legal actions and expedite departmental actions to decide the fate of the loss and provide the record of completed actions 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 decision besides making the loss good.

2.1.16 Non-recovery of fixed charges due to wrong application of tariff – Rs.53.23 million

According to NEPRA's Tariff Conditions, Tariff B-I was applicable to the industrial consumers having load up to 25 KW.

In DISCOs, 1,596 industrial consumers got their load sanctioned under Tariff-B-I whereas their connections were running illegally under Tariff B-II. Due to non-conversion of tariff of consumers from B-I to B-II, an amount of

Rs.53.23 million on account of fixed charges @ Rs.400/KW, applicable to B-II consumers could not be recovered. The detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	No. of Cases	Amount (Rs.in million)
1.	FESCO	55, 202/2019-20	138	8.45
2.	GEPCO	48, 66/2019-20	42	9.94
3.	LESCO	490, 658, 800, 841, 1122,/2019-20	156	25.29
4.	SEPCO	166, 299/2019-20	56	9.55
TOTAL			**392**	**53.23**

Non-adherence to tariff conditions resulted in loss of revenue amounting to Rs.53.23 million due to application of wrong tariff up to the financial year 2018-19.

The matter was taken up with the management during June to November, 2019 and reported to Ministry during September to December, 2019. The management replied that in some cases recovery had been made, some of the connections were running under correct tariff while in remaining cases either notices had been issued or amount debited.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to provide the record of completed actions to Audit for verification within a week and expedite pending actions for change of tariff as per SoPs in remaining cases within a month. Further progress was not reported till finalization of the report.

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

2.1.17 Loss due to shortage / missing of electrical material - Rs.25.71 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 material and transformer oil valuing Rs.25.71 million were found missing / short. Neither any departmental inquiry was conducted nor any action was taken against the responsible persons. The detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	Amount (Rs.in million)
1.	FESCO	199/2019-20	1.17
2.	HESCO	11, 363/2019-20	4.45
3.	MEPCO	264, 430, 471, 495, 721/2019-20	11.21
4.	PESCO	920/2019-20	8.88
		TOTAL	**25.71**

Non-adherence to Authority's instructions resulted in loss of Rs.25.71 million due to missing / shortage of electrical material up to the financial year 2018-19.

The matter was taken up with the management during July to November, 2019 and reported to the Ministry during September to December, 2019. The management replied that the matter was under investigation with respective inquiry committees.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to finalize departmental inquiry proceedings within a month and provide reports to Audit. Further progress was not reported till finalization of the report.

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

CHAPTER-3

GENCO HOLDING COMPANY LIMITED (GHCL)

3. GENCO HOLDING COMPANY LIMITED (GHCL)

3.1 Introduction

The Government of Pakistan constituted a Holding Company having representation of reputables 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. The GHCL is 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)

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	10	01	159.80	159.80	-
2.	Assignment Accounts (excluding FAP)	N/A	N/A	N/A	N/A	N/A
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

3.2 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, financial statements of the company for the financial year 2018-19 could not be finalized by the management up till December 31, 2019.

3.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.6.69 million were raised in this audit. The audit observation classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Irregularities		
	A.	Irregularity pertaing to violation of entity's own rules / regulations	2.10
	B.	Irregularities pertaining to violation of Regulatory Laws & Regulations	4.59

3.4 AUDIT PARAS

3.4.1 Irregular procurement of vehicles in violation of austerity measures - Rs.4.59 million

According to Finance Division's notified Austerity measures for the financial year 2018-19 dated December 03, 2018, "there will be a complete ban on purchase of all types of vehicles both for current as well as development expenditure except operational vehicles of law enforcing agencies for which NoC from Finance Division would be required".

In GENCO Holding Company, two (02) Toyota Corolla vehicles worth Rs.4.59 million were purchased during the financial year 2018-19 in violation of austerity measures.

Non-adherence to austerity measures resulted in irregular procurement of vehicles worth Rs.4.59 million during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that the purchase order for procurement of vehicles was issued in August, 2018 i.e much earlier than the issuance of referred austerity measures memorandum in December 03, 2018.

The DAC in its meeting held on January 01, 2020 directed the management to get the record verified from Audit within fifteen days.

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

(Proposed Draft Para No. 744/2019-20)

3.4.2 Non-disposal of off road vehicles - Rs.2.10 million

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

In GENCO Holding Company, three (03) off road vehicles worth Rs.2.10 million were required to be auctioned / disposed off but the same was not done. Non-disposal of the same was causing further deterioration and decrease in their salvage value.

Non-adherence to the Disposal Procedure resulted in non-disposal of off road vehicles worth Rs.2.10 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that the committee for preparation of survey report had been constituted and the progress achieved would be intimated in due course of time. Further progress was not intimated.

The DAC in its meeting held on January 01, 2020 directed the management to provide detailed revised reply alongwith target dates for disposal.

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

(Proposed Draft Para No. 743/2019-20)

CHAPTER-4

JAMSHORO POWER GENERATION COMPANY (GENCO-I)

4. JAMSHORO POWER GENERATION COMPANY (GENCO-I)

4.1 Introduction

The Jamshoro Power Generation Company Limited, (JPGCL) was incorporated in August, 1998, under Companies Ordinance 1984 (now Companies Act 2017). It 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 Central Power Purchase Agency (Guaranteed) Limited (CPPA-G). JPGCL was granted Generation License by NEPRA in July, 2002.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	01	01	65,270.06	18,760.30	11,860.39
2.	Assignment Accounts (excluding FAP)	N/A	N/A	N/A	N/A	N/A
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	03	03	US$ 9.38	US$ 9.38	Nil

4.2 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 GENCO-I, financial statements of the company for the financial year 2018-19 could not be finalized by the management up till December 31, 2019.

4.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.236.24 million were raised in this audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Irregularities		
	A.	Procurement related irregularities	22.55
	B.	Irregularities pertaining to violation of Regulatory Laws & Regulations	213.70

4.4 AUDIT PARAS

4.4.1 Loss due to consumption of excess heat rate as against NEPRA standard- Rs.213.70 million

NEPRA has determined the heat rates for Unit-1: 11767, Unit-2: 13220, Unit-3: 12901 & Unit-4: 12527 BTU/kWh in respect of GENCO-I.

In GENCO-I Jamshoro, heat rate per KWH was excess consumed as against the NEPRA Standard. The excess heat rate was worked out as 266,910.54 million BTU from the actual Standards. This caused a loss of Rs.213.70 million to the Company.

Non-adherence to the NEPRA standard resulted in loss of Rs.213.70 million due to consumption of excess heat rate during financial year 2018-19.

The matter was taken up with the management in July, 2019 and reported to the Ministry in December, 2019. The management replied that the machines remained on standby or NPCC operated on minimum load during the financial year 2018-19 which disturbed the heat rate.

The DAC in its meeting held on January 01, 2020 directed the management to match the efficiency with NEPRA target.

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

(Proposed Draft Para No. 1137/2019-20)

4.4.2 Recoverable amount from EPC contractor - Rs.22.54 million

The Section-6 Employer Requirements Clause-3.7 states "in case layout of plant interface with the existing natural gas CMS, the contractor shall relocate the CMS"

In GENCO-I Jamshoro an amount of Rs.22.54 million was paid to SNGPL by Jamshoro power generation for relocation work of gas Consumer Metering System (CMS). This relocation work was the responsibility of the contractor but the contractor was reluctant to bear the expense. This state of affairs put the authority into a loss to the stated extent.

Non-adherence to the agreement clause resulted in recoverable amount of Rs.22.54 million from EPC contractor during the financial year 2018-19.

The matter was taken up with the management in July, 2019 and reported to the Ministry in October, 2019. The management replied that the EPC contractor had been asked to pay the requisite amount; otherwise the same would be deducted from their commercial invoice.

The DAC in its meeting held on January 01, 2020 directed the management to follow up the matter.

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

(Proposed Draft Para No. 225/2019-20)

CHAPTER-5

CENTRAL POWER GENERATION COMPANY (GENCO-II)

5. CENTRAL POWER GENERATION COMPANY (GENCO-II)

5.1 Introduction

The Central Power Generation Company (CPGCL) was incorporated in October, 1998 as a public limited company under Companies Ordinance 1984 (now Companies Act 2017). It 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 Central Power Purchasing Agency (Guarantee) Limited (CPPA-G). CPGCL was granted Generation License by NEPRA during July, 2002. The Company has fourteen units having capacity of 12,264,000 MWh.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	01	01	64,551.49	19,237.87	-
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

5.2 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 GENCO-II, the financial statements of the company for the financial year 2018-19 could not be finalized by the management up till December 31, 2019.

5.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.352.88 million were raised in this audit. The amount also includes recoverables of Rs.31.51 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1	Irregularities		
	A.	Procurement related irregularities	278.28
	B.	Management of Accounts with Commercial Banks	8.69
	C.	Irregularities pertaining to violation of entity's own rules / regulations	32.97
	D.	Recoveries	31.51
2.	Others		1.43

5.4 AUDIT PARAS

5.4.1 Loss due to receipt of substandard material from the supplier - Rs.278.28 million

As per Section-F of award of contract instructions to bidder (IT) 16.3 an affirmative determination will be pre- requisite for award of the contract/ issuance of purchase order to the bidder. A negative determination will result in rejection of bidders bid in which event; Employer will proceed to the next lowest evaluated Bid to undertake a similar determination of bidder's capability to perform the contract satisfactorily.

In GENCO–II, a Purchase Order was issued on December 27, 2017 to M/s GE Global Parts for the procurement of Combustion Inspection Spare Parts worth US$ 2,054,682. During technical inspection, it was found that the material worth Rs.278.28 million (US$ 1,802,124.8 * 154.4196) was not according to specification as per purchase order. The acceptance of the material with such discrepancies was unjustified and led to purchase of the substandard material which put the company into a loss to the stated extent.

Non-adherence to the rules resulted in purchase of the substandard material worth Rs.278.28 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that the parts number of the items were different from the purchase orders but not substandard. Further the supplier gave assurance of the proper functioning of the upgraded parts. Upon this justification item No. 20 & 21 were checked by the end user and found correct, where as the item No. 18 was under checking process.

The DAC in its meeting held on January 01, 2020 directed the management to get the evidence of upgraded parts verified from Audit.

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

(Proposed Draft Para No. 286/2019-20)

5.4.2 Non-disposal of unserviceable / damaged material / vehicles - Rs.27.32 million

As per Clause-1.4.2 (a) of WAPDA disposal procedure, once declared unserviceable, beyond economical repair or dead by the Competent Authority, the material should be disposed off with minimum delay.

In GENCO-II, unserviceable material & six (06) vehicles having approximate value of Rs.27.32 million were lying in open yard for want of disposal and were deteriorating with the passage of time. Neither survey reports were prepared nor any step was taken.

Non-adherence to Disposal Procedure resulted in non-disposal of unserviceable / damaged material / vehicles worth Rs.27.32 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October & November, 2019. The management replied that the case for obtaining approval for disposal of unserviceable / damaged material / vehicles worth Rs.3.649 million had been submitted to the competent authority, whereas the remaining scrap material was under survey.

The DAC in its meeting held on January 01, 2020 directed the management to follow up and expedite the process of disposal.

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

(Proposed Draft Para No. 259 & 795/2019-20)

5.4.3 Non-recovery of standard rent from different commercial offices / business establishments in TPS Guddu - Rs.21.49 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".

In GENCO–II, an amount of Rs.21.49 million was recoverable from the commercial offices of private sector i.e. NBP, HBL, Petrol Pump, U-FONE etc. These commercial offices were not depositing the rent as per standard rate fixed for the commercial concerns for the period ranging from July, 2008 to August, 2018.

Non-adherence to the rules resulted in non-recovery of standard rent from different commercial offices / business establishments amounting to Rs.21.49 million up to the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that the payment as per agreement had been received from HBL while agreements of Company with NBP and PSO were under deliberation.

The DAC in its meeting held on January 01, 2020 directed the management to get the recovery verified and expedite the finalization of pending rent agreements for early recovery.

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

(Proposed Draft Para No. 232/2019-20)

5.4.4 Loss due to non-recovery of standard rent from illegal occupants - Rs.10.02 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".

In GENCO–II, an amount of Rs.10.02 million was recoverable from the illegal occupants i.e. private person, officers / officials from Police, Judiciary

Intelligence Bureau, Revenue, Army, Media and Irrigation offices. More than 200 residences of different categories had been occupied by those occupants. Neither any residential charges nor electricity/ water/ gas charges were deposited by these illegal occupants. Due to non-depositing of only standard rent the company was sustaining a loss of Rs.10.02 million every year. The loss due to electricity, water charges and gas charges were not calculated due to non-metering. The illegal occupants were enjoying facility without paying any amount, thereby putting the company into loss each year.

Non-adherence to the rules resulted in a loss of Rs.10.02 million sustained by the company on account of non-recovery of standard rent and utility charges from the illegal occupants during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that the quarters had been got vacated and the recovery figures had also improved as compared to those of previous year.

The DAC in its meeting held on January 01, 2020 directed the management to follow up recovery drive and get the completed actions verified from Audit.

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

(Proposed Draft Para No. 234/2019-20)

5.4.5 Loss on account of interest income and deduction of withholding tax due to irregular withdrawal of funds from banks - Rs.8.69 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".

In GENCO-II, an amount of Rs.2.58 million on account of interest income was lost due to withdrawal of funds amounting to Rs.2,037.39 million from nine (09) banks on December 27, 2016 and was got deposited after four to seven days. Besides this, the company had to bear loss of Rs.6.11 million on account of deduction of withholding tax @ 0.3% by banks. The withdrawal of huge funds amounting Rs.2,037.39 million from banks on the same date without any cogent reason was irregular/ unjustified.

Non-adherence to the rules resulted in loss of Rs.8.69 million on account of interest income and deduction of withholding tax due to irregular withdrawal of funds from banks during the financial year 2016-17.

The matter was taken up with the management in October, 2017 and reported to the Ministry in November, 2017. The management replied that the amount was withdrawn on the advice of tax consultants and approval of CEO GENCO-II to save the Company from huge financial loss as FBR was going to issue banks accounts attachment orders for recovery of outstanding tax.

The DAC in its meeting held on January 15 – 17, 2018 directed the management to conduct inquiry and provide its report to Audit for examination within 15 days.

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

(Proposed Draft Para No. 1266/2017-18)

5.4.6 Loss due to non-disposal of used oil - Rs.5.65 million

As per Chapter-XI of WAPDA Disposal Procedure unserviceable material / machinery should be disposed off expeditiously to save it from deterioration.

In GENCO-II, used turbo oil of 102,800 worth Rs.5.65 million was lying in different Stores of TPS Guddu. This used oil was lying at open yard for want of disposal and was deteriorating with the passage of time. Neither Survey report was prepared nor any step was taken towards its auction which deprived the Company of its legitimate revenue.

Non-adherence to the Disposal Procedure resulted in loss of Rs.5.65 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in December, 2019. The management replied that the case had been submitted to the competent authority for obtaining approval to declare the dirty turbo oil disposable.

The DAC in its meeting held on January 01, 2020 directed the management to follow up and expedite the process of disposal.

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

(Proposed Draft Para No. 994/2019-20)

5.4.7 Unjustified stocking of HSD oil in TPS Quetta - Rs.1.43 million

According to the Section 4.11.1 of Stores and Inventory Management, "if any difference arises in the physical count and the record maintained by the store keeper, an Investigation Committee is formed by the C.E Development to investigate the reasons for such irregularity."

In GENCO-II, HSD oil valuing Rs.1.43 million was found in the stock of TPS Quetta. The TPS Quetta was out of order/closed since long. Hence, the presence of HSD oil in TPS Quetta was unjustified and chances of misappropriation of such a huge quantity of oil could not be ruled out.

Non-implementation of inventory management resulted in unjustified stocking of HSD oil of Rs.1.43 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that the HSD oil was in the form of sludge accumulated in the bottom of tanks and had no value. The write off case for the same had been submitted to CEO GENCO-II in 2008 and 2010.

The DAC in its meeting held on January 01, 2020 did not agree with the stance of the management and directed to conduct an inquiry covering HSD oil position at the time of abandonment of the plant, causes of delay in finalization of write off cases and current status of the disposal of HSD oil within 30 days.

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

(Proposed Draft Para No. 227/2019-20)

CHAPTER-6

NORTHERN POWER GENERATION COMPANY (GENCO-III)

6. NORTHERN POWER GENERATION COMPANY (GENCO-III)

6.1 Introduction

The Northern Power Generation Company Limited, (NPGCL) was incorporated on October 15, 1998 under Companies Ordinance 1984 (now Companies Act 2017). It 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 Central Power Purchasing Agency (Gurantee) Limited (CPPA-G). 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.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	01	01	31,800.47	18,351.89	25,680.00
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

6.2 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 GENCO-III, the financial statements of the company for the financial year 2018-19 could not be finalized by the management up till December 31, 2019.

6.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.1,132.13 million were raised in this audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft		252.13
2.	Irregularities		
	A.	Irregularities pertaining to violation of Regulatory Laws & Regulations	880.00

6.4 AUDIT PARAS

6.4.1 Loss due to less thermal efficiency of Nandipur power plant – Rs.594.40 million

According to NEPRA's decision dated September 02, 2016, the thermal efficiency was determined 49% on gas in respect of 425 MW Combined Cycle Power Plant (CCPP) Nandipur".

In GENCO-III, generation efficiency of CCPP Nandipur was set 49% on gas by NPERA which was not made applicable and waived off through contract amendment No.01 at the time of handing over / taking over the plant to O&M contractor. The net efficiency of the plant remained 40.16% to 47.56%, which was below than that determined by NEPRA. Hence, 55.44 million units were less generated and caused generation loss of Rs.594.40 million.

Non-adherence to the NEPRA's determined plant efficiency limit resulted in loss of Rs.594.40 million due to less thermal efficiency of Nandipur power plant during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that as per performance test of the Complex the actual efficiency had come out as 48.54%. Moreover, the less efficiency pointed out by audit was mainly because of partial loading, as per instructions of NPCC.

The DAC in its meeting held on January 01, 2020 directed the management to get the partial loading as per NPCC instructions verified from Audit.

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

(Proposed Draft Para No. 746/2019-20)

6.4.2 Loss due to exclusion of PST on services from contract price - Rs.285.60 million

According to Clause 14.1 (b) of the Agreement, the contractor shall pay all taxes (including but not limited to the Punjab Sales Tax (PST), duties and fees required to be paid by it under this agreement and the agreement price shall not be adjusted for any of these costs.

In GENCO-III, a bid of Rs.1,782 million offered by M/s AMCORP-GASCO (JV) for engineering, procurement, construction and commissioning of gas conversion works / services of Nandipur Power Plant was accepted. Accordingly, a Letter of Acceptance (LoA) inclusive of PST on contract price was issued to the said contractor on December 2, 2016. Later on, PST was excluded by issuing a corrigendum / revised LoA on December 24, 2016. The exclusion of PST from contract price was not in order as the bid price was inclusive of all taxes including but not limited to PST on services. Hence, undue favour was extended to the contractor by assuming the responsibility of payment of PST and Company was put to a loss of Rs.285.60 million on this account.

Non-adherence to the contact clause resulted in loss of Rs.285.60 million due to exclusion of PST on services from contract price up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that as per schedule-V of Tender / Bid, the price quoted by the bidder was exclusive of PST but the contract price mentioned on the LoA was erroneously stated to be inclusive of PST, consequently revised LoA was issued with contract price exclusive of PST, based on the reality

The DAC in its meeting held on January 01, 2020 did not agree with the management stance and directed to inquire the matter at PEPCO level through examination of all the documents pertaining to bidding / advertisement etc to ascertain any malafide or otherwise.

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

(Proposed Draft Para No. 855/2019-20)

6.4.3 Misappropriation of furnace oil - Rs.252.13 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 GENCO-III Muzzafargarh, 3,306.569 M. Ton furnace oil worth Rs.252.13 million was available at Natural Gas Power Station Pirangaib Multan. The said power station was declared as defunct in 2016 but neither the furnace oil was utilized nor issued to other projects. Hence, it was apprehended that the furnace oil had been misappropriated.

Non-adherence to the Authority's instructions resulted in misappropriation of furnace oil worth Rs.252.13 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that the stock taking of the furnace oil available at NGPS, Multan was being carried out on regular basis. Moreover the authority had decided to shift the said furnace oil to TPS Muzafargarh.

The DAC in its meeting held on January 01, 2020 directed the management to ensure stock verification and expedite the matter for shifting of the furnace oil to the concerned power station.

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

(Proposed Draft Para No. 854/2019-20)

CHAPTER-7

NATIONAL TRANSMISSION AND DESPATCH COMPANY (NTDC)

7. NATIONAL TRANSMISSION AND DESPATCH COMPANY (NTDC)

7.1 Introduction

National Transmission and Dispatch Company (NTDC) was incorporated under Companies Ordinance, 1984 during 1998. The Company obtained transmission license from NEPRA for a period of 30 years during December, 2002 for undertaking its obligations. The principal activity of NTDC was to receive electricity from Hydel / Thermal / Nuclear Power Stations, Renewable Energy Plants and IPPs, and transmit it through its 500 KV/220 KV System to all DISCOs and K-Electric for onward distribution to consumers. NTDC was also responsible for constructing, operating and maintaining 220 KV and 500 KV transmission system comprising of transmission lines and grid stations.

The Company operates and maintains fourteen (14) 500 KV Grid Stations and thirty eight (38) 220 KV grid stations along with 5,077 KM 500 KV transmission lines, and 7,359 KM 220 KV transmission lines in Pakistan.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue/ Receipts audited FY2018-19 (Rs.in million)
1.	Formations	22	10	116,714.67	19,561.37	-
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	11	11	US$ 40.52 Euro 32.38 JPY 2309.49	US$ 40.52 Euro 32.38 JPY 2309.49	-

7.2 Comments on Financial Statements

7.2.1 Financial Overview

As per the audited Financial Statements for the year 2018-19, the Company earned a profit of Rs.11,235.760 million after tax for the year ended dated 30th June, 2019. However, the profit decreased from Rs.14,736.04 million in the financial year

2017-18 to Rs.11,235.76 million in the financial year 2018-19 registering 23.75% decrease. Moreover, Sales revenue of the Company increased from Rs.36,743.61 million in the financial year 2017-18 to Rs.41,989.37 million in the financial year 2018-19 registering 14.27% increase.

7.2.2 Extracts of the Financial Statements
Statement of Financial Position as on June 30, 2019

(Rs.in million)

	2018-19	% Inc/Dec	2017-18	% Inc/Dec	2016-17
Assets					
Non-current assets					
Property, Plant and Equipment	289,469.171	15.17	251,341.856	16.47	215,800.765
Long term loans	1,043.266	14.97	907.377	19.98	756.264
Long term prepayments	52.755	(7.69)	57.151	(7.14)	61.547
Long term deposits	15.098	1263.86	1.107	(86.23)	8.042
	290,580.289	**15.17**	**252,306.491**	**16.47**	**216,625.558**
Current assets					
Current portion of long term loans and advances	115.918	14.97	100.820	19.82	84.029
Stores, spares and loose tools	24,516.141	46.27	16,761.188	(2.50)	17,191.396
Trade debts	16,334.849	(58.58)	39,440.025	23.54	31,924.549
Advances and other receivables	56,412.045	29.73	43,483.186	17.53	36,996.405
Receivable from Govt. of Pakistan	0		0		0
Accrued mark up	17.594	223.36	5.441	15,902.94	.034
Short term investments	0		0		0
Cash and bank balance	13,836.657	66.31	8319.763	12.24	7,412.197
	111,233.205	**2.89**	**108,110,424**	**15.49**	**93,608.612**
TOTAL ASSETS	**401,813.494**	**11.48**	**360,416.915**	16.17	**310,244.169**
Equity and Liabilities					
Share capital and reserves					
Share capital	52,700.380	0	52700.380	0	52,700.380
Un-appropriated profit	**97,882.114**	57.52	**62,138.136**	**29.09**	**49672.775**
	150,582.495	31.13	114,838.517	12.17	**102,373.156**
Share deposit money	**7,163.233**	**0**	**7,163.233**	**0**	**7,163.233**
LIABILITIES					
Non-Current Liabilities					
Loan note payable to CPPA-G	33,662.155	0	33662.155	0	33,662.155
Long term loans and financing	97,784.344	30.17	75,117.989	21.98	58,604.655
Deferred liabilities	46,444.079	12.49	41,287.258	14.52	36,053.629
Deferred taxation	11,876.251	19.35	9,950,.370	1.80	9,774.032
Deferred credit	7,026.297	36.76	5,137.483	(1.57)	5,219.835
	196,793.127	**19.15**	**165,155,255**	**15.24**	**143,314.306**
Current liabilities					
Trade and other payables	20,712.453	(24.28)	27,356.181	(1.85)	27,870.608
Accrued mark-up	9,395.587	(57.20)	21952.895	62.09	13550.856

Current portion of long term loans	17,166.599	(28.32)	23,950.834	(49.95)	15972.009
	47,274.638	35.47)	73,259.909	27.64	57393.473
TOTAL EQUITY AND LIABILITIES	401,813.494	11.48	360,416.915	16.17	310,244.169

(Source: Audited Financial Statement of NTDC Financial Year 2018-19 – Grant Thornton Anjum Rehman, Chartered Accountant)

Statement of Profit & Loss Account
For the year ended June 30, 2019

(Rs.in million)

	2018-19	% Inc/Dec	2017-18	% Inc/Dec	2016-17
Use of system / wheeling charges	41,989.366	14.27	36.743.605	16.55	31,525.599
Operating expenses	21,826.871	23.34	17,140.780	6.03	16,166.073
Financial Costs	8,119.36	77.47	4,574.984	263.26	1,259.426
	(29,946.234)	37.90	(21,715.784)	24.62	(17,425.499)
Other income	1,993.509	105.74	968.939	(36.77)	1,532.399
Profit before taxation	14,036.641	(12.25)	15,996.761	3.65	15,432.489
Taxation					
- Current year	0	0	0	(100)	225.458
- Prior year	31.048	(80.21)	156.926	100	0
- Deferred	2,769.833	150.94	1,103.797	(76.06)	4,611.653
	(2,800.881)	122.16	(1,260.723)	(73.99)	(4847.112)
Profit after tax from the year	**11,235.760**	**(23.75)**	**14,736.038**	**39.21**	**10,585.377**
Other comprehensive income					
Item that will not be reclassified to profit or loss. Re measurement of obligation of employees retirement benefits- net of tax	**(2,066.228)**	**(9.00)**	**(2,270.676)**	**(47.35)**	**(4,313.102)**
Other comprehensive loss for the year	**(2,066.228)**	**(9.00)**	**(2,270.676)**	**(47.35)**	**(4313.102)**
Total comprehensive income for the year	**9,169.532**	**(26.44)**	**12,465.361**	**98.74**	**6,272.275**

(Source: Audited Financial Statement of NTDC Financial Year 2018-19 – Grant Thornton Anjum Rehman, Chartered Accountant)

7.2.3 Qualified Opinion given by the External Auditors on the Financial Statements of NTDC Financial Year 2018-19

It was observed that External Auditors had qualified the accounts of NTDC for the financial year 2018-19 on the following basis:

a) The sale tax refundable amounting to Rs.3,060 million in respect of purchase and sale of electricity had been retained by the Company. No underlying documentation was available with the Company on the issue. Had the impairment been recorded, the profit for the year would have been lower by Rs.3,060 million and sale tax refundable and un-appropriated profit would have been lower by Rs.3,060 million.

b) The Company was granted exemption by Federal Government vide SRO 171(1/2008) dated February 21, 2008 to exclude purchase price of electricity from gross turnover for the purpose of charging minimum tax under section 113 of Income Tax Ordinance, 2001 till tax year 2013.

After the omission of aforesaid SRO by the Finance Act, 2014, the Company had not made provision for tax in the financial statements for financial year 2014 and 2015.

Had the provision for minimum tax been made in the prior years' financial statements based on gross turnover, tax provision would have been higher by Rs.15,668 million and un-appropriated profit would have been lower by Rs.15,668 million.

c) The company had not established a Workers' Profit Participation Fund (WPPF) under the Companies Profit (Workers Participation) Act, 1968 and also no provision had been booked in the financial statements.

Had the Company accounted for the provision of WPPF for the years 2012 to 2019 in which the company earned profits, profit after tax for the year would have been lower by Rs.702 million, liabilities would have been higher by Rs.10,305 million and un-appropriated profit would also have been lower by Rs.10,305 million.

Due to above highlighted shortcomings the Financial Statements of the Company were not giving fair and true picture.

7.2.4 Comments on Audited Accounts

i) Profitability

The Company had earned profit of Rs.11,235.760 million during the financial year 218-19. Total accumulated profit has reached to the amount of Rs.97,882.11million. However, Company's profit had decreased amounting to Rs.3,500.27 million from the financial year 2017-18. The same needed justification from the management.

ii) Increase in operating expenses

The operating expenses of the Company increased from Rs.17,140.78 million in the financial year 2017-18 to Rs.21,826.87 million in the financial year 2018-19 registering an increase of 27.34%. High increase in operating expenses required justification.

iii) Trade Debts and other Receivables

Total receivables of the Company were Rs.72,746.89 million as on June 30, 2019. An amount of Rs.56,412.04 million relating to advances and other receivables and Rs.16,334.85 million were receivable from CPPA-G. Huge pending receivables were a significant business sustainability risk for the company and required long term rectification measures. Huge balance of receivables depicted poor recovery efforts of the company, which needed justification.

iv) Long term Financing

The long term loans and financing increased from Rs.75,117.99 million in the financial year 2017-18 to Rs.97,784.344 million in the financial year 2018-19 registering 30.17% increase. Financial cost had been charged to the profit and loss account during the current year amounting to Rs.8,119.36 million. Reliance on borrowings / (loans) and payment of financial charges needed to be justified.

7.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.27,901.43 million were raised in this audit. The amount also includes recoverables of Rs.38.85 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft		5.64
2.	Irregularities		
	A.	HR/Employees related irregularities	6.46
	B.	Procurement related irregularities	16,404.23
	C.	Irregularities pertaining to violation of entity's own rules / regulations	2,507.47
	D.	Irregularities pertaining to violation of Regulatory Laws & Regulations	4,011.25
	E.	Recoveries	38.85
3.	Value for money and service delivery issues		23.93
4.	Others		4,903.60

7.4 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	02	-	01 (10.4.1)	01 (10.4.4)

Position of compliance with PAC directives is not satisfactory.

7.5 AUDIT PARAS

7.5.1 Undue financial benefit to contractors by not obtaining insurance guarantee for the works - Rs.7,542.96 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".

In EHV-II NTDC Hyderabad, a work under Contract Agreement No. ADB-201-2018 (Lot-I) dated December 14, 2018 was awarded to M/s SARA Energy Trade and Construction Co, Inc. for designing, manufacture, supply, installation, testing and commissioning of 220KV transmission line from D.I Khan to Zhob. The contractor was contractually bound for insurance of the work required under the contract clause GC-21 but the contractor failed to provide the insurance coverage to the employer. Due to non-obtaining of insurance coverage, the contractor had been favored in the shape of payment of premium, as well as, the works were exposed to risk without insurance.

Non-adherence to the insurance ordinance and contract clauses resulted in undue financial benefit to contractors by not obtaining insurance guarantee for works valuing Rs.7542.96 million (Rs.1,515.023 million & US$ 43.400 million equivalent Pak Rs.6,027.94 million) during financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that the contractor had been directed to furnish necessary insurance covers as per contract provision.

The DAC in its meeting held on January 01, 2020 directed the management to get expedite the compliance by contractor as per contractual provision and get the record verified from Audit within 60 days.

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

(Proposed Draft Para No. 964/2019-20)

7.5.2 Non-utilization of remaining portion of loan - Rs.4,886.19 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.

In EHV-I NTDC Lahore, a foreign relent loan JICA PK-P61 of JPY 23,300 million was obtained against strengthening project of national transmission lines and grid stations. An amount of JPY 19,304 million was utilized leaving a balance of JPY 3,995.99 million equivalent to Pak Rs.4,886.19 million up to June, 2019. Since, the loan closing date was October 7, 2019, hence, the utilization of remaining portion of loan of Rs.4,886.19 million could not be assured, which would not only cause loss on account of commitment charges but also impediment to the completion of ongoing projects.

Weak loan management resulted in non-utilization of remaining portion of loan of Rs.4,886.19 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that the foreign relent loan of JICA Loan PK-P61 was utilized by NTDC for the construction of Grid Stations & Transmissions Lines. One 500 KV grid station and two 220 KV grid stations had been completed through utilization of loan. Severe Right of Way Issues also had to be faced by NTDC which hampered the progress of on-going construction works and also lead to under-utilization of loan.

The DAC in its meeting held on January 01, 2020 directed the management to get the stance verified by Audit within 15 days.

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

(Proposed Draft Para No. 1171/2019-20)

7.5.3 Irregular expenditure in excess of PC-I - Rs.3,821.53 million

According to PC-I, an amount of Rs.2,591 million, Rs.1,581.46 million and Rs.1,568 million was approved for 220 KV Grid Station at Ghazi Road Lahore with T/Line, 220 KV Sub Station Lalian and acquisition of land for construction of HVDC Converter Station and grounding /electrode stations at Lahore and Matiari respectively.

In NTDC, an expenditure of Rs.4,727.891 million, Rs.2,422.096 million and Rs.2,412 million respectively against the said projects, which was in excess of the cost approved in PC-I. The excess expenditure of Rs.3,821.53 million was required to be regularized from competent forum, which was not done. The detail is as under:-

Sr. No.	Formation	Proposed Draft Para No.	Amount (Rs.in million)
1.	Project Directorate (EHV-I) NTDC, Lahore	128/2019-20	2977.53
2.	Chief Engineer (HVDC), NTDC, Lahore	1127/2019-20	844.00
		Total	**3,821.53**

Non-adherence to PC-I of the projects resulted in irregular excess expenditure of Rs.3,821.53 million up to the financial year 2018-19.

The matter was taken up with the management in April and November, 2019 and reported to the Ministry in October and December, 2019. The management replied that revised PC-I of two (02) projects had been submitted to the Ministry whereas the work of 220 KV Lalian grid station could not be completed due to non-availability of land.

The DAC in its meeting held on January 01, 2020 directed the management to purse for approval of revised PC-I and expedite completion of 220 KV Lalian grid station. Further progress was not reported till finalization of report.

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

7.5.4 Irregular award of contracts in violation of the directions of BoD – Rs.2,484.12 million

"The BoD, NTDC in its 118th meeting approved award of contracts subject to the conditions that the management will confirm the availability of requisite manpower resources & equipment with the bidders before award of contract."

In MP&M NTDC Lahore, the Board approved the award of contracts worth Rs.2484.12 million subject to confirmation of the availability of requisite manpower resources and equipment with the bidders before award of contract. A committee for subject purpose categorically pointed out deficiency of T&P available with bidders in its report. The management instead of taking actions against the bidders for false disclosure in bidding documents, awarded contracts valuing Rs.2,484.12 million to these bidders in contrary to the directions of the BoD and hence award of contracts was irregular.

Non-adherence to the directions of the BoD NTDC resulted in irregular award of contract valuing Rs.2,484.12 million during the financial year 2018-19.

The matter was taken up with the management in July, 2019 and reported to the Ministry in December, 2019. The management replied that the award process was on final stage and re-tendering was difficult and there was a probability that re-tendering may create additional financial losses to NTDC due to non-evacuation of power from Neelum-Jhelurn project. Audit contended that confirmation of manpower resources and equipment with bidder was prerequisite for award of contract but relaxation to that condition was made by MD NTDC.

The DAC in its meeting held on January 01, 2020 directed the management to submit detailed / revised reply covering justification for waiving off the condition and get the same verified within 15 days.

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

(Proposed Draft Para No. 1164/2019-20)

7.5.5 Irregular award of contract without obtaining insurance guarantee - Rs.2,428.37 million

Subject to the provisions of sub-sections (3), all insurance business relating to any public property, or to any risk or liability appertaining to any public property, shall be placed with the National Insurance Company only and shall not be placed with any other insurer. According to Section 156 of Insurance Ordinance 2000, except as otherwise provided in this Ordinance, any insurer who makes default in complying with or acts in contravention of any requirement of this Ordinance, and where the insurer is a company, or any director, or other officer of the company, who is knowingly a party to the default, shall be punishable with fine which may extend to one million rupees and in the case of continuing default, with an additional fine which may extend to ten thousand rupees for every day during which the default continues.

In EVH-II NTDC Hyderabad, three (03) contracts worth Rs.2,428.37 million for Civil Works, Erection, Stringing, Testing and Commissioning of 500 KV Double Circuit Quad Bundle Transmission Line were awarded to M/s Al-Hussain Traders Contractors Lahore, M/s Potential Engineering Pvt. Ltd, Lahore and M/s M.R Electric Concern Ltd respectively. The contractors were contractually bound to provide the insurance cover from NICL as the cost of such insurance was already included in the price and amount quoted in the price schedule. However, the contractor failed to provide the insurance cover of the works to the employer.

Non-adherence to the contractual provision and Insurance ordinance resulted in irregular award of contract worth Rs.2,428.37 million without obtaining insurance guarantee from the contractor during the financial year 2018-19.

The matter was taken up with the management March, 2019 and reported to the Ministry in October, 2019. The management replied that the Contractor(s) had already provided the Insurance Covers against the above mentioned contracts.

The DAC in its meeting held on January 01, 2020 directed the management to get the record verified from Audit within 15 days.

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

(Proposed Draft Para No. 267/2019-20)

7.5.6 Non-recovery of liquidated damages from contractors – Rs.1,738.63 million

According to Clauses of the Contracts, "the rate of liquidated damages is 0.05% to 0.10% for each day of delay in completion of the works subject to a maximum of 10% of contract price".

In NTDC, eighteen (18) contracts were awarded to contractors for execution / construction of civil works, transmission lines and grid stations. The contractors could not complete the works within the stipulated period hence, they were liable to pay the liquidated damages of Rs.1,738.63 million but the same were not recovered. The detail is as under:-

Sr. No.	Formation	Proposed Draft Para No.	No. of Contracts	Amount (Rs.in million)
1.	Project Directorate EHV-I NTDC, Lahore	127 & 192/2019-20	04	736.86
2.	Chief Engineer EHV-I NTDC, Lahore	229, 236 & 901/2019-20	06	350.58
3.	Project Directorate EHV-II, NTDC Hyderabad	266, 270 & 903/2019-20	06	290.28
4.	Chief Engineer EHV-II NTDC Hyderabad	1224/2019-20	02	360.91
		Total	**18**	**1,738.63**

Non-adherence to contract clauses resulted in non-recovery of liquidated damages amounting to Rs.1,738.63 million from the contractors up to the financial year 2018-19.

The matter was taken up with the management during April to October, 2019 and reported to the Ministry during October & December, 2019. The management replied that in some cases, either LD had been recovered / extension of time granted or works completed within time line while in remaining cases, recovery / EoT was under process.

The DAC in its meeting held on January 01, 2020 directed the management to provide the record relating to completed actions within a week and expedite the finalization of remaining cases. Further progress was not reported till finalization of the report.

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

7.5.7 Irregular award of contract in violation of ADB's instructions - Rs.1,357.16 million

According to Asian Development Bank (ADB) instructions on the bid evaluation report of Tender No. ADB-102-2017, NTDC should not demand extended warranty in lieu of Employer's requirement as specified in bidding documents in future bid evaluations. Moreover, the format of Notification of Award was revised by incorporating ADB's approved new sub-clause ITB-44.3 in Amendment-6 to the Bidding Documents.

In MP&M NTDC Lahore, an EPC contract valuing Rs.1,357.16 million for construction of 500 KV Sahiwal Substation was awarded to M/s Siemens Pakistan against Tender No. ADB-100-2017 financed under ADB loan-3419 PAK. However, extended warranty was accepted in lieu of Type Testing of the offered equipment as specified in bidding documents being Employer's requirement. Moreover, the Notification of Award was not in line with the prescribed format revised in Amendment-6 duly incorporating ADB's new sub-clause- ITB-44.3. This state of affairs manifested that the award of contract was in ultra-violation of ADBs instructions.

Non-adherence to the ADB's instructions resulted in irregular award of contract valuing Rs.1,357.16 million to the contractor during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that NTDC's Type Testing requirements were updated in January, 2019 which deemed the validity of Type Tests equal to 15 years instead of previous 10 years. The said amendment removed the requirement of fresh Type Tests as the Test results provided by Contractor for aforementioned period fulfilled the requirement. Therefore, NTDC saved 13% of Contract price which would have been payable to the Contractor if the Type Tests were conducted. Audit contended that acceptance of extended warranty in lieu of type testing and application of Revised NTDC Type Test Policy in the wake of post bid negotiations was an undue favour to the Contractor, which deprived the other competitors from equal bidding opportunities.

The DAC in its meeting held on January 01, 2020 directed the management to conduct a combined inquiry in both the PDPs No.1168 & 1117/2019-20 for accepting liability of cost of type testing at PEPCO level for fixing responsibility within a month.

Audit recommends that the management needs to implement DAC's decision besides justifying the acceptance of extended warranty in lieu of type testing and application of Revised NTDC Type Test Policy in the wake of post bid negotiations.

(Proposed Draft Para No. 1168/2019-20)

7.5.8 Irregular award of contract to substantially non-responsive bidder – Rs.1,293.12 million

According to Clause-11.1 (d) 2 of bidding documents of Contract No. 3217 (R3)-1C-Phase-II (Lot-I & II) for construction of 500 kV Double Circuit Quad Bundle Transmission Line from Domeli to 500 kV Gakkhar Substation, "successful completion of at least one contract, during the last five (05) years, pertaining to transmission line having contract price not less that the quoted Bid Price was mandatory for determining responsiveness of the bidder."

In MP&M NTDC Lahore, bids for construction of Transmission Line from Domeli to 500 kV Gakkhar Substation (Lot-I & II) were opened on June 21, 2016. As per bid evaluation reports of consultants (carried during September 2016 & December 2016), M/s M.R. Electric Concern (Pvt) Ltd. was declared substantially non-responsive for Lot-II and its bid was not considered for detailed technical & financial evaluation. However the contract valuing Rs.1,293.12 million was awarded to M/s M.R. Electric Concern without any detailed technical and financial evaluation.

Non-adherence to the provision of bidding documents resulted in irregular award of contract valuing Rs.1,293.12 million to substantially non-responsive bidder during the financial year 2018-19.

The matter was taken up with the management during July, 2019 and reported to the Ministry in December, 2019. The management replied that the evaluation of the bids against tender No. 3217(R3)-IC-Phase-II was carried out by the Consultant M/s NESPAK-BARQAAB (JV) and declared M/s M.R Electric Concern as non-responsive in the Bid Evaluation Report (BER). Subsequently, P&CM considered the bid of M/s M.R Electric Concern and recommended M/s. M.R Electric Concern for the award of contract for Lot-II. The same was endorsed by BoD NTDC on January 17, 2017. Audit contended that the work was awarded without getting the endorsement from the Consultant.

The DAC in its meeting held on January 01, 2020 directed the management that the matter be referred to consultant M/s NESPAK-BARQAAB (JV) for comments and share the remarks of the consultant with Audit.

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

(Proposed Draft Para No. 1165/2019-20)

7.5.9 Undue favour to the contractors due to non-renewal of performance / advance payment bank guarantees - Rs.1,164.60 million

According to contract agreements / purchase orders, the contractors / suppliers shall provide a performance security / advance payment bank guarantee. According to Clause-4.2 of FIDIC Conditions of Contract for Construction '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 there in accordance with the Contract.

In NTDC, performance / advance payment bank guarantees amounting to Rs.1,164.60 million submitted by the contractors / suppliers were either expired or comprising of lesser period whereas the completion of works / supplies was still pending. Hence, the guarantees were required to be renewed up to defect liability period, which was not done. The detail is as under:-

Sr. No.	Formation	Proposed Draft Para No.	No. of Contracts / Purchase Orders	Amount (Rs.in million)
1.	Managing Director NTDC, Lahore	273/2019-20	2	9.02
2.	Chief Engineer EHV-I NTDC, Lahore	244, 293 & 902/2019-20	3	527.34
3.	Chief Engineer EHV-II NTDC, Hyderabad	741 & 885/2019-20	3	628.24
		Total	**8**	**1,164.60**

Non-adherence to the conditions of contracts / purchase orders resulted in undue favour to the Contractors due to non-renewal of performance / advance payment bank guarantees amounting to Rs.1,164.60 million up to the financial year 2018-19.

The matter was taken up with the management during March to October, 2019 and reported to the Ministry during October to December, 2019. The management replied that in some cases, either the validity period of the guarantees was intact or the guarantees had been got renewed while in remaining cases, renewal was under process. Moreover, a sufficient sum in shape of retention money / other withheld amount was lying with employer. Audit contended that all the guarantees should have been renewed up to the defect liability period as per provisions of contracts.

The DAC in its meeting held on January 01-01, 2020 directed the management to produce the record in support of reply to Audit for verification within 15 days and expedite the pending actions as per contractual provisions. Further progress was not reported till finalization of the report.

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

7.5.10 Undue retention of amount of shareholders of the company - Rs.189.72 million

As per Rule-5(c)(1) of Public Sector Companies Corporate Governance Rules 2013, “ensuring that the Directors and the Executives uphold the reputation of the company by treating the general public, institutional investors and other stakeholders with courtesy, integrity and efficiency, and ensuring service quality.”

In NTDC Lahore, an amount of Rs.189.72 million was issued in the name of 12% shareholding under Benazir Employee Stock Option Scheme (BESOS) during 2017 to 2019. The amount was withdrawn from the NTDC account but the documentary evidence for the payment of such amount was not forthcoming from the record.

Non-adherence to the rules resulted in undue retention of shareholder amount of Rs.189.72 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that the matter was subjudice in the Supreme Court of Pakistan and NTDC was not a party in the case.

The DAC in its meeting held on January 01, 2020 directed the management to follow up the matter for its early resolution.

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

(Proposed Draft Para No. 986/2019-20)

7.5.11 Undue financial favour to the contractor by waiving off type test condition - Rs.163.32 million

According to Amendment - 6 to the Bidding Documents of Tender ADB-100-2017, "the successful bidder was directed to provide the confirmed type test schedule on letter head of prescribed testing lab as per NTDC Type Test Policy within 28 days of receipt of Notification of Award (NoA). According to Article IV 'Particular Covenants', the Borrower shall cause the project to be carried out with due diligence and efficiently and in conformity with sound applicable technical, financial, business and development practices. As per 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".

In MP&M NTDC Lahore, bids for procurement of extension works against Tender No. ADB-100-2017 were called for and M/s Siemens was declared responsive bidder. During post bid negotiations for reduction in bid price, the said bidder offered two options:- (i) 15.5% discount with condition to accept Siemens makes Circuit Breakers & Colme make Isolators with 10 years & 05 years extended warranty without any fresh type tests or (ii) 2.5 % discount if type tests are carried out as per Revised NTDC type test policy. However, the option (i) was accepted with modification of inclusion of type tests cost up to 13% of contract price through variation order. The negotiated terms were not favourable causing extra financial burden of Rs.163.32 million upon the Company. Further the provision of price negotiation in the ADB Procurement Guidelines did not mean for relaxation of employer’s requirements stated in the original bidding documents as acceptance of extended warranty in lieu of type testing and applicability of Revised NTDC Type Test Policy resulted in unequal bidding opportunities to other bidders.

Violation of provisions of bidding documents and PPRA rules resulted in extra financial burden Rs.163.32 million upon the Company due to unfavourable negotiation terms during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that NTDC’s Type Testing requirements were updated in January, 2019 which deemed the validity of Type Tests equal to 15 years instead of previous 10 years. The said amendment removed the requirement of fresh Type Tests as the Test results provided by Contractor for aforementioned period fulfilled the requirement. Therefore, NTDC saved 13% of Contract price which would have been payable to the Contractor if the Type Tests were conducted. Audit contended that acceptance of extended warranty in lieu of type testing and application of Revised NTDC Type Test Policy in the wake of post bid negotiations was an undue favour to the Contractor, which deprived the other competitors from equal bidding opportunities.

The DAC in its meeting held on January 01, 2020 directed the management to conduct an inquiry at PEPCO level in the matter for accepting liability of cost of type tests for fixing responsibility within a month.

Audit recommends that the management needs to implement DAC’s decision besides justifying the acceptance of extended warranty in lieu of type testing and application of Revised NTDC Type Test Policy in the wake of post bid negotiations.

(Proposed Draft Para No. 1117/2019-20)

7.5.12 Undue favour to the contractor due to acceptance of material without mechanical test – Rs.115.98 million

According to Bidding Documents No.HPP-03-2016 Volume-2 (Specifications P-50:88), mechanical test i.e. stress at 1% extensions for Aluminum Conductor Steel Reinforced (ACSR) was required to be made on zinc-coated steel wires before accepting offered material from the contractor."

In MP&M NTDC Lahore, a purchase order valuing Rs.115.98 million for procurement of ACSR Rail Conductor was awarded to M/s Steel Complex Pvt. Ltd on October 10, 2017. According to the bidding documents, mechanical test i.e. stress at 1% extensions was required to be conducted before acceptance of the offered conductor from the contractor. But contrary to this, 204.40 KM ACSR Rail Conductor was accepted without carrying out the said test which was against the provisions of the bidding documents. The said discrepancy was also pointed out vide note#13 of inspection certificate dated November 19, 2018.

Non-adherence to the provisions of the bidding documents resulted in undue favour to the contractor due to acceptance of material valuing Rs.115.98 million without carrying out pre-delivery test during the finical year 2018-19.

The matter was taken up with the management in July, 2019 and reported to the Ministry in December, 2019. The management replied that the material was accepted without performing Stress at 1% extension test in order to ensure timely delivery of the material as non-performance of said test did not compromise the quality check against which it was required i.e. mechanical strength of conductor.

The DAC in its meeting held on January 01, 2020 did not agree with the stance and directed the management to submit justification for non-conduction of prescribed test as per bidding documents within 15 days.

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

(Proposed Draft Para No. 1115/2019-20)

7.5.13 Sub-standard work at 660 KV HVDC Transmission Line Project - Rs.100 million

As per Clause 1.1.4 of the Consultancy Contract that "The Owner's Engineer will support NTDC throughout the construction phase of the project by inspecting the installation of the equipment responding to technical inquiries, substantiating any change orders and verifying the project quality, adherence to the time schedule and quantity utilization".

In HVDC Project NTDC Lahore, the High Voltage Direct Current (HVDC) Team alongwith Performance Assessment Team conducted visit of different tower locations and collected drilled Concrete Core samples of selected towers and same were submitted to the University of Engineering &Technology (UET), Lahore for testing of their compressive strength. As per test results received from UET, cylinder tests failed to achieve required PSI (Pounds per Square Inch) strength which showed that sub-standard work was carried out. Huge numbers of towers were constructed without quality assurance and quality control which might disrupt power evacuation at any stage.

Non-adherence to the provisions of consultancy agreement resulted in sub-standard work amounting to Rs.100 million during the financial year 2018-19.

The matter was taken up with the management and reported to the Ministry in December, 2019. The management replied that it was decided that 20% tower foundations would be selected for core testing. If 70% of tested towers qualified the core testing, the remaining towers would be declared as to have passed testing. If passed ratio of tested towers remained less than 70% then all disputed towers would be tested. The core testing was under way in UET, PCSIR & CMTL Labs and compiling of results was also under process.

The DAC in its meeting held on January 01, 2020 directed the management to verify the increased sample and ensure prescribed quality in remaining works.

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

(Proposed Draft Para No. 1129/2019-20)

7.5.14 Loss due to award of contract to 2nd lowest bidder – Rs.44.15 million

According to Para-2.46 of Procurement Guidelines of ADB, "The borrower shall ask bidder for clarification needed to evaluate their bids and request for clarification and response of bidder shall be made in writing."

In MP&M, NTDC, a tender for procurement of 500 kV, 22 MVAR Shunt Reactor Banks along with allied equipment and accessories was opened on January 15, 2018. Two bidder participated in the said tender and both of them submitted the end user certificate from the same user i.e. Power Grid Corporation of India. The end user certificate submitted by 1st lowest bidder was referred to end user for confirmation through email for which no response was received. Hence 1st lowest bidder with bid amount of Rs.209.55 million was declared non-responsive. As such the contract was awarded to 2nd lowest bidder with bid amount of Rs.253.73 million. The award was irregular as the end user certificate submitted by the 2nd lowest bidder was not even referred to issuer i.e. Power Grid Corporation for confirmation. Had the end user certificate provided by the 1st lowest bidder been perused for confirmation of its genuineness, an amount of Rs.44.15 million could have been saved.

Non-seeking of clarification regarding genuineness of end user certificates for determination of responsiveness of bidders resulted in loss of Rs.44.15 million due to irregular award of contract during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that as per clause 2.2.2 (iii) of the Bidding Document No. ADB-102, three end-user certificates were required from bidders in which one end-user certificate had to be from outside Country of Origin. 2nd lowest bidder i.e. M/s TBEA Shenyang submitted five (05) end-user certificates out of which three from Country of Origin i.e. China and two were from outside Country of Origin – one from USA and other from India. End-user certificate from India was not investigated further because the bidder had submitted end-user certificate from USA which fulfilled the requirement. Audit pointed out that whether end user certificate from USA was also got confirmed from issuance agency. The management informed DAC that confirmation of end user certificate from USA was not made.

The DAC in its meeting held on January 01, 2020 directed the management to conduct an inquiry and fix the responsibility for non-confirmation of end user certificate of second lowest bidder before award of work and submit report within 30 days.

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

(Proposed Draft Para No. 1223/2019-20)

7.5.15 Undue financial favour to the contractor due to issuance of material without effecting payment - Rs.39.99 million

Manager Design (T/Line) NTDC, approved issuance of material to contactor with directions to deduct cost of material from the invoices of contractor vide letter bearing No. ED/NTDC/MTL/GA-60/4436-46 dated October 26, 2018.

In EVH-I NTDC Lahore, material valuing Rs.39.99 million was issued to contractor i.e. M/s CCPG in connection with contract for design, supply, installation, testing & commissioning of associated transmission lines for 500 KV new Lahore and 220 KV Gujrat grid stations. The cost of material was required to be detected from the invoices of M/s CCPG, which was not done.

Non-adherence to the directions of Authority resulted in undue financial favour to the contractor due to issuance of material without effecting payment amounting Rs.39.99 million during the financial year 2018-19.

The matter was taken up with the management in February, 2019 and reported to the Ministry in October, 2019. The management replied that the material reconciliation for the 500 KV T/Lines had already been done whereas for 220 KV T/Lines were in progress. After completion of reconciliation, the actual cost of material, if any, would be deducted from the remaining claims/retention money of the contractor.

The DAC in its meeting held on January 01, 2020 directed the management to devise a mechanism for provision of material on loan basis to contractors. DAC also directed to recover the cost of material at current price keeping in view of the escalation of prices from the contractors and get it verified from Audit within a month.

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

(Proposed Draft Para No. 242/2019-20)

7.5.16 Irregular release of liquidated damages to the contractor - Rs.39.64 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".

In EHV-I NTDC Lahore, an amount of Rs.39.64 million on account of liquidated damages was deducted from the payments made under contract No. 3263 (Package-I), which was subsequently released to the contractor without the approval of extension of time by the BoD.

Non-adherence to the rules resulted in irregular release of LD amounting to Rs.39.64 million to the contractor during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that the competent authority had granted approval of provisional EoT for release of LD. The final EoT case of the contractor was under review with consultant for approval of competent authority.

The DAC in its meeting held on January 01, 2020 directed the management to conduct inquiry and fix responsibility for release of deducted LD without finalization of EoT claim of the contractor within 30 days.

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

(Proposed Draft Para No. 1044/2019-20)

7.5.17 Loss due to unjustified refund of liquidated damages and penalty charges - Rs.37.78 million

As per Clause- 26.1 of Section-VII (Particular Conditions of Contract of Tender Documents No. HPP-03-2016), "The Goods shall be subjected to the type, sample and routine tests as described in the Specifications." Pre-delivery inspection/ acceptance testing according to Clause G of Vol-2 (Specifications) of the Bidding Document No. HPP-03-2016 for Aluminum Conductor Steel Reinforced was mandatory before procurement."

In MP&M NTDC Lahore, two (02) purchase orders amounting Rs.339.50 million (Rs.291.00 million + Rs.48.50 million) were awarded to M/s Steel Complex Pvt. Ltd and M/s Atlas Cables Pvt. Ltd. respectively on negotiated tendering basis for procurement of ACSR "Rail Conductor" for 220 KV T/L for evacuation of Power from 1200 MW RLNG based Power Plant at Trimu District Jhang. Being urgent and critical nature of procurement, clause of additional penalty charges along with liquidated damages was incorporated in the purchase orders for ensuring timely delivery of material. Both the contractors failed to deliver the material within the stipulated time period. Resultantly, an amount of Rs.37.78 million (Rs.32.01 million + Rs.5.77 million) was deducted from the claims of contractors on account of additional penalty charges and liquidated damages. Afterwards, extension in delivery period was granted to the contractors and the amount was refunded merely on the grounds that the contractors offered material for inspection before the expiry of completion period. The reason for refund of such charges was not justified as the offered material was repeatedly rejected by the Engineer due to non-fulfillment of the technical provisions of the Bidding Documents for which the contractors were responsible.

Non-adherence to the provisions of Purchase order and Biding Documents resulted in unjustified refund of Rs.37.78 million to the contractors during the financial year 2018-19.

The matter was taken up with the management during July, 2019 and reported to the Ministry in December, 2019. The management replied that the LD was reimbursed upon acceptance of extension of time requests of Contractor by competent authority in accordance with SOPs for extension of time as the offered material was mostly accepted with some exceptions after making good the inspector's observations by the Supplier. Audit contended that the LD was refunded simply based on the reason that the contractor offered material for inspection before expiry of delivery period which was repeatedly rejected by the engineer due to non-fulfillment of technical provisions.

The DAC in its meeting held on January 01, 2020 directed the management to conduct an inquiry for fixing responsibility regarding unjustified refund of LD and submit its report within 30 days.

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

(Proposed Draft Para No. 1162/2019-20)

7.5.18 Non-recovery of rental charges from contractors - Rs.28.67 million

According to Rule 2A(a) of Public Sector Companies Corporate Governance Rule regarding Sound and Prudent Management "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.

In EHV-I NTDC Lahore, different type of stringing tools and plants (T&P)/machinery was handed over on rental basis to contractors in 2015. However, neither the machinery was returned by the contractors nor the rental charges amounting to Rs.28.67 million were recovered.

Non-adherent to rules resulted in non-recovery of rental charges from contractor amounting to Rs.28.67 million up to the financial year 2018-19.

The matter was taken up with the management in November 2019 and reported to the Ministry in December, 2019. The management replied that the recovery of rental charges from the contractor was under progress.

The DAC in its meeting held on January 01, 2020 directed the management to make recovery of rental charges from the contractor and get it verified from Audit within 30 days.

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

(Proposed Draft Para No. 997/2019-20)

7.5.19 Non-recovery from Land Acquisition Collector – Rs.28.08 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.

In HVDC Project NTDC Lahore, a cheque amounting to Rs.50.32 million was given to Land Acquisition Collector for acquiring 371 Kanals land for 660 KV Converter Station at Head Balloki District Nankana. Later on, requirement of land for subject work was reduced to 164 Kanals. Hence, an amount of Rs.28.08 million against 264 Kanals land was required to be received back from Land Acquisition Collector which was not done.

Non-adherence to the GFR rules resulted in non-recovery of Rs.28.08 million from Land Acquisition Collector during the financial year 2018-19.

The matter was taken up with the management and reported to the Ministry in December, 2019. The management replied that the adjustment account was pending with revenue department which would be submitted in due course.

The DAC in its meeting held on January 01, 2020 directed the management to purse for adjustment accounts and get the same verified by Audit within a month.

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

(Proposed Draft Para No. 1128/2019-20)

7.5.20 Irregular procurement of IT equipments due to splitting of procurement – Rs.27.02 million

According to guidance on Shopping Method of procurement issued by Asian Development Bank, "Borrowers may not use shopping only as a way to bypass more competitive methods or divide large procurements into smaller contracts solely to allow the use of shopping." As per Procurement Plan of Multi Finance Facility-II, Tranche-1, the threshold set for procurement of goods through "Shopping Method" was up to US$ 100,000/-" According to Schedule 4 of Loan agreement, Schedul-4 (2), except as ADB may otherwise agree, Goods and Works shall be procured only on the basis of the procurement methods which are subject to, among other things, the detailed arrangement and threshold values set forth in the procurement plan.

In MP&M, NTDC Lahore, procurement of Desktop computers was splitted up into two (02) contracts i.e. RFQ-II & RFQ-III (ADB-107-2018) financed under ADB loan 3419 PAK valuing Rs.13.51 million each. The procurement was divided into two lots i.e. RFQ-II & RFQ-III to allow the use of shopping method which was in contradiction with the directions of Asian Development Bank (ADB) and hence was irregular.

Violation of provisions of MFF-II and directions of Asian Development Bank resulted in irregular procurement of goods valuing Rs.27.02 million due splitting of procurement during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the shopping method was initiated by Chief Information System NTDC. ADB provided the No Objection Letter (NOL) for said procurement through shopping method. The Shopping documents were issued after concurrence of ADB. In order to enhance the competition, the procurement requirements were published in the press and also floated on NTDC and PPRA's websites thus not limiting the competition.

The DAC in its meeting held on January 01, 2020 directed the management to conduct an inquiry and fix the responsibility and provide the report to Audit within 30 days.

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

(Proposed Draft Para No. 1169/2019-20)

7.5.21 Non-recovery of rent on account of stringing T&P/Machinery from the contractor – Rs.23.97 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".

In EHV-II NTDC Hyderabad, stringing T&P/Machinery was handed over to different contractors on rental basis since 2003 from EHV-II NTDC store Rahim Yar Khan. A period of more than 13 years had been elapsed but neither rental charges were recovered from the contractors nor machinery was received back. Resultantly, the company sustained loss to the stated extent.

Non-adherence to the rules resulted in non-recovery of rent on account of stringing T&P/Machinery amounting to Rs.23.97 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that the stringing equipment was released for its utilization on the projects, the matter of recovery was being pursued. The outcome of the same would be submitted in due course.

The DAC in its meeting held on January 01, 2020 directed the management to conduct inquiry to fix responsibility for non-recovery of rental charges from contractor for usage of equipment within a month. DAC further directed to recover the rent along with markup from the contractor.

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

(Proposed Draft Para No. 742/2019-20)

7.5.22 Unjustified payment for land other than the demarcated one - Rs.23.93 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".

In NTDC Lahore, a site for 500/220/132 KV substation Chakwal was selected and recommended by Sitting & Layout Board NTDC on September 21, 2016. The Chief Engineer (substation design) alongwith Deputy Manager Environmental Cell (PMU) NTDC visited the land under acquisition on February 26, 2019 and surprisingly found that the land under acquisition was 1 to 1.5 km away from actual selected site by Sitting and Layout Board. The new site had cascaded depressions of 12 to 25 feet, hence not suitable for substation. Hence, the company sustained a loss on account of cost / time overrun due to change if site as an amount of Rs.23.93 million was already deposited in 2017 for acquiring 817 Kanal land.

Non-adherence to the rules resulted in unjustified payment of Rs.23.93 million for land other than the demarcated one up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that an inquiry committee had been constituted to probe into the matter of change in site and outcome of the same would be communicated in due course.

The DAC in its meeting held on January 01, 2020 directed the management to finalize the inquiry and share it with Audit within 30 days.

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

(Proposed Draft Para No. 987/2019-20)

7.5.23 Loss due to irregular award of contract by wrong bid evaluation with excessive rate of Provincial Sales Tax (PST) – Rs.19.58 million

According to Section 14 (a) inserted in Punjab Sales Tax on Services Act-2012 through Punjab Finance Act- 2017, Punjab Sales Tax at the reduced rate of 1% was applicable on the public sector projects funded under foreign loans where the negotiations were finalized after July 1st 2016.

In MP&M NTDC Lahore, a Contract valuing Rs.535.40 million against Tender No. ADB-108-2017(Lot-II) financed under ADB Loan 3419 was awarded to M/s National Power Construction Corporation Ltd irregularly. The successful bidder quoted the price of Rs.551.96 million inclusive of Provincial Sales Tax (PST) whereas the other bidder M/s Potential Engineers (Pvt) Ltd. quoted the price of Rs.510.71 million excluding Provincial Sales Tax. Accordingly, 16% PST was added to the bid price offered by M/s Potential Engineers (Pvt) Ltd. for evaluation of both bids. Due to application of wrong PST rate the bid price of M/s Potential Engineers (Pvt) Ltd. was increased to Rs.592.43 million and was not considered for award of contract causing loss of Rs.19.58 million.

Non-adherence to the Provincial Sales Tax Act resulted in irregular award of contract causing loss of Rs.19.58 million up to the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that as per bidding documents, the bidders were required to quote their prices inclusive of All Federal / Provincial Taxes. The Total price of M/s Potential was therefore determined after incorporating maximum Tax Slab i.e., 16% applicable at the time of bid submission. Hence M/s NPCC was the lowest evaluated bidder.

DAC directed the management to conduct an inquiry and fix the responsibility for application of incorrect rate of PST within 30 days and provide the report to Audit.

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

(Proposed Draft Para No. 1170/2019-20)

7.5.24 Non-recovery of overpayment on account of wrong demarcation and estimation of fallen trees - Rs.19.25 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".

In EHV-I Islamabad, an amount of Rs.19.25 million was overpaid to the forest department due to wrong demarcation and estimation of trees fallen under

500 KV Neelum Jehlum transmission line project at Dhan Galli District Muzaffarabad. The overpaid amount was required to be recovered from the forest department which was not done.

Non-adherence to the rules resulted in non-recovery of Rs.19.25 million on account of overpayment due to wrong demarcation & estimation of fallen trees during the financial year 2018-19.

The matter was taken up with the management in April, 2019 and reported to the Ministry in October, 2019. The management stated that it was not a case of overpayment. In fact, the Forest Department desired to deposit Rs.22.15 million for clearance of trees at 85 No. towers including area of 50 meters as a corridor in between aforementioned towers. Accordingly, an amount of Rs.18.53 million was paid to forest department leaving the balance of Rs.3.6 million. Therefore, the question of overpayment did not arise.

The DAC in its meeting held on January 01, 2020 directed the management to get verified its stance from Audit within 15 days.

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

(Proposed Draft Para No. 419/2019-20)

7.5.25 Non-receipt of mandatory spare parts from the contractor - Rs.18.11 million

According to Section-VII (Forms and Procedures), Schedule No. 1 of Contract No. 3263 (package-I) regarding work for Design, Supply, Installation, Testing and Commissioning of Plant and Equipment for New Lahore 500 KV Substation, "the contractor was bound to supply mandatory spare parts."

In EVH-I NTDC Lahore, the contractor i.e. M/s China National Electrical Engineering Company and Fujian No. 2 Electric Power Construction Corporation (Joint Venture) failed to supply mandatory spare parts in full which was in contradiction to the contractual provisions. Resultantly mandatory spare parts amounting to Japanese Yen 14.284 million equivalent to Pak Rs.18.11 million (14.284 * 1.2681) were not received by the employer.

Violation of contractual provisions resulted in non-receipt of mandatory spare parts amounting Rs.18.11 million from the contractor during the financial year 2018-19.

The matter was taken up with the management in April, 2019 and reported to the Ministry in September, 2019. The management replied that the process of handing over of mandatory spare parts as per schedule of contract was in progress. Majority of the mandatory spare parts had been handed over to GSO whereas the remaining would be done in due course of time.

The DAC in its meeting held on January 01, 2020 directed the management to get the record verify within 15 days.

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

(Proposed Draft Para No. 107/2019-20)

7.5.26 Recoverable repair cost of under warranty damaged equipment from the contractor - Rs.14.35 million

According to Deputy Manager Corporate accounts EHV NTDC letter dated December 18, 2018 "the cost of repair of transformer at Ghazi Barotha as per actual work done should be recovered from the contractor"

In EHV-I NTDC Islamabad, an amount of Rs.14.35 million was paid on account of repair of Power Transformer Bank damaged during warranty period. As the equipment was under warranty period, therefore loss was to be recovered from the contractor/manufacturer which was not done.

Non-adherence to instructions resulted in recoverable repair cost of Rs.14.35 million of under warranty damaged equipment from the contractor during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that out of total amount of Rs.14.35 million, recovery of Rs.9.97 million was made from contractor/consultant while remaining amount of Rs.4.38 million would be recovered from the upcoming invoice(s).

The DAC in its meeting held on January 01, 2020 directed the management to conduct/finalize inquiry and submit its report to Audit within 30 days. It was also directed to get the recovery verified from Audit within 10 days and expedite the recovery of remaining amount.

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

(Proposed Draft Para No. 1028/2019-20)

7.5.27 Non-recovery of standard rent from residents of the colony - Rs.10.77 million

As per clarification issued by Director Finance (Regulation), WAPDA on January 10, 2007, where the accommodation is allotted by one organization to the employees of other organization, the standard/ market rent is to be charged by the formation concerned from the formation whose employees have been allotted accommodation

In EVH-I NTDC Lahore, an amount of Rs.10.77 million on account of standard rent was recoverable from contractors/persons residing in the residential colonies of different Grid Stations.

Non-adherence to the Authority's instructions resulted in non-recovery of standard rent amounting to Rs.10.77 million up to the financial year 2018-19.

The matter was taken up with the management in July, 2019 and reported to the Ministry in October, 2019. The management replied that these flats were rented to contractor of 220 KV GIS Grid Station at Ghazi Road Lahore. An amount of Rs.0.62 million already recovered from an Invoice. The recovery of balance amount was under process.

The DAC in its meeting held on January 01, 2020 directed the management to get recovery verified from Audit within 15 days and expedite recovery of remaining amount.

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

(Proposed Draft Para No. 269/2019-20)

7.5.28 Loss due to defective / improper erection of towers by the contractor – Rs.9.65 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".

In EVH-I NTDC Lahore, certain material valuing Rs.9.65 million was reallocated for execution of Interfacing works of existing D/C 220 KV Sammundri Road – Piran Ghaib T/Line In/Out at T.T.Singh G/S required for Line Entries (Rout No. 1 & II) of new 220 KV D/C T/Lines from 1230 MW

RLNG based power project Trimmu Jhang to 220 KV Grid Station T.T.Sing – Job No. T00 5512 Misc. The material was reallocated due to improper/ defective erection of already allocated towers material. No inquiry for fixing responsibility of loss amounting Rs.9.65 million was initiated.

Non-adherence to the rules resulted in loss of Rs.9.65 million due to defective / improper erection of towers during the financial year 2018-19.

The matter was taken up with the management during February, 2019 and reported to the Ministry in October, 2019. The management replied that the towers had been returned to the manufacturer/supplier for removing the discrepancies in the fabrication being his responsibility, so no loss to NTDC. However, to complete the work fresh towers were got allocated from Design and installed at site.

The DAC in its meeting held on January 01, 2020 directed the management to take action against the officers who originally inspected the material at time of procurement. DAC further directed to provide evidence in support of completion of work within 15 days.

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

(Proposed Draft Para No. 194/2019-20)

7.5.29 Non-transfer of amount lying with Lahore High Court - Rs.8.64 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.

In EHV-I NTDC Lahore, a piece of land measuring 613 kanal was acquired in Faisalabad in 1958 for construction of grid station. Out of which, 152 Kanal land was refortified in January 08, 2003 for which an amount of Rs.342.17 million was deposited with the Deputy Registrar Judicial Lahore High Court by the company. Out of the said amount, an amount of Rs.333.53 million along with interest in respect of 148 Kanal 01 Marla & 5.11 Sarsai was received by the land owners whereas remaining 03 Kanal 18 Marla & 3.89 Sarsai of land amounting to Rs.8.64 million was mistakenly notified, which was required to be withdrawn by the Company along with interest, which could not be done despite lapsing a period of more than 16 years.

Non-adherence to the General Financial Rules resulted in non-transfer of Rs.8.64 million lying with Lahore High Court up to the financial year 2016-17.

The issue was discussed with the management in January, 2018 and reported to the Ministry in December, 2019. The management replied that the matter regarding return of remaining amount had been taken up with the concerned Department.

The DAC in its meeting held on January 01, 2020 directed the management to furnish detailed reply covering events/transactions of the case in chorological sequence to Audit within 15 days for consideration.

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

(Proposed Draft Para No. 1041/2019-20)

7.5.30 Irregular appointment of MD NTDC and payment of additional charges– Rs.6.46 million

According to advertisement published in the daily news papers for the post of M.D. NTDC, minimum required qualification was Bachelor degree in Electrical Engineering. Master degree in the relevant field of Engineering or business management from HEC recognized universities would be a desirable plus. As per SI.125 (iii) of Esta Code Vol-I and WAPDA office memorandum dated 2nd July, 1998, "Immediately on expiry of 6 month of full additional charge of particular vacant post, the post shall be treated as having been abolished and its duties automatically become part of the normal duties of the other existing posts of the same category in the Division/Department concerned. The post so treated as abolished shall not be revived without the concurrence of the Member Finance".

In NTDC Lahore, the BOD had appointed Mr. Zafar Abbas, Joint Secretary (Ministry of Energy Power Division) as Managing Director NTDC (on additional charge basis) as stopgap arrangement against the vacant post. The payment of Rs.6.00 million approximately was made on account of additional charge allowance and an expenditure of Rs.0.46 million was also incurred on POL and maintenance of vehicle. The appointment was irregular in the context that said officer possessed qualification of BSc Civil Eng. Instead of BSc Electrical Eng. In addition to it following discrepancies were also observed: i)

The process of recruitment of M.D was started on February 21, 2018 after seven months of the grant of additional charge and not yet finalized. ii) The additional allowance approved by NTDC was Rs.12,000 w.e.f. July 01, 2016, but the officer was drawing the additional charge/job allowance @ Rs.250,000 per month which was unjustified.

Non-adherence to the Authority's instructions resulted in irregular payment of Rs.6.457 million on account of appointment on additional charge basis up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that the qualification of Electrical Engineer prescribed for the post of MD NTDC was meant for direct induction only and the same was not applicable on such cases of stopgap arrangements. It was clear from Section-187 (1) of Companies Act, 2017 that the assumption of six months period for additional charge was not applicable against the statutory positions.

The DAC in its meeting held on January 01, 2020 directed the management to submit revised reply with justification to Audit within 15 days.

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

(Proposed Draft Para No. 1177/2019-20)

7.5.31 Violation of spirit of Shopping Method due to abnormal delay in procurement of IT Equipments – Rs.6.03 million

According to Para – 1 of Asian Development Bank Guidance on shopping method of procurement, "Shopping is intended to be a simple and rapid procurement method, but is one of the least competitive procurement methods and may be abused. According to Para-2 (c) of Asian Development Bank Guidance, Shopping Method of procurement is to be used when more competitive methods are not justified on the basis of cost or efficiency such as for urgent relief-type operations including re-establishment of vital services like utilities, communications, shelter, and vital supplies which stem from disasters or conflict."

In MP&M, NTDC Lahore, Request for Quotation (Lot-I) for procurement of IT equipments against ADB Tender No.107 were called on October 24, 2018 under Shopping Method of procurement as allowed by ADB instead of competitive bidding on the pretext of urgent nature of procurement. However, the contract valuing Rs.6.03 million under tender No 107(Lot-I) had not been awarded to the responsive bidder despite lapse of one year. The scenario depicted that procurement of IT Equipments was not urgently required and competitive bidding was compromised in violation of spirit of shopping method of procurement.

Non-adherence to the Shopping Method of procurement resulted in abnormal delay in award of contract valuing Rs.6.03 million during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the Notification of Award (NoA) was issued on May 23, 2019. But on June 18, 2019 M/s. CMC informed that they could not provide Huawei Intel based servers till the resolution of dispute / issue between Huawei and USA. The condition was beyond the control of the supplier. Now, M/s. CMC had signed the Contract agreement on November 12, 2019 and consented to deliver the material at the earliest.

The DAC in its meeting held on January 01, 2020 directed the management to provide revised reply in chronological order within 15 days.

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

(Proposed Draft Para No. 1118/2019-20)

7.5.32 Loss in shape of incremental commitment charges due to non-adherence to the loan disbursement schedule – Rs.4.48 million

According to Disbursement schedule stated in Project Appraisal Document dated November 27, 2017 pertaining to Loan IBRD-8814, the scheduled disbursement for the Fiscal Year 2019 was US $ 14 million.

In MP&M, NTDC Lahore, the amount withdrawn against IBRD Loan No. 8814-PAK remained US $ 1.199 million against scheduled disbursement of US $ 14 million during the year 2019. Due to less withdrawal of disbursement amount, the company had to sustain loss of Rs.4.48 million in shape of incremental commitment charges.

Non-adherence to the disbursement schedule of Project Appraisal Document resulted in loss of Rs.4.48 million on account of commitment charges during the financial year 2018-19.

The matter was taken up with the management during November, 2019 and reported to the Ministry in December, 2019. The management replied that loan agreement became effective on 11th December, 2018; thus, resulting into delay of eight (08) months from the date as was envisaged under the Project Appraisal Document, which was beyond the control of NTDC.

The DAC in its meeting held on January 01, 2020 directed the management to provide detailed revised reply containing justification for delay in the matter within 15 days.

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

(Proposed Draft Para No. 1120/2019-20)

7.5.33 Loss due to improper planning and inordinate delay in finalization of drawings - Rs.4.29 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".

In EVH-I NTDC Lahore, work for construction of Mosque at 220/132 KV Ghazi Road Grid Station Lahore was awarded to M/s Safa Enterprise at the contract price of Rs.4.51 million on October 08, 2013, with a scheduled completion period of 150 days. On the eve of handing over the site to the contractor, it was observed that available space was less than that specified in construction drawing. The revised drawings with reduced area was issued in December, 2014 after lapse of 14 months. The contractor refused to carry out the work due to abnormal delay in finalization of revised drawings. Subsequently fresh tenders were called and the contract, with reduced space area of court yard of Mosque, was awarded to a new contractor (M/s Khawaj Shams Uddin) at a contract price of Rs.8.81 million on June 23, 2015. Abnormal delay in approval of revised drawing resulted in extra expenditure of Rs.4.29 million to the company and was a manifestation of bad planning by the management.

Non-adherence to the rules resulted in loss of Rs.4.29 million due to improper planning and inordinate delay in finalization of drawings during the financial year 2018-19.

The matter was taken up with the management in February, 2019 and reported to the Ministry in October, 2019. The management replied that the matter had been referred to Design office for provision of reasons for late issuance of Design / Drawing which caused re-tendering of work.

The DAC in its meeting held on January 01, 2020 directed the management to conduct inquiry for fixing responsibility and submit its report to Audit within 30 days.

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

(Proposed Draft Para No. 296/2019-20)

7.5.34 Loss due to theft of material – Rs.4.25 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 subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In EVH-I NTDC Lahore, one thousand eight hundred (1800) Spacer Dampers amounting to Rs.4.25 million (1,800 x 2,363), allocated for Route No.1 220 KV D/C Twin Bundle T/Line Circuit-1 & 2 from 1230 MW RLNG based power project Trimmu Jhang to 220 KV grid station T.T. Singh (Lot-I & II) was stolen. For replacement of stolen material new material was allocated on July 12, 2018. However, neither departmental inquiry in the matter was conducted nor FIR was lodged to trace out the stolen material.

Non-adherence to Authority's instructions resulted in loss of Rs.4.25 million due to theft of material during the financial year 2018-19.

The matter was taken up with the management in February, 2019 and reported to the Ministry in October, 2019. The management replied that the watch & ward of the material at site was responsibility of the contractor and hence, the contractor provided the material.

The DAC in its meeting held on January 01, 2020 directed the management to get the stance verified by Audit within a week.

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

(Proposed Draft Para No. 195/2019-20)

7.5.35 Irregular payment to contractors - Rs.4.10 million

The underlying objectives of procurement and tendering are concerned with ensuring competition, which is viewed as a key factor in achieving the twin objectives of: i) accountability in the spending of public money; and ii) transparency in the steps of the decision-making processes.

In EHV-I NTDC Islamabad, two (02) contracts amounting to Rs.85.87 million were awarded to two different contractors but Rs.89.97 million was paid to both the contractors. The excess payment of Rs.4.10 million over and above the contract price without approval of any variation order from competent Authority was irregular.

Non-adherence to rules by the contractual management resulted in irregular payment of Rs.4.10 million to the contractors up to the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the approval was obtained for making the payment on account of increased cost due to variation in prices.

The DAC in its meeting held on January 01, 2020 directed the management to get the stance verified from Audit within 15 days.

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

(Proposed Draft Para No. 1029/2019-20)

7.5.36 Non-receipt of material / non-recovery of cost from the contractors - Rs.3.54 million

As per Chief Engineer Design (Transmission Lines) NTDC office letters dated May 22, 2018 and CE EHV-I NTDC Lahore letter dated March 08, 2018, the material was allocated "On cash payment basis" and Loan Basis. The cost should be deducted from the invoices of M/s MR Electric Private Limited, Lahore and CCPG China respectively and according to Manager Design (T/Line) NTDC, approved issuance of material to contactor on "on payment basis" vide letter dated January 10, 2019.

In EVH-I NTDC Lahore, material worth Rs.3.54 million was allocated for three works. The cost of material was to be recovered from invoices of the contractors which was not done.

Non-adherence to above instructions resulted in non-receipt of material / non-recovery of cost from the contractors amounting to Rs.3.54 million during the financial year 2018-19.

The matter was taken up with the management in March & April, 2019 and reported to the Ministry in September & October, 2019. The management replied that the final invoices of the contractors and material reconciliation of the project was under process. The cost of material would be deducted from the claims of contractors.

The DAC in its meeting held on January 01, 2020 directed the management to reconcile material for effecting recovery of its cost at current price and get it verified from Audit within 30 days.

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

(Proposed Draft Para No. 108 & 268/2019-20)

7.5.37 Loss due to malafide / bogus purchase of tyres and POL - Rs.1.39 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".

In Engineer EVH-I NTDC Lahore, an expenditure of Rs.1.39 million was incurred on replacement of tyres of eight (08) vehicles and POL. However tyres of only one vehicle were replaced. The POL was also drawn for unserviceable (off road) vehicles by maliciously declaring them "on Road" as per G.M (GSC/PD) North office order No. 9018-25 dated 16.11.2018. Thus loss of Rs.1.39 million was sustained by the company on account of bogus expenditure on purchase of tyres and POL.

Non-adherence to the rules resulted in loss due to malafide/bogus purchase of tyres amounting to Rs.1.39 million during the financial year 2018-19.

The matter was taken up with the management during March, 2019 and reported to the Ministry in October, 2019. The management replied that inquiry committee had already been constituted by the authority on September 26, 2019 to probe into the matter.

The DAC in its meeting held on January 01, 2020 directed the management to finalize the inquiry proceedings expeditiously and take action in the light of its recommendations and get the same verified from Audit within a month.

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

(Proposed Draft Para No. 243/2019-20)

CHAPTER-8

FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)

8. FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)

8.1 Introduction

Faisalabad Electric Supply Company Limited (FESCO) started its operations as Public Limited Company during March, 1998 registered under Companies Ordinance, 1984. The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity to public within defined geographical boundaries. The Company purchases electricity from CPPA-G through NTDC system and sells it to various consumers within Faisalabad, Jhang, Toba Tek Singh, Chiniot, Sargodha, Mianwali, Khushab and Bhakkar districts.

The operational activities are performed through four Operation Circles, Grid System Construction, Project Construction & Grid System Operation Circles.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	10	07	29,658.20	16,613.81	179,150.02
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities/ Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	03	03	US$ 2.53	US$ 2.53	Nil

8.2 Comments on Financial Statements

8.2.1 Financial Overview

As per the audited Financial Statements for the year 2018-19 the Company remained in loss at the year ended on 30th June, 2019. However, the loss decreased from Rs.35,452 million in the financial year 2017-18 to Rs.8,057 million in the financial year 2018-19 registering 77% decrease. Moreover, the net electricity sale increased from Rs.136.52 million in the financial year 2017-18 to Rs.189.78 million in the financial year 2018-19 registering 39% increase.

8.2.2 Extracts of the Financial Statements
Statement of Financial Position as at June 30, 2019

(Rs.in million)

	2018-19	%	2017-18
Equity and Liabilities :			
Accumulated Profit/(Loss)	(88,350)	22.07	(72,378)
Deposits for the issuance of shares	19,859	2.31	19,411
Surplus on revaluation of operating fixed assets	25,929	(2.66)	26,638
Non-current liabilities	**137,463**	13.52	**121,089**
Trade and other Payables	75,082	31.52	57,090
Current portion of long term loans	1,055	61.31	654
Mark up payable	2,391	56.79	1,525
Current liabilities	**78,528**	**32.49**	**59,269**
	173,430	**12.52**	**154,030**
Assets	**98,005**	**3.45**	**94,733**
Stores and spares	3,132	15.57	2,710
Trade debts	19,750	7.47	18,378
Short-term advances	60	9.09	55
Balance with statutory authorities	8,486	-0.33	8,514
Tariff differential subsidy	11,870	323.02	2,806
Other receivables	11,089	14.70	9,668
Interest accrued	159	160.66	61
Bank balances	20,879	22.06	17,105
Current assets	**75,425**	**27.20**	**59,297**
	173,430	**12.59**	**154,030**

(Source: Audited Financial Statement of FESCO Financial Year 2018-19 – Riaz Ahmad & Co., Chartered Accountant)

Statement of Profit & Loss Account
For the year ended June 30, 2019

	2018-19	%	2017-18
Revenue			
Sale (Billing to consumers)	148,742	27.79	116,392
Tariff differential subsidy from GoP	41,039	103.85	20,132
	189,781	**39.01**	**136,524**
Cost of electricity	176,517	13.85	155,042
Gross profit / (loss)	**13,264**	**171.63**	**(18,518)**
Amortization of deferred credit	1,460	9.04	1,339
	14,725	**185.72**	**(17,179)**
Operating expenses:			
Distribution cost	20,240	25.82	16,086
Administrative expenses	3,409	40.35	2,429
Customer services cost	2,137	23.96	1,724
	25,786	**27.41**	**20,239**
Other income	4,287	47.17	2,913
Operating loss	**(6,774)**	**(80.37)**	**(34,505)**
Finance cost	309	100.65	154
Loss before taxation	**(7,083)**	**(79.56)**	**(34,659)**
Taxation	974	22.82	793
Loss after taxation	**(8,057)**	**77.27**	**(35,452)**

(Source: Audited Financial Statement of FESCO Financial Year 2018-19 – Riaz Ahmad & Co., Chartered Accountant)

8.2.3 Qualified Opinion given by the External Auditors on the Financial Statements of FESCO Financial Year 2018-19

It was observed that External Auditors had qualified the accounts of FESCO for the financial year 2018-19 on the following basis:

The Company's accounting policy of property, plant and equipment stated that the freehold land, buildings thereon and distribution equipment would be taken at revalued amounts. Moreover, the revaluation would be made after regular intervals. However, these items of property, plant and equipment were last revalued by an independent valuer on 30 June 2013 and not revalued again after the span of six years. In the absence of latest valuation, the external auditors remained unable to determine the financial impact on the financial statements in respect of this matter.

Incidence of non-revaluation of properties was serious concern and indicated poor internal controls in the organization and warranted urgent measure to address the problem.

8.2.4 Comments on Audited Accounts

i) Profitability

The Company suffered a net loss of Rs.8,056.72 million during the financial year 2018-19. Total accumulated losses have reached to the tune of Rs.88,349.67 million resulting in net capital deficiency. As on June 30, 2019 the Company's current liabilities exceeded current assets by Rs.3,103.18 million. This condition indicated existence of material uncertainty as to the Company's ability to continue as a going concern. The Company was suffering from consistent losses over the years which reflected operational inefficiencies as well policy bottlenecks requiring urgent remedial action.

ii) Sales and Cost of sales

The sales of the Company were Rs.189,781.24 million including the subsidy received from Government of Pakistan for an amount of Rs.41.038.91 million and cost of sales of the company stood at Rs.176,516.76 million which was 93% of the sale. This meant that the Company was unable to recover the operating expenses for the year.

iii) Trade Debts and other Receivables

Total receivables of the Company were Rs.51,254.92 million as on June 30, 2019. An amount of Rs.11,870.19 million was receivable from Government of Pakistan against tariff differential subsidy, Rs.11,088.87 million from other Associated Companies and others, Rs.19,750.26 million from various consumers for electricity sold and Rs.8,485.87 million from tax authorities. Huge pending receivables were a significant business sustainability risk for the Company requiring long term rectification measures. Huge balance of receivables depicted poor recovery efforts of the Company, which needed justification.

iv) Trade and other Payables

Payables of the Company substantially increased from Rs.57,089.82 million in the financial year 2017-18 to Rs.75,082.12 million in the financial year 2018-19. The major amount of Rs.62,742.32 million was payable to CPPA on account of purchase of electricity which showed unsatisfactory financial management and poor liquidity position of the Company. Immediate short term measures and prudent long term actions were needed to stop the accumulation of payables and ensure steady reduction of pending payables in the future.

v) Non-recognition of supplemental charges

The Company has not been able to record supplemental charges of Rs.6,821.91 million pertaining to the period from 2011 to 2015. These are charged by Central Power Purchases Agency (CPPA). Had these supplemental charges been charged it would have enhanced the expenditures and increased the current year loss by Rs.6,822 million. Similarly, accumulated loss would have increased to Rs.6,822 million as on June 30, 2019.

vi) Non-recording of markup on circular debt financing Rs.260.54 million

The Company had received debit note amounting to Rs.260.54 million from CPPA-G in respect of markup payable on circular debt financing loans raised through PHPL. The terms and conditions of debt financing were still being finalized. Hence, due to non-acknowledgment of subject debt note the accounts of the Company for the financial year 2018-19 were misstated by Rs.260.54 million

vii) Operating expenses

The operating expenses of the Company increased from Rs.20,238.51 million during the financial year 2017-18 to Rs.25,786.25 million during the year 2018-19 registering an increase of Rs.5,548.74 million. As the Company was incurring losses, increase in its operating expenses required justification.

8.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.6,176.56 million were raised in this audit. The amount also includes recoverables of Rs.117.70 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Irregularities		
	A.	HR/Employees related irregularities	61.84
	B.	Procurement related irregularities	541.35
	C.	Irregularities pertaining to violation of entity's own rules / regulations	1,903.98

	D. Irregularities pertaining to violation of Regulatory Laws & Regulations	3,081.99
	E. Recoveries	117.70
2.	Others	469.71

Note:- *Further audit observations pertaining to subject company, being identical in nature with that of other DISCOs, have been included in the Chapter of respective Common Issues of this report.*

8.4 AUDIT PARA

8.4.1 Loss of revenue due to abnormal line losses on feeders - Rs.1,708.10 million

According to Rule-7(c) of Public Sector Companies Corporate Governance Rules regarding the identification and monitoring of the principal risks and opportunities of the Public Sector Company and ensuring that appropriate systems are in place to manage these risks and opportunities, including, safeguarding the public reputation of the Public Sector Company.

In FESCO, the percentage of line losses on 147 feeders was abnormally higher than the targets of losses set by the NEPRA as 9.34%. Hence, 152.92 million units were lost, which caused revenue loss of Rs.1,708.10 million. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	Percentage of losses	No. of feeders	Units Lost (million)	Amount (Rs.in million)
1.	Sargodha Operation Circle	153/2019-20	11.1% to 37.5%	58	60.25	602.50
2.	Jhung Operation Circle	205/2019-20	11% to 39.7%	83	68.89	688.95
3.	CEO FESCO Faisalabad	815/2019-20	41.4% to 99.5%	6	23.78	416.65
	TOTAL			**147**	**152.92**	**1,708.10**

Non-adherence to the rules resulted in loss of revenue amounting to Rs.1,708.10 million due to operational mismanagement during the financial year 2018-19.

The matter was taken up with the management during August to September, 2019 and reported to the Ministry during October to November, 2019. The management replied that high losses on feeders were due to lengthy feeders, poor substations, difference in reading cycle, shifting / bifurcation of load and wrong feeder coding. However, efforts were being to reduce the line losses. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit was provided.

The DAC in its meetings held on December 30, 2019 did not accept the stance of the management and directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for line losses beyond NEPRA target. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture 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.

8.4.2 Loss due to wrong application of notified tariff - Rs.1,280.50 million

As per Tariff determined by NEPRA and notified by Govt. of Pakistan vide Notification dated March 22, 2018, "no subsidy was allowed to agricultural tube wells consumers in jurisdiction of FESCO".

In FESCO, agricultural subsidy was given to consumers of Tariff-D which was not allowed as per tariff notified by the Govt. of Pakistan. As such the subsidy claim of Rs.1,280.50 by FESCO was not verified by Ministry of Energy. Thus subsidy provided to consumer without any written orders resulted in loss of Rs.1,280.50 million to FESCO.

Non-adherence to the notified tariff resulted in loss of Rs.1,280.50 million on account of wrong application of notified tariff during the financial year 2018-19.

The matter was taken up with the management in June, 2019 and reported to the Ministry in November, 2019. The management explained that the reply was under process.

The DAC in its meeting held on December 30, 2019 directed the management to submit the reply alongwith evidence to Audit for verification within a week.

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

(Proposed Draft Para No. 833/2019-20)

8.4.3 Improper maintenance of distribution transformers - Rs.507.22 million

According to guidelines issued by Chief Engineer (O&M) Distribution FESCO (WAPDA) Faisalabad vide Memo No. 846-52/DMO dated June 01, 2011, following guidelines were issued for the safe guard of distribution transformers: i) Proper size of D-fuses be provided to transformers according to their KVA rating. ii) Load of transformers be balanced periodically during peak & off peak hours. iii) Earthling of substations be checked and maintained properly.

In FESCO, proper drop out / cut out sets were not installed on 1326 distribution transformers valuing Rs.353.29 million and the same were functioning on Rora Fuses. Moreover, 682 distribution transformers valuing Rs.153.93 million were sick and running on two legs phases. The periodic load balancing of transformers was also not carried out as load balancing registers were not being updated. Further mandatory confirmation regarding availability of load on existing distribution transformers while sanctioning new connections was not ascertained from the concerned field formations. This scenario depicted that the costly distribution equipment valuing Rs.507.22 million were not maintained properly.

Non-adherence to the Authority's instructions and Distribution Transformer's SOPs resulted in non-safeguarding of costly equipment valuing Rs.507.22 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in September & October, 2019. The management replied that some of the drop out / cut out sets had been installed, load balancing of transformers and maintenance of registers were being carried out.

The DAC in its meeting held on December 30, 2019 directed the management to inquire the matter for fixing responsibility for poor maintenance of transformers besides ensuring proper maintenance and provide the record of completed action to Audit within a month.

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

(Proposed Draft Para No. 78 & 207/2019-20)

8.4.4 Defective Procurement of Single Phase 2-Wire Meters - Rs.410.67 million

According to Clause 8 of purchase order the supplier will furnish a warranty certificate, certifying that the goods supplied conform exactly to the specifications laid down in the contract and are brand new and that in the event of the material being found defective or not confirming to the specification / particulars governing supply at the time of delivery and for a period of 36 months from the date of delivery the supplier will be held responsible for all losses and the unacceptable goods shall be substituted with the acceptable goods at his expenses and cost.

In FESCO, a Tender No. 1205 was opened on April 10, 2017 for procurement of static single phase 2-wire energy meters. The purchase order worth Rs.410.67 million was placed upon M/s Pak Elektron Limited for 300,000 meters. The fault analysis report disclosed that the problem of overshooting was found in PEL Make meters. It was found that all the meters were procured after carrying out inspection by NTDC. It is worth mentioning that there was already a complaint lodged against the Pak Elektron Limited (PEL) for corruption in procurement of single phase meters with Federal Complaint cell of the Ministry. The replacement of defective meters and fate of the complaint was not forthcoming from record.

Non-adherence to clause of purchase orders resulted in defective procurement of energy meters worth Rs.410.67 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in December, 2019. The management explained that the reply was under process.

The DAC in its meeting held on December 30, 2019 directed the management to submit the reply alongwith evidence to Audit for verification within a week.

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

(Proposed Draft Para No. 1109/2019-20)

8.4.5 Irregular expenditure incurred on works over and above the estimated cost – Rs.363.76 million

As per Note-2, under Clause-B Section-II of the delegation of financial power NTDC, revised up to 1995, if the expenditure exceeded more than 15% of the admin approval, revised approval of the competent authority shall be required.

In GSC FESCO, four (04) works relating to 7th STG Project were completed with an excessive expenditure of Rs.363.76 million over and above sanctioned estimates. The excessive expenditure ranged from 18.47% to 397.37%. The excess expenditure was irregular and required to be regularized by the competent authority.

Non-adherence the rules/regulation of Authority resulted in Irregular expenditure of Rs.363.76 million incurred on works over and above the approved estimates during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in December, 2019. The management explained that the reply was under process.

The DAC in its meeting held on December 30, 2019 directed the management to submit the reply alongwith evidence to Audit for verification within a week.

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

(Proposed Draft Para No. 954/2019-20)

8.4.6 Extra expenditure on account of contract variation - Rs.319.70 million

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

In PMU FESCO, work for procurement of Design, supply and installation of Four (04) No. 132 KV Double Circuit Transmission Lines on Turkey basis under ADB Loan No. 2972 (Tranche-III) was awarded to M/s Potential-TEBA Joint Venture at price of US$ 1.58 million and Pak Rupees 323.39 million. It was revealed that the contractor proposed a variation order due to certain changes in type of foundations on the basis of soil investigation. Accordingly a variation contract package was given to the contractor with additional scope of work by increasing the contract price to US$ 2.57 million + PKR 485.55 million. As per ADB letter dated February, 2017, FESCO had no sufficient ADB financing to finance the said contract variation, so FESCO had to bear the extra contract variation expenditure from its own source. Thus extra expenditure of Rs.319.70 million on account of contract variation was born by FESCO, which needed justification.

Non-adherence to the rules and poor planning resulted in irregular expenditure due to contract variation worth Rs.319.70 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in December, 2019. The management replied that a high level committee was constituted to examine & scrutinize the variation order submitted by the contractor and BOD approved the variation order regarding pile foundation in river area instead of normal foundation. The BOD FESCO had approved the variation order with cost to be managed by FESCO.

The DAC in its meeting held on December 30, 2019 did not agree with the management reply and directed the PEPCO to inquire the matter and provide its report to Audit within a month.

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

(Proposed Draft Para No. 1054/2019-20)

8.4.7 Wasteful expenditure due to inefficient use of Enterprise Resource Planning (ERP) FESCO - Rs.311.62 million

In FESCO, Enterprise Resource Programme (ERP) System was established. The basic purpose of development of ERP system was to ensure qualitative characteristics of financial system. There should be reliable information in the financial statements, which must be completed within the limits of materiality and cost. An omission in this regard can cause information/ data to be false or misleading and unreliable deficient in terms of its relevance.

During financial and operational audit of FESCO for the period 2016-2018, an expenditure of Rs.311.62 million up to November, 2018 was incurred for development of ERP System. It was observed that new connections were installed against the dead defaulters by entertaining the same CNIC. The number of new connections against single CNIC ranged from 2 to 3635 with different reference numbers, name and addresses in different field formations of different Operation Circles of FESCO. The fact that ERP System was accepting same

CNIC numbers of different reference numbers showed that the checks on the system had been disabled and computer data being maintained could be manipulated.

Inefficient use of ERP System rendered the expenditure of Rs.311.62 million incurred on it as wasteful during financial year 2016-18.

The matter was taken up with the management in December, 2018 and reported to the Ministry in December, 2019. The management explained that the reply was under process.

The DAC in its meeting held on December 30, 2019 directed the management to submit the reply alongwith evidence to Audit for verification within a week.

Audit recommends that the management needs to conduct IS Audit and strengthen its internal controls to avoid recurrence of such instances in future and ensure implementation of DAC's decision.

(Proposed Draft Para No. 1201/2019-20)

8.4.8 Non-refund of unspent amount to sponsors of deposit works - Rs.248.85 million

According to Director General (R&CP) WAPDA office memo dated May 18, 1995, variation up to 10% in the cost of service estimate is neither to be refunded nor to be recovered.

In Construction Circle FESCO, 1,220 deposit works were completed and capitalized, however, unspent balance / savings amounting to Rs.248.85 million having variation above 10% to 93% was not refunded to the sponsors.

Non-adherence to the Authority's instructions resulted in non-refund of unspent amount of Rs.248.85 million to the sponsors of deposit works up to the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in November, 2019. The management replied that the savings would be transferred to income account after 03 years in case the sponsor had not lodged the refund claim as per policy in vogue.

The DAC in its meeting held on December 30, 2019 directed the PEPCO to acquire the data of savings from all the DISCOs with aging to decide a uniform policy for treatment of savings out of deposit works and intimate the Ministry of Power Division within a month.

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

(Proposed Draft Para No. 541/2019-20)

8.4.9 Energy losses on independent feeders beyond permissible limit - Rs.158.56 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 for HT feeders was 3% for rural / urban areas.

In FESCO, the percentage of energy losses of 58 independent feeders remained in excess of the permissible limit of 3%, which entailed energy loss of 11.47 million units valuing Rs.158.56 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 Formation	Proposed Draft Para No.	No. of feeders	Percentage of losses (%)	Unit lost (Beyond 3%)	Amount (Rs.in million)
1.	Sargodha Operation Circle	53/2019-20	19	4.4% to 18.5%	4.26	42.62
2.	Jhang Operation Circle	222/2019-20	4	4.1% to 9%	0.06	0.65
3.	1st Operation Circle	420/2019-20	35	3.1% to 46.4%	7.15	115.29
		TOTAL	**58**		**11.47**	**158.56**

Non-adherence to Distribution Rehabilitation Guidelines resulted in energy losses of Rs.158.56 million on independent feeders beyond permissible limit during the financial year 2018-19. The same was required to be recovered from the consumers.

Audit was of the view high-end losses on independent feeders show operation inefficiencies of the respective management. Not only were high loss sustained, but also recovery also not affected.

The matter was taken up with the management during July to August, 2019 and reported to the Ministry during September to October, 2019. The management replied that the line losses were due to wrong coding of feeders, difference in billing cycle, off size conductor, alternate source and shifting of load. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit on independent feeders was provided.

The DAC in its meetings held on December 30, 2019 directed the management to carry out feeder wise analysis of all the feeders pointed out in the para and justify the line losses beyond permissible limit with CP-22-A, B, C, D & E. DAC further directed to provide the record of completed actions to Audit for verification within a month. Further progress was not reported till finalization of the report.

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

8.4.10 Deterioration of valuable panels lying in open yard – Rs.155.67 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, material valuing Rs.155.67 million procured under ADB loan was lying in open yard exposed to extreme weather conditions due to insufficient indoor storage capacity in warehouse. The material was lying unused.

Poor inventory management resulted in Jeopardizing of panels valuing Rs.155.67 million lying in open yard up to the financial year 2018-19.

The matter was taken up with the management in May, 2019 and reported to the Ministry in December, 2019. The management replied that major quantity of material had been issued to field formations and remaining was shifted to close sheds.

The DAC in its meeting held on December 30, 2019 directed the management to provide the record in support of reply to Audit for verification within a week and expediting utilization of remaining material.

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

(Proposed Draft Para No. 956/2019-20)

8.4.11 Irregular expenditure incurred on works over and above the estimated cost – Rs.140.85 million

As per Note-2, under Clause-B Section-II of the delegation of financial power NTDC, if the expenditure exceeded more than 15% of the estimated cost, approval of revised administrative and technical sanction was to be obtained.

In GSC FESCO, nine (09) works relating to 7th STG Project with an estimated cost of Rs.313.69 million were in progress. Against the estimated amount of Rs.313.69 million and expenditure of Rs.454.54 million was incurred within an excessive expenditure of Rs.140.85 million over and above the estimated cost. The percentage of excessive expenditure upon the works ranged from 13.53% to 68.37% which was irregular.

Non-adherence the rules/regulation of Authority resulted in irregular expenditure of Rs.140.85 million incurred on works over and above the approved estimates during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in December, 2019. The management explained that the reply was under process.

The DAC in its meeting held on December 30, 2019 directed the management to submit the reply alongwith evidence to Audit for verification within a week.

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

(Proposed Draft Para No. 1025/2019-20)

8.4.12 Non-recovery of liquidated damages from contractors – Rs.107.17 million

According to Section-8 Clause 26.2 Special Condition of Contract, "the rate of liquidated damages 0.5% of the contract price per week or part thereof maximum 10% of the contract price will be recovered from the contractor".

In PMU FESCO, three (03) work orders were placed on contractors for construction / conversion of grid stations and transmission lines. The contractors could not complete the works within the stipulated period, hence, liquidated damages of Rs.107.17 million were required to be recovered from them, which was not done.

Non-adherence to contracts clause resulted in non-recovery of liquidated damages of Rs.107.17 million from contractors up to the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that 10% to 15% payment of each contractor had been retained due to pending EoT cases. Audit contended that LD should have been deducted from the running bills of the contractors at the occurrence of event of delay.

The DAC in its meeting held on December 30, 2019 directed the management to finalize the EoT cases as per contractual provisions expeditiously and provide the relevant record to Audit for verification within a month. Further progress was not reported till finalization of the report.

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

(Proposed Draft Para No. 389/2019-20)

8.4.13 Blockage of funds due to non-receipt of electrical material from DISCOs - Rs.93.39 million

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

In FESCO, electrical material worth Rs.93.39 million was released to three (03) DISCOs (MEPCO, GEPCO & PESCO) on loan basis. The same was not returned to FESCO and resulted in blockage of an amount of Rs.93.39 million.

Non-adherence to the rules resulted in blockage of funds Rs.93.39 million due to non-return of material for the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that out of Rs.93.39 million, material of Rs.29.92 million had been received and efforts were being made for received back of remaining material from concerned entities.

The DAC in its meeting held on December 30, 2019 directed the management to expedite the return of electrical material from DISCOs and get the completed action verified from Audit within a month.

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

(Proposed Draft Para No. 828 & 831/2019-20)

8.4.14 Undue generation of revenue through over billing - Rs.84.33 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 FESCO, the percentages of energy losses of 32 feeders were in negative figures during the financial year 2018-19. The negative losses revealed that the units billed were in excess of units received on feeders, which was an indication of overbilling of Rs.84.33 million to the consumers. Audit was of the view that overbilling showed lack of control in the FESCO and reduced the authenticity of their data. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	No. of Feeder	No. of Units (million)	Amount (Rs.in millions)
1.	Jhang Operation Circle	206/2019-20	8	3.66	36.60
2.	1st Operation Circle Faisalabad	212/2019-20	24	2.814	47.73
	TOTAL		**32**	**6.474**	**84.33**

Non-adherence to Commercial Procedure resulted in undue generation of revenue of Rs.84.33 million through over billing to consumers during the financial year 2018-19.

The matter was taken up with the management during July to August, 2019 and reported to the Ministry during October, 2019. The management replied that line losses were due to wrong coding of feeders, shifting / bifurcation of load and difference in billing cycle. The reply was not acceptable as no proper measures were adopted to avoid overbilling.

The DAC in its meetings held during December 30, 2019 directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for negative line losses. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture and provide the record 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 decision besides fixing responsibility.

8.4.15 Recoverable Energy receivables against permanently disconnected Private Consumers – Rs.61.32 million

According to Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) efficient application of billing and collection procedure".

In FESCO, an amount of Rs.61.32 million was recoverable from permanently disconnected private consumers on account of energy charges. This amount was outstanding since long i.e. 3 to 4 years.

Non-adherence of service manual resulted in non-recovery of energy charges of Rs.61.32 million from disconnected defaulters in the financial year 2018-19.

The matter was taken up with the management in July, 2019 and reported to the Ministry in October, 2019. The management replied that an amount of Rs.24.03 million had been recovered from 40 dead/running defaulters leaving the balance recoverable amount of Rs.37.35 million.

The DAC in its meeting held on December 30, 2019 directed the management to provide the recovery record to Audit for verification within a week and expedite the remaining recovery. DAC further directed to prepare aging of arrears, give the priority to top 100 consumers for recovery and confirm non-provision of another connection to the disconnected consumers without paying arrears.

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

(Proposed Draft Para No. 175/2019-20)

8.4.16 Non-safeguarding of assets due to non-installation of capacitors – Rs.58.21 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 of a distribution system can be reduced by installation of capacitors.

In GSC FESCO, thirty one (31) grid stations amounting Rs.58.21 million were completed and handed over to GSO, without installation of capacitors on the power transformers. This resulted in low power factor which led to wastage of power. Further the chances of damages of company assets Rs.58.21 million and abnormal tripping could not be ruled out.

Non-implementation of Distribution Rehabilitation Guidelines resulted in wastage of power and chances of damages to company's assets Rs 58.214 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that capacitors had been installed against twenty three (23) works and remaining eight (08) could not be installed due to non-availability.

The DAC in its meeting held on December 30, 2019 directed the management to expedite installation of capacitors and provide the record of completed action to Audit along with justification for lapse within a month.

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

(Proposed Draft Para No. 174/2019-20)

8.4.17 Non-recovery from employees - Rs.52.13 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".

In FESCO, an amount of Rs.62.49 million was recoverable up to June, 2019 from employees as pointed out by Internal Audit FESCO. An amount of Rs.10.36 million was settled. However, no concrete efforts were found to be made by the concerned to effect the recovery of Rs.52.13 million from FESCO employees which also depicted poor pursuance towards Inspection Reports. The delay in implementation of Audit recommendations might lead to non-recovery from employees pointed out in inspection reports / summaries.

Non-adherence to the rules resulted in non-recovery of Rs.52.13 million from the employees up to the financial year 2018-19.

The matter was taken up with management in September and December, 2019 and reported to the Ministry in November and December, 2019. The management replied that an amount of Rs.0.97 million had been recovered from employees leaving a balance of Rs.51.16 million.

The DAC in its meeting held on December 30, 2019 directed the management to submit detailed reply with aging & head wise nature of outstanding recovery from employees and provide the record of completed actions to Audit within a week besides expediting pending actions.

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

(Proposed Draft Para No. 813 & 982/2019-20)

8.4.18 Non-recovery of energy dues from consumers - Rs.50.77 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".

In FESCO, an amount of Rs.51.08 million was recoverable from consumers as pointed out by Internal Audit FESCO, however, only an amount of Rs.0.31 million could be recovered leaving a substantial sum of Rs.50.77 million unrecovered.

Non-adherence to the rules resulted in non-recovery of Rs.50.77 million of energy dues from the consumers up to the financial year 2018-19.

The matter was taken up with management in September, 2019 and reported to the Ministry in November, 2019. The management replied that an amount of Rs.5.30 million had been recovered leaving a balance amount of Rs.45.48 million.

The DAC in its meeting held on December 30, 2019 directed the management to submit detailed reply and provide the record of completed actions to Audit for verification within a week and expedite the pending actions.

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

(Proposed Draft Para No. 812/2019-20)

8.4.19 Non-return of replaced meters to M&T Lab - Rs.16.73 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

In M&T FESCO, 24926 single phase and 3412 three phase meters valuing Rs.16.73 million was replaced by the field formations. But the old meters were not sent for data retrieval in M&T Lab for detailed checking and data retrieval and charging of pending units which was not done.

Non-adherence to Authority's instructions resulted in non-return of replaced meter Rs.16.73 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management explained that the reply was under process.

The DAC in its meeting held on December 30, 2019 directed the management to submit reply along with evidence to Audit within a week.

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

(Proposed Draft Para No. 576/2019-20)

8.4.20 Irregular award of work orders at rates reduced after opening of bids – Rs.12.67 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". Further, according to PPRA's office memo No. F.3(12)/D-II/PPRA/2010 dated July 23, 2010, price matching is a form of negotiation which is prohibited under Rule-40 of the Public Procurement Rules, 2004.

In FESCO, five (05) work orders worth Rs.12.67 million were awarded to five contractors at post bid reduced rates. The bidders participated in tendering and reduced quoted rates after opening of bids in order to match prices with lowest bidder/ estimated cost. The award of works was irregular as post bid reduction and price matching was not allowed under PPRA's Rules 2004. It was worth mentioning that out of five bidders, four bidders were lowest as per respective Comparative Statements where as in one case a bidder M/s Fazail

Sabri with bid price of 6.5% above the BoQ price was 2nd lowest. After opening of the bid, the bidder offered reduction up to 0.40% below the BoQ price and work was awarded to the 2nd lowest bidder after price matching which was violation of PPRs.

Non-adherence to PPRA's Rules 2004 resulted in irregular award of tenders valuing Rs.12.67 million at post bid reduced / negotiated rates during the financial year 2018-19.

The matter was taken up with the management, in September, 2019 and reported to the Ministry in November, 2019. The management replied that after evaluation of bids the lowest responsive bidder M/S Fazail Sabir Construction Co, voluntarily reduced the rates from 6.5% above BOQ to 0.40% below BOQ and the same was approved by the competent authority.

The DAC in its meeting held on December 30, 2019 directed the management to provide the documentary evidence including evaluation report to Audit for verification within a week.

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

(Proposed Draft Para No. 769/2019-20)

8.4.21 Non-recovery from employees against shortage of material - Rs.9.71 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".

In Construction Circle FESCO, an amount of Rs.9.71 million was recoverable from the seven (07) officials on account of shortage / theft of material. However, recovery was not made from the concerned officials.

Non-adherence to the rules resulted in non-recovery of Rs.9.71 million from employees against shortage / theft of material up to the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in November, 2019. The management replied that an amount of Rs.0.11 million had been recovered and remaining recovery was under process. It was added that the matter pertaining to one official had also been taken in other audit observations.

The DAC in its meeting held on December 30, 2019 directed the management to get the record of completed actions verified from Audit within a week besides expediting the pending recovery and reconciling the matter with Audit.

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

(Proposed Draft Para No.544/2019-20)

8.4.22 Irregular handing over of material to the contractor on loan basis - Rs.7.93 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 worth Rs.7.93 million was handed over to a contractor on loan basis from ADB stock balance for early completion of work. However, the terms & conditions upon which the material was handed over to the contractor were not forthcoming from the record.

Non-adherence to contract clauses resulted in to irregular handing over of material on loan basis amounting to Rs.7.93 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that the material was given to the contractor on loan basis for timely completion of project. Now the material of Rs.5.53 million had been adjusted and material of Rs.2.40 million was returned by the contractor.

The DAC in its meeting held on December 30, 2019 did not agree with the management stance and directed to conduct an inquiry at PEPCO level within 30 days for fixing responsibility as under what rule / contract clause the material was given to the contractor on loan basis.

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

(Proposed Draft Para No. 171/2019-20)

8.4.23 Loss due to defective feeder bifurcation - Rs.5.77 million

As per approved summary sheet of bifurcation work of New Sabzi Mandi 11 KV feeder, saving of 1.17 million units per annum amounting to Rs.13.85 million was envisaged on account of Energy Loss Reduction (ELR).

In Construction Circle FESCO, a bifurcation work of New Sabzi Mandi 11 KV feeder under ELR Program was approved with envisaged yearly benefits of Rs.13.85 million. The newly bifurcated feeder tripped frequently due to improper sagging and moulding of Cross-Arms and remained idle for five months. The defective bifurcated work hampered the envisaged benefits of Rs.5.77 million during the said period.

Non-adherence to the Authority's instruction resulted in loss of Rs.5.77 million due to defective feeder bifurcation during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in November, 2019. The management replied that the discrepancies were due to installation of sub-standard 11 KV Pin Insulators, which had been removed.

The DAC in its meeting held on December 30, 2019 directed the management to inquire the matter for fixing responsibility for procurement of substandard material caused delayed energization of feeder besides directing the PEPCO for issuance of instructions to incorporate provisions in future work orders for proper inspection of material. DAC also directed to provide the record of completed actions to Audit within a month.

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

(Proposed Draft Para No. 618/2019-20)

8.4.24 Less recovery of cost of deposit work from the sponsoring agencies - Rs.4.59 million

As per para C (i) of Deposit work "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, the expenditure incurred against two (2) deposit works was in excess of the deposited amount to the tune of Rs.4.59 million, which caused excess expenditure ranging 12% & 34% respectively. The excess amount was required to be recovered from the sponsors, which was not done.

Non-adherence to the Authority's instructions resulted in less recovery of Rs.4.59 million up to the financial year 2018-19.

The matter was taken up with the management, in August, 2019 and reported to the Ministry in October, 2019. No reply was given by the management.

The DAC in its meeting held on December 30, 2019 directed the management to submit the detailed reply alongwith evidence to Audit for verification within a week.

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

(Proposed Draft Para No. 172/2019-20)

8.4.25 Irregular award of contract at higher rates – Rs.2.91 million

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

In FESCO Faisalabad, a work order amounting to Rs.2.91 million for repair & maintenance of residential quarters was awarded to the 2nd lowest bidder by ignoring the 1st lowest bidder in violation of PPRA rules.

Non-adherence to PPRA Rules resulted in irregular award of work order amounting to Rs.2.91 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in December, 2019. The management explained that the reply was under process.

The DAC in its meeting held on December 30, 2019 directed the management to submit the reply alongwith evidence to Audit for verification within a week.

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

(Proposed Draft Para No. 983/2019-20)

8.4.26 Non-installation of new Tower against collapsed tower - Rs.2.41 million

According to Para-4.1.3 to 4.1.6 of Distribution Rehabilitation Guidelines September, 2003, "total time for approval of work, execution and preparation of completion report will be restricted to 130 days".

In GSC FESCO, an amount of Rs.2.41 million through two (02) credit advices was received in 2014 for construction of foundations and installation of new towers against three (03) collapsed ones at Kalabagh-Trug Section of transmission line. Despite lapse of five years and deposit of Rs.2.41 million, the management of could not install new towers while supply was made through temporary diversions.

Non-adherence to distribution guidelines resulted in non-installation / completion of work within the stipulated period amounting to Rs.2.41 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that the foundation work had been completed and erection / stringing would be carried out in due course.

The DAC in its meeting held on December 30, 2019 directed the management to submit detailed reply with justification of delay of five (05) years in carrying out the work to Audit within a week.

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

(Proposed Draft Para No.455/2019-20)

8.4.27 Non-recovery of repairing cost of damaged transformers from independent consumers – Rs.1.02 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".

In M&T FESCO, an expenditure of Rs.1.02 million was incurred on repair of eleven (11) damaged distribution transformers pertaining to private consumers. The repairing cost was not recovered from the concerned consumers resulting in loss of Rs.1.02 million.

Non-adherence to the rules resulted in non-recovery of Rs.1.02 million on account of repairing cost of damaged transformers from independent consumers during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in December, 2019. The management explained that the reply was under process.

The DAC in its meeting held on December 30, 2019 directed the management to submit the reply alongwith evidence to Audit for verification within a week.

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

(Proposed Draft Para No. 955/2019-20)

8.4.28 Non-installation of Automatic Meter Reading (AMR) & Automatic Metering Infrastructure (AMI)

As per Para 33 (I) of Tariff Determination 2014-15, the NEPRA directed to all DISCOs to install AMR/AMI Meters at all their Common Delivery Points up to June, 2016. The NEPRA pointed out that one of the key reasons for high Transmission and Distribution losses in DISCOs was the absence of any mechanism for tracking of electricity flow from the points of their electricity purchases down to the final consumers at each voltage level starting from 11 KV, 132 KV and 400/230 Volts to eliminate theft as well as to diagnose actual technical problems / losses.

In FESCO, during financial and operational audit of FESCO for the period 2016-2018, after lapse of targeted time up to June, 2016 the installation of AMR/ AMI meters at Common Delivery Points and at consumer end especially at 11KV, 132 KV 400/230 volts was not implemented uptill 30th June, 2018 which raised serious concerns on inefficiencies of FESCO regarding compliance to NEPRA directions.

Non-compliance to NEPRA's instructions showed inefficiency of the Company during the financial year 2016-18.

The matter was taken up with the management in December, 2018 and reported to the Ministry in December, 2019. The management explained that the reply was under process.

The DAC in its meeting held on December 30, 2019 directed the management to submit the reply alongwith evidence to Audit for verification within a week.

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

(Proposed Draft Para No. 1194/2019-20)

CHAPTER-9

GUJRANWALA ELECTRIC POWER COMPANY (GEPCO)

9. GUJRANWALA ELECTRIC POWER COMPANY (GEPCO)

9.1 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.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1	Formations	11	07	20,561.61	6,595.92	109,930.01
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	03	03	US$ 2.21	US$ 2.21	Nil

9.2 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 GEPCO, financial statements of the company for the financial year 2018-19 could not be finalized by the management up till December 31, 2019.

9.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.10,049.59 million were raised in this audit. The amount also includes recoverables of Rs.1,070.18 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Irregularities		
	A.	HR/Employees related irregularities	0
	B.	Procurement related irregularities	333.56
	C.	Irregularities pertaining to violation of entity's own rules / regulations	7,733.57
	D.	Irregularities pertaining to violation of Regulatory Laws & Regulations	849.83
	E.	Recoveries	1,070.18
2.	Others		62.45

Note:- *Further audit observations pertaining to subject company, being identical in nature with that of other DISCOs, have been included in the Chapter of respective Common Issues of this report.*

9.4 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
GEPCO	2016-17	02			**02** (12.4.1, 12.4.2)

Position of compliance with PAC directives is not satisfactory.

9.5 AUDIT PARAS

9.5.1 Wrong reading / overbilling / unjustified detection - Rs.5,603.89 million

According to Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures".

In GEPCO, during financial and operational audit it was found that during financial year 2016-17 & 2017-18 124.874 million units with an amount of Rs.1,725.76 million were debited and subsequently, 97.37 million units and an amount of Rs.5,603.89 million were credited to consumers on account of wrong reading / revised detection through adjustment notes. This scenario depicted that the excess units were deliberately overbilled / debited for concealment of facts of actual distribution line losses due to overbilling. No action was taken against the officers/officials involved in adjustments.

Non-adherence to the Commercial Procedure resulted in huge refund / credits amounting to Rs.5,603.89 million to consumers during the financial year 2016-18.

The matter was taken up with the management, and reported to the Ministry in December, 2019. The management replied that to curb the menace of overbilling, mobile meter reading was started in 2016. Audit contended that despite mobile meter debiting the units at large scale and afterwards its taking back was questionable.

The DAC in its meeting held on December 30, 2019 directed the management to inquire the matter at PEPCO level to check the abnormality in figures of adjustments through debit / credit of units and submit its report to Ministry and Audit within a month.

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

(Proposed Draft Para No. 1206/2019-20)

9.5.2 Non-recovery of receivables from energy defaulters - Rs.1,070.18 million

According to Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) efficient application of billing and collection procedure".

In GEPCO, an amount of Rs.1,070.18 million was recoverable from running and permanently disconnected (P-Disc.) energy defaulters (Government and private). In this respect, no efforts were made by the management to accelerate the recovery from defaulters. The detail is as under:-

Sr. No.	Name of Formations	Proposed Draft Para No.	Amount (Rs.in million)
1.	Gujrat Operation Circle	61/2019-20	99.89
2.	City Operation Circle Gujranwala	81/2019-20	41.02
3.	Cantt. Operation Circle Gujranwala	133/2019-20	214.93
4.	Sialkot Operation Circle	136/2019-20	42.06
5.	CEO GEPCO	621/2019-20	672.28
		TOTAL	**1,070.18**

Non-adherence to WAPDA Commercial Procedure resulted in non-recovery of Rs.1,070.18 million from energy defaulters up to the financial year 2018-19.

Audit was of the view that subject matter was a significant issue and major business sustainability risks for the GEPCO. It was also a major source for accumulation of circular debt in the Power Sector.

The matter was taken up with the management during July to October, 2019 and reported to the Ministry during September to November, 2019. The management replied that in some cases amount had been recovered and efforts were being made to recover the remaining amount.

The DAC in its meetings held on December 30, 2019 directed the management to produce the recovery record to Audit within a week and expedite recovery from remaining consumers by giving priority to top 100 defaulters as per the aging / significance of outstanding dues. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision besides fixing responsibility for inordinate delay in clearance of arrears.

9.5.3 Loss of revenue due to abnormal line losses on feeders - Rs.844.93 million

According to Rule-7(c) of Public Sector Companies Corporate Governance Rules regarding the identification and monitoring of the principal risks and opportunities of the Public Sector Company and ensuring that appropriate systems are in place to manage these risks and opportunities, including, safeguarding the public reputation of the Public Sector Company.

In GEPCO, the percentage of line losses on 64 feeders was abnormally higher than the targets of losses set by the NEPRA as 10.03%. Hence, 56.33

million units were lost, which caused revenue loss of Rs.844.93 million. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	(%) of losses	No. of feeders	Units Lost (million)	Amount (Rs.in million)
1.	CEO GEPCO	619/2019-20	15% to 33.1%	64	56.33	844.93

Non-adherence to the rules resulted in loss of revenue amounting to Rs.844.93 million due to operational mismanagement during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that high losses on feeders were due to lengthy feeders, poor substations, difference in reading cycle, shifting / bifurcation of load and wrong feeder coding. However, efforts were being to reduce the line losses. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit was provided.

The DAC in its meetings held on December 30, 2019 did not accept the stance of the management and directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for line losses beyond NEPRA target. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture 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.

9.5.4 Non-execution of pending deposit works - Rs.694.41 million

According to Para-4.1.3 to 4.1.6 of Distribution Rehabilitation Guidelines-2003, total time for approval of work, execution and preparation of completion report would be 130 days.

In Construction Circle GEPCO, 81 deposit works amounting to Rs.694.41 million undertaken during the period 2017 onwards were lying pending for execution. The said deposit works were undertaken to enhance, stabilize and extend the electricity facility to the sponsoring agencies. Due to non-execution of the said works, desired benefits could not be achieved.

Non-adherence to distribution rehabilitation instructions resulted in non-execution of pending deposit works amounting to Rs.694.41 million up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that 13 works amounting to Rs.43.97 million had been completed, one work was cancelled and remaining 67 were pending.

The DAC in its meeting held on December 30, 2019 directed the management to provide the record of completed actions to Audit for verification within a week and conduct an inquiry at PEPCO level for fixing responsibility for delay in execution of works within a month.

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

(Proposed Draft Para No. 680/2019-20)

9.5.5 Non-recovery of cost of independent grid stations from consumers - Rs.663.03 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 GEPCO, one (01) bulk and four (04) industrial consumers had qualified for provision of independent grid stations owing to extension of load more than 5,000 KW. So far no action has been taken for installation of independent grid station. Hence, undue favour of Rs.663.03 million was extended to the consumers by non-recovery of the cost of independent grid stations. The detail is as under:-

Sr. No.	Formation	Proposed Draft Para No.	No. of Consumers	Amount (Rs.in million)
1.	City Operation Circle, Gujranwala	70/2019-20	04	433.40
2.	Cantt Operation Circle, Gujranwala	358/2019-20	01	229.63
		TOTAL	**05**	**663.03**

Non-adherence to NEPRA's instructions resulted in non-recovery of cost of independent gird stations amounting to Rs.663.03 million from consumers up to the financial year 2018-19.

The matter was taken up with the management during August and July, 2019 and reported to the Ministry during September to October, 2019. The management replied that two connections of WECHS were already taken in other observation and remaining two connections were running within sanctioned load. Moreover, the bulk supply connection was sanctioned before issuance of SoP. Audit contended that SoP was meant for implementation irrespective of date of installation of connections.

The DAC in its meeting held on December 30, 2019 deleted the two connections of WECHS from PDP-70/2019-20 and directed the management to conduct inquiry in remaining two cases for non-recovery of cost of grid stations. DAC further directed to ensure recovery of cost of independent grid station by regularizing the extended load of the bulk supply consumer and provide the record of completed actions 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 decision.

9.5.6 Non-replacement of defective meters resulting in less billing – Rs.445.87 million

As per Para-4.4(e) of the Consumer Service Manual, the charging of consumers on the basis of defective code, where meter has become defective and is not recording the actual consumption will not be more than two billing cycles. The basis of charging will be 100% of the consumption recorded in the same month of previous year or average of the last 11 months whichever is higher.

In GEPCO, during financial and operational audit, 32,998 energy meters of consumers were running under defective code ranging from 1 month to 12 months up to June, 2017. There were chances of less billing to these consumers due to non-replacement of defective meters.

Non-adherence to the Consumer Service Manual resulted in loss of Rs.445.87 million due to non-replacement of defective meters during the financial year 2016-18.

The matter was taken up with the management and reported to the Ministry in December, 2019. The management replied that the defective meters had been replaced.

The DAC in its meeting held on December 30, 2019 directed the management to provide the record in support of reply to Audit for verification within a week.

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

(Proposed Draft Para No. 1197/2019-20)

9.5.7 Non-finalization of inquiry due to irregularities in land acquisition - Rs.333.56 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".

In GEPCO, a Deputy Manager of GEPCO while posted as Company Secretary to GEPCO Employee's Housing Foundation (GHEF) was placed under suspension due to payment for land not registered with GHEF, advance payment to land owner and amendments in original agreement, which caused loss of Rs.333.56 million to GHEF. Although an inquiry committee was constituted to probe into the matter, however, its decision was pending since long and the said officer was re-instated and posted as Dy. Manager Marketing and Tariff.

Non-adherence to the rules resulted in loss of Rs.333.56 million due to irregularities in land acquisition up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that an inquiry committee was constituted on April 25, 2019, which was under process.

The DAC in its meeting held on December 30, 2019 directed the management to finalize the inquiry proceedings within 30 days and provide its report to Audit accordingly.

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

(Proposed Draft Para No. 624/2019-20)

9.5.8 Undue generation of revenue through over billing - Rs.98.37 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 GEPCO, the percentages of energy losses of 33 feeders were in negative figures during the financial year 2018-19. The negative losses revealed that the units billed were in excess of units received on feeders, which was an indication of overbilling of Rs.98.37 million to the consumers. Audit was of the view that overbilling showed lack of control in the GEPCO and reduced the authenticity of their data. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	No. of Feeder	No. of Units (million)	Amount (Rs.in million)
1.	City Operation Circle Gujranwala	68/2019-20	22	6.584	65.84
2.	Cantt Operation Circle Gujranwala	90/2019-20	11	3.252	32.53
	TOTAL		**33**	**9.836**	**98.37**

Non-adherence to Commercial Procedure resulted in undue generation of revenue of Rs.98.37 million through over billing to consumers during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in September, 2019. The management replied that line losses were due to wrong coding of feeders, shifting / bifurcation of load and difference in billing cycle. The reply was not acceptable as no proper measures were adopted to avoid overbilling.

The DAC in its meetings held during December 30, 2019 directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for negative line losses. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture and provide the record 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 decision besides fixing responsibility.

9.5.9 Energy losses on independent feeders beyond permissible limit - Rs.82.67 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 for HT feeders was 3% for rural / urban areas.

In GEPCO, the percentage of energy losses of 14 independent feeders remained in excess of the permissible limit of 3%, which entailed energy loss of Rs.82.67 million. The losses above the permissible limit were either due to illegal extension of load or the conductor was incapacitated to withstand running load. Detail was as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	No. of feeders	Percentage of losses (%)	Unit lost (Beyond 3%)	Amount (Rs.in million)
1.	Gujrat Operation Circle	50/2019-20	2	4.9% to 7.4%	0.85	12.83
2.	CEO GEPCO	598/2019-20	12	3.7% to 10.3%	4.65	69.84
		TOTAL	**14**		**5.5**	**82.67**

Non-adherence to Distribution Rehabilitation Guidelines resulted in energy losses of Rs.82.67 million on independent feeders beyond permissible limit during the financial year 2018-19. The same was required to be recovered from the consumers.

Audit was of the view high-end losses on independent feeders show operation inefficiencies of the respective management. Not only were high loss sustained, but also recovery also not affected.

The matter was taken up with the management during July to October, 2019 and reported to the Ministry during September to November, 2019. The management replied that the line losses were due to wrong coding of feeders, difference in billing cycle, off size conductor, alternate source and shifting of load. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit on independent feeders was provided.

The DAC in its meetings held on December 30, 2019 directed the management to carry out feeder wise analysis of all the feeders pointed out in the para and justify the line losses beyond permissible limit with CP-22-A, B, C, D & E. DAC further directed to provide the record of completed actions to Audit for verification within a month. Further progress was not reported till finalization of the report.

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

9.5.10 Less installation of electrical equipment than sanctioned estimates susceptible to misappropriation - Rs.56.95 million

According to Para 2.2 of Distribution Stores Manual, the material in excess of requirement must not be drawn.

In Construction Circle GEPCO, installation of electrical equipment valuing Rs.56.95 million was reported as less than the sanctioned estimates upon 611 works / schemes as pointed out by the consultant M/s Barqaab. Neither the matter was inquired departmentally for fixing the responsibility nor the material was returned to store. Non-return of equipment to store was susceptible to misappropriation.

Non-adherence to the Authority's instructions resulted in less installation of electrical equipment valuing Rs.56.95 million than sanctioned estimates up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that material worth Rs.1.72 million pertaining to 79 works was returned to store and return of remaining material was under process.

The DAC in its meeting held on December 30, 2019 directed the management to provide the record of material returned to store to Audit for verification within a week and ensure return of remaining material to store expeditiously.

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

(Proposed Draft Para No. 584/2019-20)

9.5.11 Loss on account of extra contract cost due to improper planning - Rs.55.55 million

As per contract agreement signed on 29th December, 2011 between the Employer and the Contractor for Contract No.ADB-2727-GEPCO-04 dated

December 29, 2011 for Procurement of Plan Design, Supply and Installation of 132 KV GAS Insulated Switch Gear plant at Sheranwala Bagh, Gujranwala and 132 KV AIS Station at Khiali By Pass Gujranwala which was to be completed in Pak Rs.194.78 million.

In PMU GEPCO, contract agreement was initially signed on December 29, 2011 for Rs.194.78 million between M/s ABB Consortium and GEPCO against ADB-2727-GEPCO-4, for Procurement of Design, Supply and Installation of 132 KV Gas Insulated Switchgear Plant at Sheranwala Bagh, 132 KV Grid station Khiali By Pass Gujranwala with completion period of 400 days. Instead of getting the project completed within stipulated time period, an addendum No.1 was signed between Employer and contractor on December 03, 2013. Later on another addendum No. 2 was signed on November 09, 2017 for Rs.250.33 million. Further probe into the matter revealed that revision of contract was necessitated due to change in scope of civil works regarding Control House Building & Equipment, foundations of the Khiali By Pass Grid station, missing of some of items in the BOQ of the (GIS) Grid station Sheranwala Bagh and installation of Numerical Relays instead of electromechanical Relays. Had proper planning been made at the outset, subsequent changes in scope of works entailing extra contract cost to the extent of Rs.55.55 million would have been avoided.

Non-adherence to contract agreement resulted in loss of Rs.55.55 million due to extra contract cost during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in December, 2019. The management replied that the major change in the civil works was due to adjacent bypass road instead of surrounding fields. The change orders were approved / made to meet the requirements of drawings approved by technical committee. Audit contended that the lapse at planning stage caused variation of more than 25% of original contract price.

The DAC in its meeting held on December 30, 2019 directed the management to inquire the matter for fixing responsibility for increase in cost by more than 25% of original contract price and provide its report to Audit within a month.

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

(Proposed Draft Para No. 933/2019-20)

9.5.12 Irregular excessive charging of overheads to works - Rs.55.35 million

As per General Manager Operation's instructions 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 Construction Circle GEPCO, overheads of Rs.55.35 million ranging from 9% to 132% were excessively booked to 98 completed works. The charging of overheads beyond the fixed limit of 8% was irregular and caused overstating the value of capitalized assets.

Non-adherence to the instructions resulted in irregular excessive charging of overheads of Rs.55.35 million to the completed works during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the amount pointed out in the Para was being debited to the Construction Directorate under the directions of Company's Statutory Auditors on account of actuarial valuation of pensionary charges. Audit contended that no justification of excess charging of overheads was given by the management.

The DAC in its meeting held on December 30, 2019 directed the management to submit detailed reply with justification of excess charging of overhead and provide last five years annual development plan with actual achievements highlighting overheads projected and applied. DAC also directed to provide the record of completed actions to Audit within a month.

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

(Proposed Draft Para No. 585/2019-20)

9.5.13 Irregular installation of electrical equipment in excess of sanctioned estimates - Rs.26.26 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 Construction Circle GEPCO, electrical equipment valuing Rs.26.26 million was installed at 275 works / schemes in excess of sanctioned estimates as reported by the consultant M/s Barqaab. Neither the matter was inquired departmentally for identifying the source of surplus equipment nor the estimates were regularized.

Non-adherence to the Authority's instructions resulted in irregular installation of electrical equipment valuing Rs.26.26 million in excess of sanctioned estimates up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the material was installed on works in excess of drawn material which was to be regularized and in some cases the revision of estimates had been made.

The DAC in its meeting held on December 30, 2019 directed the management to finalize the regularization / revision of estimates within a month and provide the record of completed actions to Audit accordingly.

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

(Proposed Draft Para No. 583/2019-20)

9.5.14 Weak security measures resulting in illegal occupation of GEPCO land - Rs.6.90 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".

In GSC GEPCO, 72 Kanal 7 Marla Property was handed over to GEPCO on gift basis in August, 2007 by (Bashindas) of Mouza Vanekey Tarar for the purpose of construction of Grid Station to accommodate near by villages. After lapse of nine years ,in December,2016 it was found that out of total land, 27 Kanal and 13 Marla was illegally occupied by management of Govt. College Vanekey Tarar and college management constructed a building on the said land. Thus no proper security measures were adopted that led to illegal occupation of GEPCO land.

Non-adherence to the rules resulted in illegal occupation of land worth Rs.6.90 million up to financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that GEPCO lodged civil suit in the court of Civil Judge Hafizabad, hence the matter was subjudice.

The DAC in its meeting held on December 30, 2019 directed the management to purse the Court case vigorously and intimate the outcome to Audit.

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

(Proposed Draft Para No. 359/2019-20)

9.5.15 Less recovery of capital cost from the consumers on account of deposit work - Rs.6.77 million

According to Section-III-C (1) of Book of Financial Powers, "deposit works shall be undertaken only after getting full amount of sanctioned work estimate deposited with WAPDA, with an undertaking from the depositor to meet any variation."

In GSC GEPCO, two (02) deposit works were completed. Amount of these works were revised by the competent authority according to scope of work. Total amount of these works was Rs.37.12 million out of which an amount of Rs.30.35 million was recovered through paid demand notices. Balance/excess expenditure amounting to Rs.6.77 million was yet to be recovered from Punjab High Way and Gujranwala Development Authority (GDA).

Non-adherence to rules resulted in less recovery of Rs.6.77 million against deposit works during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that deposit works pertained to GDA was in progress and the demand notice for balance amount of Rs.1.76 million had been served upon it. Audit contended that both the works were completed and an amount of Rs.5 million was also recoverable from Punjab High Way department.

The DAC in its meeting held on December 30, 2019 directed the management to expedite receipt of cost of deposit works and get the record of completed actions verified from Audit within a month.

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

(Proposed Draft Para No. 421/2019-20)

9.5.16 Loss of revenue due to application of wrong tariff - Rs.4.90 million

According to NEPRA's Tariff Conditions, Tariff B-1 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. Further industrial supply means a supply for bona fide industrial purpose in factories including office and normal working of the industry.

In Operation Circle Cantt. GEPCO, eight (08) consumers were engaged in the commercial /industrial activities but were running under domestic/inappropriate industrial tariff which was in contradiction to the NEPRA's Tariff Conditions.

Non-adherence to NEPRA's tariff conditions resulted in loss of revenue amounting Rs.4.90 million due to application of wrong tariff during the financial year 2018-19.

The matter was taken up with management in July, 2019 and reported to the Ministry in September, 2019. The management replied that an amount of Rs.3.16 milllion had been recovered from consumers, one case was duplicated and remaining two were running in relevant tariff.

The DAC in its meeting held on December 30, 2019 directed the management to provide the record in support of the reply to Audit for verification within in a week.

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

(Proposed Draft Para No. 94/2019-20)

9.5.17 Irregular installation of electricity connections at illegitimate / un-approved housing societies

The committee set up on the directions of Provincial Government for the purpose of regularization of illegitimate /unapproved housing societies instructed GEPCO for not issuing utility connections to illegitimate / unapproved housing schemes and disconnect the connection if management of the societies had procured connections by misrepresenting the facts.

In Operation Circle Sialkot GEPCO, electricity connections were installed at twenty eight (28) illegitimate / un-approved housing societies which was in contradiction to the Punjab Housing Societies and Land Sub Division Scheme Rules 2010. These electricity connections were required to be disconnected but the same was not done.

Non-adherence to authority instructions resulted in irregular installation of electricity connections at illegitimate/un-approved housing societies up to the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that a list of 28 un-approved housing colonies was provided by the Deputy Commissioner Sialkot for disconnection of electricity connections, which was thoroughly checked and only 07 Housing colonies were found properly electrified after observing all departmental formalities (NOC issued by MC/TMA). The remaining colonies were either without electrifications or only temporary connections were given to them for construction purpose only.

The DAC in its meeting held on December 30, 2019 directed the PEPCO to conduct an inquiry for fixing responsibility regarding installation of connections to illegitimate / unapproved housing schemes and provide the inquiry report to Ministry and Audit within a month.

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

(Proposed Draft Para No. 146/2018-19)

CHAPTER-10

HYDERABAD ELECTRIC SUPPLY COMPANY (HESCO)

10. HYDERABAD ELECTRIC SUPPLY COMPANY (HESCO)

10.1 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 in thirteen districts of Sindh Province.

The operational activities are performed through four Operation Circles and Grid System Construction, Project Construction & Grid System Operation Circles.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1	Formations	10	06	12,256.08	6,900.94	22,022.16
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	03	03	US$ 7.49	US$ 7.49	Nil

10.2 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 HESCO, financial statements of the company for the financial year 2018-19 could not be finalized by the management up till December 31, 2019.

10.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.66,341.59 million were raised in this audit. The amount also includes recoverables of Rs.38,844.35 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs in million)
1.	Irregularities		
	A.	HR/Employees related irregularities	33.25
	B.	Procurement related irregularities	4,196.34
	C.	Irregularities pertaining to violation of entity's own rules / regulations	4,056.69
	D.	Irregularities pertaining to violation of Regulatory Laws & Regulations	7,824.96
	E.	Recoveries	38,844.35
2.	Others		11,386.00

Note:- *Further audit observations pertaining to subject company, being identical in nature with that of other DISCOs, have been included in the Chapter of respective Common Issues of this report.*

10.4 AUDIT PARAS

10.4.1 Non-recovery of Subsidies from Government – Rs.22,530.04 million

The subsidy from GoP on sale of electricity represents a difference between electricity tariff determined by NEPRA and tariff notified by the Federal Government. This subsidy was being paid by the GoP to the DISCOs.

In HESCO, an amount of Rs.34,185.62 million was claimed by HESCO on account of Tariff Differential Subsidy, Agriculture Subsidy, Industrial Subsidy and Zero Rated Industry Rebate from Federal and Provincial Governments. An amount of Rs.11,655.58 million was received leaving a balance of Rs.22,530.04 million.

Non-receipt of subsidy increased the receivables of the Company amounting to Rs.22,530.04 million up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that receipt of subsidies was a continuous process which depends upon the policy of Ministry of Energy (Power Division), Credit invoices for financial year 2018-19 amounting to Rs.17,134.588 million had been received against the amount claimed Rs.34,185.62 million.

The DAC in its meeting held on December 27, 2019 directed the management to follow up the matter and get verified the recovery effected within a month.

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

(Proposed Draft Para No. 595 & 596/2019-20)

10.4.2 Less recovery of energy dues from consumers against billing - Rs.15,075.90 million

Increase in revenue can improve fiscal deficit and provide investable funds for the expansion of public utilities. Recovery plays a key role in the financial health of distribution companies. Considering its importance, NEPRA has made this parameter an essential component of DISCO's performance criteria and DISCOs are encouraged to achieve the rate of 100% recovery.

In HESCO, billing of Rs.59,054.80 million was made during the financial year 2018-19 against which recovery of Rs.43,978.90 million (74.5%) was made. Breach of recovery targets (by 25.53%) resulted in less recovery to the tune of Rs.15,075.90 million during the year.

Non-adherence to NEPRA's instructions resulted in less recovery of energy dues from consumers Rs.15,075.90 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that it was routine matter that consumers did not pay full electricity bill and became defaulter. However management had taken all-out efforts to recover dues from defaulters.

The DAC in its meeting held on December 27, 2019 directed the management to ensure recovery from consumers by giving priority to top 100 defaulters amount wise and age wise.

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

(Proposed Draft Para No. 615/2019-20)

10.4.3 Non-clearance of liability of World Bank and ADB loans - Rs.8,109.28 million

As per Economic Affairs Division (Recovery Section) Islamabad letter No. 6-16(3)/DMR-11/2011 dated 23rd January, 2019 the overdue amount up to December 01, 2018 on account of principal, interest and Exchange Risk Fee against foreign loans relent to HESCO was to be deposited to the Government Treasury and paid Challan in original duly verified from the Federal Treasury Office/DAO concerned to be sent to EAD for confirmation and record.

In PMU HESCO, outstanding dues of one World bank & five ADB loans amounting to Rs.8,109.28 million were not deposited in Federal Treasury Office/District Account Office. Despite lapse of a period of more than one year clearance of above liability was not forthcoming from the record. The project management unit was required to look into the matter as the markup on HESCO portion was increasing on day to day basis.

Non-adherence to Economic Affairs Divisions resulted in non-clearance of liability of Rs.8,109.28 million against World Bank and ADB loans during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the outstanding subsidy claims of Rs.48.58 billion were receivable from Federal Government. On receipt of amount of subsidy claims, the outstanding dues would be cleared.

The DAC in its meeting held on December 27, 2019 directed the management to expedite and follow up the matter.

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

(Proposed Draft Para No. 521/2019-20)

10.4.4 Non-recovery of excess payment to NCPPs - Rs.4,177.72 million

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

In HESCO, an amount of Rs.4,177.72 million was paid to six (6) New Captive Power Plants (NCPPs) in excess of rates / tariff determined by NEPRA. However, recovery of the amount was not forthcoming from record.

Non-adherence to rules resulted in non-recovery of excess payment of Rs.4,177.72 million to NCPPs during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in December, 2019. The management replied that the excess payment to NCPPs/SPPs came to Rs.2,916.71 million instead of Rs.4,177.72 million. The excess payment was being recovered in the shape of monthly installment from the invoices of the firms.

The DAC in its meeting held on December 27, 2019 directed the management to submit detailed reply and justification for tariff incorporated in PPA without approval of NEPRA.

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

(Proposed Draft Para No. 977/2019-20)

10.4.5 Loss of revenue due to abnormal line losses on feeders - Rs.4,176.37 million

According to Rule-7(c) of Public Sector Companies Corporate Governance Rules regarding the identification and monitoring of the principal risks and opportunities of the Public Sector Company and ensuring that appropriate systems are in place to manage these risks and opportunities, including, safeguarding the public reputation of the Public Sector Company.

In HESCO, the percentage of line losses on 123 feeders was remained abnormally higher than the targets of losses set by the NEPRA as 22.59%. Hence, 210.67 million units were lost, which caused revenue loss of Rs.4,176.37 million. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	(%) losses	No. of feeders	Units Lost (million)	Amount (Rs.in million)
1.	1st Operation Circle Hyderabad	20/2019-20	40.17% to 71.39%	23	83.11	1745.25
2.	2nd Operation Circle Hyderabad	116/2019-20	41.3% to 85.6%	61	24.08	361.20
3.	Nawabshah Operation Circle	483/2019-20	40% to 97.4%	9	16.35	326.92
4.	CEO HESCO	923/2019-20	71.5% to 100%	30	87.13	1743.00
		TOTAL		**123**	**210.67**	**4,176.37**

Non-adherence to the rules resulted in loss of revenue amounting to Rs.4,176.37 million due to operational mismanagement during the financial year 2018-19.

The matter was taken up with the management during July to November, 2019 and reported to the Ministry during September to December, 2019. The management replied that high losses on feeders were due to lengthy feeders, poor substations, difference in reading cycle, shifting / bifurcation of load and wrong feeder coding. However, efforts were being to reduce the line losses. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit was provided.

The DAC in its meetings held on December 27, 2019 did not accept the stance of the management and directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for line losses beyond NEPRA target. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture 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.

10.4.6 Doubtful capital work-in-progress transferred to SEPCO - Rs.2,683.65 million

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of

2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In HESCO, capital works in progress amounting to Rs.927.521 million were transferred to Sukkur Electric Power Company (SEPCO) in December, 2012 as per supplementary Business Transfer Agreement dated 26 December, 2012 but the same were not yet been acknowledged by SEPCO. Similarly an additional capital works-in-progress amounting to Rs.1,756.132 million were also transferred in 2017-18, the acknowledgement of which was also not confirmed by SEPCO. In the absence of proper acknowledgement by SEPCO, the authenticity of transfer of said works could not be ascertained.

Non-adherence to the rules resulted in doubtful capital work-in-progress amounting to Rs.2,683.65 million up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in December, 2019 but no reply was given by the management.

The DAC in its meeting held on December 27, 2019 directed the management to submit detailed reply.

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

(Proposed Draft Para No. 1052/2019-20)

10.4.7 Excess billing of 73.60 million units on 11 KV Feeders - Rs.1,472.09 million

According to Para-1.3 of Commercial Procedure, the Revenue Officer and Assistant Manager are responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures.

In HESCO, on forty six (46) feeders, 380.35 million units were received during 2018-19, against which, 453.96 million units were billed. The billing of 73.60 million units worth Rs.1472.09 million in excess of the units received was illogical and looks to be an attempt to reduce or conceal the position of losses.

Non-adherence to Commercial Procedure resulted in excess billing of Rs.1472.09 million to the consumers during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that most of feeders pointed out by Audit were Independent Feeders and the difference was due to different dates of readings at Grid Stations and consumers end. As regards general feeders negative losses were due to in-correct feeder coding which was corrected later on.

The DAC in its meeting held on December 27, 2019 directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for line losses beyond NEPRA target. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture within a month.

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

(Proposed Draft Para No. 607/2019-20)

10.4.8 Irregular exercise of powers of write-off sanction - Rs.1,445 million

WAPDA Para 9.1.4 (3) of WAPDA Accounting and Financial Reporting Manual, A debt shall be considered to be uncollectible when it meets one of the following criteria: i). All reasonable collection efforts have been exhausted. ii). The cost of further collection action shall exceed the amount recovered. iii). The debt is legally without merit or cannot be substantiated by evidence. iv). The debtor cannot be located. v). The debt was discharged in bankruptcy. vi). The debt has been compromised, in the best interests of WAPDA. vii). No audit para/litigation or court case is pending against receivables.

In 1st Operation Circle HESCO, a huge amount worth Rs.1,445 million of the arrears of electricity against the various consumers was written off by the competent authority, without any justification. Hence, the company sustained a huge loss due to irregular electricity arrears written off without the approval of competent authority in the financial year 2017-18.

Non-adherence to the rules resulted in huge loss of Rs.1,445 million due to irregular written off electricity arrears without the approval of competent authority during the financial year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in December, 2019. The management replied that the details of audit observation would be reconciled with Audit.

The DAC in its meeting held on December 27, 2019 directed the management to collect the requisite detail from audit and submit detailed reply within a week.

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

(Proposed Draft Para No. 1017/2019-20)

10.4.9 Unjustified booking of units to Government connections - Rs.1,106.54 million

According to Para-1.3 of Commercial Procedure, the Revenue Officer and Assistant Manager are responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures.

In HESCO, it was pointed out by commercial directorate of HESCO that 52.69 million Kwh units worth Rs.1,106.54 million were booked to 3527 connections of Federal & Provincial Governments beyond their sanctioned / connected load which led to excessive booking of units to cover the losses.

Non-adherence to Authority instructions resulted in irregular booking / charging to the government connections amounting to Rs.1,106.54 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in December, 2019 but no reply was given by the management.

The DAC in its meeting held on December 27, 2019 directed the management to submit detailed reply within a week.

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

(Proposed Draft Para No.929/2019-20)

10.4.10 Non-recovery from Captive Power Plants on account of non-payment of GID (Cess) to GoP- Rs.1,060.19 million

According to Section-3(1) of Gas Infrastructure Development Cess Act, 2015, the cess shall be levied and charged by the Federal Government from gas consumers, other than the domestic sector consumers or, or the company at the rates at provided in the second schedule to this Act. The Gas Company shall be responsible for billing of cess to gas consumers, its collection from gas consumer and its onward payment to the Federal Government in the manner as prescribed by the Federal Government.

In HESCO, it was observed an amount of Rs.1,060.19 million was recoverable from two (2) Captive Power Plants on account of non-payment of Gas Infrastructure Development (GID) Cess to the Federal Government.

Non-adherence to Authority's instructions resulted in non-recovery of Rs.1,060.19 million on account of GID up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that an amount of Rs.264.63 million had been recovered while an amount of Rs.1,683.69 million was subjudiced, leaving a recoverable balance of Rs.1419.06 million.

The DAC in its meeting held on December 27, 2019 directed the management to get the recovered amount verified from Audit within a week and follow up the balance amount of recovery.

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

(Proposed Draft Para No.603/2019-20)

10.4.11 Undue generation of revenue through over billing - Rs.878.34 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 HESCO, the percentages of energy losses of 60 feeders were in negative figures during the financial year 2018-19. The negative losses revealed that the units billed were in excess of units received on feeders, which was an indication of overbilling of Rs.878.34 million to the consumers. Audit was of the view that overbilling showed lack of control in the HESCO and reduced the authenticity of their data. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	No. of Feeder	No. of Units (million)	Amount (Rs.in million)
1.	1st Operation Circle Hyderabad	21/2019-20	11	19.16	402.36
2.	2nd Operation Circle, Hyderabad	109/2019-20	42	8.08	169.66
3.	Nawabshah Operation Circle	484/2019-20	7	15.32	306.32
		TOTAL	**60**	**42.56**	**878.34**

Non-adherence to Commercial Procedure resulted in undue generation of revenue of Rs.878.34 million through over billing to consumers during the financial year 2018-19.

The matter was taken up with the management during July, 2019 to September, 2019 and reported to the Ministry during September to October, 2019. The management replied that line losses were due to wrong coding of feeders, shifting / bifurcation of load and difference in billing cycle. The reply was not acceptable as no proper measures were adopted to avoid overbilling.

The DAC in its meetings held during December 27, 2019 directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for negative line losses. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture and provide the record 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 decision besides fixing responsibility.

10.4.12 Non-recovery of receivables from energy defaulters - Rs.766.55 million

According to Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) efficient application of billing and collection procedure".

In HESCO, an amount of Rs.766.55 million was recoverable from running and permanently disconnected (P-Disc.) energy defaulters (Government and private). In this respect, no efforts were made by the management to accelerate the recovery from defaulters. The detail is as under:-

Sr. No.	Name of Formations	Proposed Draft Para No.	Amount (Rs.in million)
1.	1st Operation Circle	17/2019-20	513.07
2.	2nd Operation Circle	97/2019-20	86.12
3.	2nd Operation Circle	110/2019-20	60.11
4.	Nawabshah Operation Circle	508/2019-20	107.25
		TOTAL	**766.55**

Non-adherence to WAPDA Commercial Procedure resulted in non-recovery of Rs.766.55 million from energy defaulters up to the financial year 2018-19.

Audit was of the view that subject matter was a significant issue and major business sustainability risks for the HESCO. It was also a major source for accumulation of circular debt in the Power Sector.

The matter was taken up with the management during July to September, 2019 and reported to the Ministry during September to December, 2019. The management replied that in some cases amount had been recovered and efforts were being made to recover the remaining amount.

The DAC in its meetings held on December 27, 2019 at Lahore, directed the management to produce the recovery record to Audit within a week and expedite recovery from remaining consumers by giving priority to top 100 defaulters as per the aging / significance of outstanding dues. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision besides fixing responsibility for inordinate delay in clearance of arrears.

10.4.13 Irregular reconnections without recovering outstanding arrear - Rs.565.34 million

According to Para-8.3 (a) of Consumer Service manual, "A disconnected premises shall only be reconnected after recovery of all outstanding energy consumption charges and minimum/fixed charges and reconnection fee applicable.

In HESCO, reconnection orders (RCO) of 5181 disconnected connections with arrear amounting to Rs.568.81 million were issued. An amount of Rs.3.47 million was recovered from 354 consumers which showed that 4827 disconnected consumers were reconnected without recovery of outstanding dues of Rs.565.34 million in violation of RCO Policy, which needed justification.

Non-adherence to RCO Policy resulted in reconnection of disconnected consumers without recovering outstanding arrears amounting to Rs.565.34 million during financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that there was difference in figures taken by Audit. The reconnections were made as per Policy and arrears were being recovered in installments, efforts were being made to recover outstanding dues from defaulters.

The DAC in its meeting held on December 27, 2019 directed the management to reconcile amounts and get the completed actions verified from Audit and expedite the balance recovery.

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

(Proposed Draft Para No. 613/2019-20)

10.4.14 Non-debiting to / recovery of energy units from consumers - Rs.471.86 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 HESCO, an amount of Rs.484.23 million was agreed to be debited / recovered from consumers regarding irregularities in billing pointed out by Internal Audit for the year 2014-15 in respect of Laar Operation Circle Hyderabad. However, only an amount of Rs.132.33 million was debited. Out of which only Rs.12.38 million was recovered. Moreover, agreed audit notes worth Rs.351.09 were not debited to the consumers despite lapse of a period of about four (4) years. This resulted in non-recovery of Rs.471.86 million from the consumers.

Non-adherence to the rules resulted in non-debiting to / recovery of Rs.471.86 million on account of energy units from consumers up to financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the matter was inquired by an inquiry committee. As per inquiry report the actual amount was Rs.122.93 million instead of Rs.471.86 million. The committee recommended disciplinary action against four (04) Revenue Officers for non-debiting of Audit Notes. The disciplinary proceedings were under process.

The DAC in its meeting held on December 27, 2019 directed the management to reconcile the difference of amount with Audit and expedite debiting/recovery of amount of Audit Notes and provide evidence of finalization of disciplinary action within one month.

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

(Proposed Draft Para No. 594/2019-20)

10.4.15 Huge detection units charged to the consumers – Rs.399.60 million

According to instructions issued by the Managing Director PEPCO vide letter dated December 01, 2019, "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 HESCO, detection of units of Rs.399.60 million were charged to the consumers in February, 2019. The large quantum of detections was more than 10% of total billing, hence, the Ministry withheld Tariff Differential Subsidy (TDS) claims. Charging of huge detection was made to conceal the actual line losses and theft of energy. The realization against the detection charged was very poor.

Non-adherence to procedure resulted in huge detection units charged against the consumers amounting to Rs.399.60 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the detections were being charged against the stealers of electricity. However, the matter had been sent to Manager (S&I) HESCO for investigation.

The DAC in its meeting held on December 27, 2019 directed the management to provide detailed justification and expedite investigation report within 30 days.

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

(Proposed Draft Para No. 738/2019-20)

10.4.16 Non–utilization of electrical material /equipment procured under ADB Loan - Rs.397.71 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 HESCO, electrical material / equipment valuing Rs.397.71 million procured under ADB loan was lying in Store un-issued. Neither the material was allocated nor utilized at the projects resulting in avoidable interest charges on the amount without reaping any benefits.

Non-adherence to Authority's instructions resulted in non-utilization of electrical material/equipment valuing Rs.397.71 million up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that after completing all the projects given in the PC-1 of foreign funding loan, some balance was available in the loan. To utilize this saving, a plan for constructions of three (03) 132 KV Grid Stations was made for which material was to be procured through ADB financing and civil work was to be completed through HESCO own sources. ADB had given no objection for utilization of savings of loan as intimated by Ministry through PEPCO. Accordingly tender was floated and material was procured, which was lying in HESCO store. The land acquisition of these Grid Stations was under process, so material would be utilized when physical activities would be started.

The DAC in its meeting held on December 27, 2019 directed the management to produce the revised reply alongwith justification.

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

(Proposed Draft Para No.485/2019-20)

10.4.17 Non-completion of installation of AMR meters project – Rs.302.56 million

As per Clause-7 of Work Order dated March 2, 2017, the project of design, supply, installation and commissioning of Advanced Metering Infrastructure including Meter Data Collection (MDC) server (Software & Hardware), End user reporting/billing interface, AMI meters with communication services, computer hardware data center establishment and data connectivity on Government of Sindh (GoS) connections in HESCO was to be completed within 36 weeks of the date of signing of contract which was further extended up to March 31, 2018.

In HESCO, a purchase order worth Rs.302.56 million was placed on M/s Accurate (Pvt.) Ltd. for design, supply, installation and commissioning of meters i.e. Automatic Meter Reading (AMR) on electricity connections of GoS on March 2, 2017. The completion period of project was 36 weeks from date of singing of contract i.e. up to November, 2017 which was further extended up to March, 2018. The payment of Rs.265.59 million was paid to the contractor but the project was not completed even after lapse of a period of more than one year.

Non-adherence to Authority's instructions resulted in non-completion of installation AMR meters on GoS connections up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that 11,616 AMR meters had been installed and 338 meters were yet to be installed.

The DAC in its meeting held on December 27, 2019 directed the management to provide detailed justification alongwith reconciliation in the revised reply within fifteen (15) days.

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

(Proposed Draft Para No. 734/2019-20)

10.4.18 Irregular booking of transaction between HESCO and WAPDA formation through S.S Cheques – Rs.194.09 million

As per Director General Finance (B&C) letter No. DGF (B&C)/Conold/26.57-91 dated June 30, 2009 from July 01, 2009, all transactions among WAPDA formations and corporatized entities through Super Scribed Cheques or debit/credit notes shall be discontinued.

In HESCO, various transactions amounting to Rs.194.09 million between HESCO and WAPDA formations were being conducted through Super Scribed Cheques up to January, 2017 despite its discontinuation w.e.f. July 01, 2009, which was irregular. The payment of electricity bills of WAPDA formations was required to be made through Bank Cheques instead of S.S Cheques. As a result of booking of transactions through S.S Cheques an amount of Rs.194.09 million was outstanding as receivable from WAPDA formations.

Non-adherence to D.G. Finance instructions resulted in irregular booking of transactions between HESCO and WAPDA formations through S.S. Cheques amounting to Rs.194.09 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that all transactions amongst WAPDA formations and corporatized entities through S.S cheques had already been discontinued.

The DAC in its meeting held on December 27, 2019 directed the management to provide revised reply and get the stance verified from Audit.

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

(Proposed Draft Para No. 739/2019-20)

10.4.19 Energy losses on independent feeders beyond permissible limit - Rs.118.43 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 for HT feeders was 3% for rural / urban areas.

In HESCO, the percentage of energy losses of 23 independent feeders remained in excess of the permissible limit of 3%, which entailed energy loss of 5.92 million units worth Rs.118.43 million. The losses above the permissible limit ranging from 4% to 77.9% were either due to illegal extension of load or the conductor was incapacitated to withstand the running load.

Non-adherence to Distribution Rehabilitation Guidelines resulted in energy losses of Rs.118.43 million on independent feeders beyond permissible limit during the financial year 2018-19. The same was required to be recovered from the consumers.

Audit was of the view that high-end losses on independent feeders show operation inefficiencies of the respective management. Not only were high loss sustained, but also recovery also not affected.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the line losses were due to wrong coding of feeders, difference in billing cycle, off size conductor, alternate source and shifting of load. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit on independent feeders was provided.

The DAC in its meetings held on December 27, 2019 at Lahore, directed the management to carry out feeder wise analysis of all the feeders pointed out in the para and justify the line losses beyond permissible limit with CP-22-A, B, C, D & E. DAC further directed to provide the record of completed actions to Audit for verification within a month. Further progress was not reported till finalization of the report.

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

(Proposed Draft Para No. 608/2019-20)

10.4.20 Non-disbursement of retention money from ADB loan - Rs.78.00 million

As per time line the ADB Loan-2727 was closed on 30th June 2018, but the pending payment could be made by HESCO/ADB in the winding up period i.e. January 31, 2019 subject to the completion of the project.

In PMU HESCO, a contract was signed with M/S LSN & SEAN (consortium), Korea on April 10, 2014 for construction of 132 KV transmission line under ADB financing. Ten (10%) amount was retained from the contractor's invoices which was to be released after completion of work. The work could not be completed up to closing of the loan and disbursement could not be made from ADB uptill the winding period of January 31, 2019. The contractor submitted a request on January 11, 2019 for release of retention money amounting to Rs.78.00 million and furnished a bank guarantee thereof. The matter regarding release of retention money could not be decided by the HESCO management till expiry of the winding up period. As the amount of retention could not be paid out of the proceeds of respective ADB loan, resultantly the same would have to be paid through HESCO's own resources, thereby shouldering undue liability of the work pertaining to SEPCO.

Non-adherence to ADB loan agreement resulted in non-disbursement of respective retention money out of the proceeds of ADB financing within the loan closing period.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that no bank guarantee in lieu of retention money was available and retention money had not been released to contractor. Whereas the work had not yet been completed. The reply was not tenable as Audit contended had the works of the respective transmission lines been completed within the stipulated period, the disbursement of retention money would have been made timely from the ADB financing. Whereas after closure of loan the same would be disbursed from the own resources of the executing agency.

The DAC in its meeting held on December 27, 2019 directed the management to produce the revised reply along with justification for delay in completion of project.

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

(Proposed Draft Para No. 569/2019-20)

10.4.21 Non-completion of Transmission Line work within stipulated period resulting in execution of work from own resources - Rs.73.48 million

In the light of ADB directive the payment of material supplied and work done by Contractor up to June 30, 02018 was to be paid from ADB loan -2727. Whereas the ADB extended the payment period from October 31, 2018 to January 31, 2019 for such activities completed up to June 30, 2018. Further as per ADB directive the cost of the remaining work to be carried out after June 30, 2018 will be borne by respective DISCO.

In PMU HESCO, a contract was made on April 10, 2014 for construction of two 132 KV transmission lines under the jurisdiction area of SEPCO through ADB financing. The scheduled date of completion of the projects were January 29, 2016 & January 22, 2016, however, the works could not be completed till closure of the Loan on 30th June 2018 .The amount required for arrangement of material and work activities for completion of the remaining project was

Rs.73.48 million. Had the said work been got completed from the ADB loan within stipulated period through implying prudent project management, liability of execution of the remaining works at the stated cost from SEPCOs own sources would have been avoided .

Non-completion of transmission line work within stipulated period resulted in undertaking of work from SEPCO's own resources worth Rs.73.48 million.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that since, the Right of Way issues at many locations could not be resolved by the SEPCO, hence the project could not be completed. As the work was being executed by the SEPCO and was committed to complete the work within 2019. The reply was not tenable as Audit contended that as per minutes of the Procurement Committee meeting held on March 14, 2019, the abnormal delay and losses were to be investigated through third party other than HESCO/SEPCO for fixing responsibility but further progress in the matter was not made known to Audit.

The DAC in its meeting held on December 27, 2019 directed the management to submit the revised reply, intimating regarding investigation by the third party for fixing responsibility for non-completion of the transmission line work and refer the para to SEPCO for responding also in the matter.

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

(Proposed Draft Para No.520/2019-20)

10.4.22 Loss due to irregular expenditure in excess of estimate – Rs.51.13 million

According to Managing Director (Distribution) WAPDA letter dated May 18, 1995 addressing "variation in preparation of estimates" it was clarified that variation up to 10% in the cost estimates is neither to be refunded nor to be recovered if it is attributable to appreciation/depreciation of cost of material involved".

In Construction Circle HESCO, thirty nine (39) deposit and development works relating to electrification of villages, bifurcation of feeders & maintenance etc. having estimated value of Rs.64.03 million, were completed with an expenditure of Rs.115.16 million during the financial year 2018-19. The variance was more than 10% limit, hence, the excess expenditure of Rs.51.13 million was irregular. The same was required either to be recovered from the beneficiaries which was not done causing loss to the authority to the stated extent.

Non-adherence to Authority instruction resulted in loss due to irregular expenditure Rs.51.13 million in excess of estimate during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that the details of audit observation would be reconciled with Audit.

The DAC in its meeting held on December 27, 2019 directed the management to collect the requisite detail from audit and submit revised reply.

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

(Proposed Draft Para No. 340/2019-20)

10.4.23 Irregular sanction of connections without NOC from FBR - Rs.49.38 million

According to section 181 AA of Income Tax Ordinance 2001, any commercial or industrial connection shall not be provided unless the person applying for electricity or gas connection is registered under section 181. NEPRA also directed on April 25, 2018 to obtain NOC from FBR regarding cited matter.

In HESCO, thirty five (35) industrial and commercial connections by recovering the service cost of Rs.49.38 million were sanctioned without NOC from FBR. Hence, sanction of the said connections was irregular. The detail is as under:-

Sr. No.	Formation	Proposed Draft Para No.	No. of Connections	Amount (Rs.in million)
1.	1st Operation Circle Hyderabad	18/2019-20	11	36.84
2.	2nd Operation Circle Hyderabad	113/2019-20	15	5.56
3.	Nawabshah Operation Circle	510/2019-20	09	6.98
		TOTAL	**35**	**49.38**

Non-adherence to Income tax ordinance and NPERA's instructions resulted in irregular sanction of connections amounting to Rs.49.38 million without NOC from FBR during the financial year 2018-19.

The matter was taken up with the management during July to September, 2019 and reported to the Ministry during September to October, 2019. The management replied that in some cases NOC from FBR was obtained while in remaining cases either the NOC was not attached or not required being extension of load involved. Audit contended that the NOC of FBR was required in new connections as well as in extension of load cases.

The DAC in its meeting held on December 27, 2019 directed the management to get the record of completed actions verified from Audit within a week and expedite the pending actions as per SoPs. Further progress was not reported till finalization of the report.

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

10.4.24 Loss due to reversal of debited amount – Rs.43.88 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".

In HESCO, debit invoices of Rs.43.88 million on account of employee related free electricity facility were issued to TPS Jamshoro (GENCO-I) during the period October, 2017 to January, 2019. However, the same were not accepted and returned by GENCO-I. Consequently, an investigation was initiated in May, 2019 but could not be concluded to arrive at the causes of loss sustained by HESCO.

Non-adherence to the rules resulted in loss of Rs.43.88 million due to reversal of debited amount during up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the matter regarding reversal of dues relating to GENCO-I, Jamshoro had been sent to the Director (S&I) HESCO for investigation. The investigation report would be submitted to Audit.

The DAC in its meeting held on December 27, 2019 directed the management to submit the revised reply alongwith investigation report and get it verified from Audit.

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

(Proposed Draft Para No. 693/2019-20)

10.4.25 Unjustified charging of excess installation charges – Rs.26.72 million

According to the instructions issued by G.M. (Operation) dated July 01, 2002," installation charges were restricted to 20% instead of 26 % (12% for storage and handling along with 8% charges for labour, overhead etc.)

In Construction Circle HESCO, forty nine (49) private and government deposit works valuing Rs.165.91 million were completed during financial year 2018-19. Installation charges ranging from 21% to 72% were booked to these works instead of keeping them restricted to 20%. Hence, installation charges of Rs.26.72 million were charged excessively against the policy in vogue.

Non-adherence to instructions issued by G.M. (Operation) resulted in excess installation charges of Rs.26.72 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in December, 2019. The management replied that the details of audit observation would be reconciled with Audit.

The DAC in its meeting held on December 27, 2019 directed the management to collect the requisite detail from audit and submit revised reply.

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

(Proposed Draft Para No. 926/2019-20)

10.4.26 Loss due to non-recovery from contractor – Rs.18.62 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".

In Construction Circle HESCO, an amount of Rs.18.62 million was outstanding against different contractors on account of material issued for completion of works or balance material of works completed. As such the company had to sustain loss to the stated extent due to non-recovery of material or cost thereof from the contractor.

Non-adherence to the rules resulted in non-recovery of Rs.18.62 million from the contractor during the financial year 2018-19.

The matter was taken up with the management in September 2019 and reported to the Ministry in October, 2019. The management replied that the details of audit observation would be reconciled with Audit.

The DAC in its meeting held on December 27, 2019 directed the management to collect the requisite detail from audit and submit revised reply.

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

(Proposed Draft Para No. 360/2019-20)

10.4.27 Loss of revenue due to incorrect billing to consumers - Rs.15.98 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 HESCO, it was observed that billing of sixteen (16) consumers with wrong multiplying factor caused less charging of 887,766 units. Non-application of correct multiplying factor resulted in a loss of revenue amounting to Rs.15.98 million.

Non-adherence to Authority's instructions resulted in less billing of Rs.15.98 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that for further verification of removed meters, matter had been referred to SDO Matiary and Regional Manager M&T for the status of removed meters and position would be communicated accordingly.

The DAC in its meeting held on December 27, 2019 directed the management to expedite the inquiry and effect recovery of difference of amount and submit updated reply to Audit within 15 days.

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

(Proposed Draft Para No.605/2019-20)

10.4.28 Loss due to un-authentic provision on account of free electricity - Rs.14.98 million

According to note to Clause-4.7 of WAPDA Commercial Procedure, free electricity supply information with RO/CSO and computer centre will be revalidated every year in July by obtaining fresh applications. As per note to Clause-4.8, it would be the responsibility of the concerned Drawings & Disbursing Officer to ensure that the facility of free electricity is availed by the bonafide WAPDA employee.

In HESCO, free electricity amounting to Rs.14.98 million was supplied to the employees of different formations of WAPDA / PEPCO and debit advices were issued accordingly. These debit advices were not accepted by the concerned formations and were reversed with the remarks that they were not the employees of the concerned companies / formations. No action was taken for removal of free electricity account of the employees who were disowned by the companies.

Non-adherence to Authority's instructions resulted in loss of Rs.14.98 million due to non-acceptance of debit advices on account of free electricity during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that concerned Revenue Officers had been directed to reverse the free electricity concession to general consumer account due to non-acceptance of free electricity of employees by the concerned formations.

The DAC in its meeting held on December 27, 2019 directed the management to inquire the matter to find out the reasons for non-acceptance of debit advices of free electricity by other companies besides mentioning the last acceptance of debit advice within a month and get the position verified from Audit.

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

(Proposed Draft Para No. 732/2019-20)

10.4.29 Irregular grant of extension for retention of lien by BoD - Rs.7.87 million

FR-9(3) explained a lien as title of a government servant to hold a permanent post in a substantive capacity. Further, FR-12 to 15 of WAPDA Service Rules states that a government servant holding a permanent post substantively retain a lien on the post (I) while performing the duties of the post (II) while on foreign service or holding a temporary post, or officiating in another post (IV) while under termination. Moreover, Rule-6(4) states that a confirmed civil servant who, on his own accord, join some other service, post or cadre on regular basis, the right of reversion to previous post against which he shall hold lien only during the period of his probation on his new service post or cadre.

In HESCO, entitlement for retention of inter organization lien for the period March 15, 2018 onwards against the post of Deputy Manager (Tariff) was granted by management on January 31, 2019 as the officer was appointed as CFO on contract basis on March 08, 2018 with the approval of BoD on lump sum monthly package of Rs.500,000/-. Earlier the officer was on contract employment with Liaqat University of Medical and Health Sciences (LUMHS) Jamshoro as Director Finance, from February 19, 2015 to March 14, 2018 i.e. till contract appointment as CFO in HESCO. During whole period of contract (LUMHS & HESCO) entitlement of retention of lien against substantive post of Dy. Manager (Tariff) HESCO of said officer was kept intact by the management. The action of the management was against the provisions of Fundamental Rules as neither the officer was confirmed against substantive post of Deputy Manager (Tariff) against which entitlement of lien was approved nor CFO was temporary/officiating.

Non-adherence to Fundamental Rules resulted in unjustified payment of Rs.7.87 million due to irregular grant of extension of lien by BoD during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in December, 2019. The management replied that the officer was offered regular and permanent position of Deputy Manager Tariff (BPS 18) considering her required educational qualification. The officer was appointed as Chief Financial officer, HESCO on contract by the Board of Directors HESCO, through competitive process as per Corporate Governance Rules 2013 and was allowed lien w.e.f March 15, 2018 by the competent authority against her original regular and permanent post of Deputy Manager (Tariff) BPS-18. It was reiterated that lien rules had been complied with against the post of Deputy Manager (Tariff) BPS-18 as she was a regular employee of the company.

The DAC in its meeting held on December 27, 2019 directed the management to conduct an inquiry at PEPCO level within 30 days and share it with Audit.

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

(Proposed Draft Para No. 927/2019-20)

10.4.30 Non-recovery of misappropriated material issued on temporary basis for de-watering purpose - Rs.5.36 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".

In HESCO, it was noticed that electrical material valuing Rs.48.37 million was issued for de-watering purpose in 2011-12 but material worth Rs.5.36 million was not returned back to store even after lapse of a period of more than seven years. The matter was inquired through an inquiry committee. Strict disciplinary action as per rules against eighteen (18) officials was proposed besides recovery of Rs.5.36 million. However, recovery of the amount and disciplinary actions against concerned officials were not forthcoming from the record.

Non-adherence to the rules resulted in non-recovery of Rs.5.356 million up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that inquiry committee recommended that an amount of Rs.5.36 million was to be recovered from the 18 Line Superintendents by taking disciplinary action against them. The disciplinary action was under process.

The DAC in its meeting held on December 27, 2019 directed the management to expedite recovery from concerned officials and get it verified from Audit within 30 days.

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

(Proposed Draft Para No. 611/2019-20)

10.4.31 Irregular payment against fake cases of house acquisition - Rs.5.04 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”.

In HESCO, eight (08) officials were found guilty of availing bogus house acquisition from HESCO in an initial inquiry. These officials availed the house acquisition facility worth Rs.5.04 million for years together. Another inquiry committee under the convenership of Manager (S&I) HESCO was constituted on July 27, 2018. The outcome of the inquiry committee was not forthcoming from the record.

Non-adherence to the rules resulted in irregular payment of Rs.5.04 million against the fake cases of house acquisition up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that an inquiry under the convenership of Manager (S&I) HESCO was conducted which was closed on technical grounds with the approval of CEO HESCO and directed for re-verification of house acquisition cases by Manager (S&I) HESCO but the re-verification report was awaited.

The DAC in its meeting held on December 27, 2019 directed the management to conduct 2nd inquiry through other independent source and finalize it within 15 days and get it verified from Audit.

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

(Proposed Draft Para No. 731/2019-20)

10.4.32 Loss due to excess / double drawl of electrical material - Rs.4.43 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”.

In Construction Circle HESCO, electrical material valuing Rs.4.43 million was excess / double drawn from the Regional Store against two (02) works. However, neither the material was returned nor any administrative / disciplinary action against the concerned officers/officials was taken.

Non-adherence to the rules resulted in loss due to excess/double drawn of material valuing Rs.4.43 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that the details of audit observation would be reconciled with Audit.

The DAC in its meeting held on December 27, 2019 directed the management to collect the requisite detail from audit and submit revised reply.

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

(Proposed Draft Para No. 362/2019-20)

10.4.33 Installation of AMR meters on P/Disc connections - Rs.3.71 million

A Purchase Order No.17759-89/03/AMR/HESCO dated 02.03.2017 was placed upon M/s Accurate (Pvt) Ltd for design, supply, installation and commissioning of Advanced Metering Infrastructure including Meter Data Collection (MDC) server (Software & Hardware), End user reporting/billing interface, AMI meters with communication services, computer hardware data center establishment and data connectivity on Government of Sindh (GoS) Connections in HESCO.

In HESCO, as per contract M/s Accurate was required to install AMR meters on connections of Government of Sindh. It was observed that 439 AMR meters costing Rs.3.71 million were installed on permanently disconnected (P-Disc) connections by M/s Accurate without observing prescribed procedures. The installation of these meters on permanently disconnected connections depicted that fictitious progress was shown by the contractor just to claim bill.

Non-adherence to Authority's instructions resulted in installation of AMR meters costing Rs.3.71 million on P-Disc connection during financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that billing was started on AMR project in May, 2019 based on consumption of April 01, 2019 to April 30, 2019. The contractor was provided list of all GoS connections including P.Disc due to which AMR meters were installed on some P. Disc connections by the contactor. After identification the AMR meters were removed from P.Disc connections.

The DAC in its meeting held on December 27, 2019 directed the management to get the record verified from Audit within 15 days.

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

(Proposed Draft Para No. 616/2019-20)

10.4.34 Irregular billing against permanently disconnected connections – Rs.2.51 million

According to Para-1.3 of Commercial Procedures, "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 HESCO, 0.182 energy units valuing Rs.2.51 million were debited to 203 disconnected consumers during the months of February, 2019 & May, 2019. An amount of Rs.34,815 only was recovered against such billing. As per rules consumers once disconnected owing to outstanding dues should not be reconnected or billed without clearance of defaulting amount. Booking of units in such a way was irregular and unjustified.

Non-adherence to Commercial procedures rules resulted in irregular billing against permanently disconnected connections amounting to Rs.2.51 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that |units were not charged to already P-Disc connections but in fact while feeding ERO / P-Disc in computer, final reading of removed meter was charged. The computer showed units against P-Disc connections.

The DAC in its meeting held on December 27, 2019 directed the management to conduct an inquiry within fifteen (15) days and take action against the responsible.

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

(Proposed Draft Para No. 612/2019-20)

10.4.35 Loss due to less recovery of Sales Tax - Rs.1.94 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 shall at the time of making the payment deduct tax from the gross amount payables including sales tax if any at the rate specified.

In HESCO, an amount of Rs.1.94 million was less deducted from contractors/suppliers on account of sales tax. Due to less deduction of taxes the Company suffered input loss on account of less recovery of sales tax.

Non-adherence to Authority's instructions resulted in loss of Rs.1.94 million due to less recovery of sales tax up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the details of audit observation would be reconciled with Audit.

The DAC in its meeting held on December 27, 2019 directed the management to collect the requisite detail from audit and expedite the desired action.

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

(Proposed Draft Para No. 617/2019-20)

10.4.36 Loss due to illegitimate refund to consumers - Rs.1.76 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".

In HESCO, illegitimate refund of an amount of Rs.1.76 million was required through an inquiry committee. Recovery of the amount and disciplinary action as recommended by the inquiry committee against concerned officers/officials were not forthcoming from record.

Non-adherence to the rules resulted in loss of Rs.1.76 million due to illegitimate refund to the consumers up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the disciplinary actions under E&D Rules against the officer / officials involved were under process.

The DAC in its meeting held on December 27, 2019 directed the management to share the inquiry report with Audit and expedite actions as per recommendations of inquiry committee within 15 days.

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

(Proposed Draft Para No.602/2019-20)

10.4.37 Undue favor to the consumers due to non-provision of independent transformers - Rs.1.50 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 2nd Operation Circle HESCO, ten (10) consumers were sanctioned with loads from 5 KW to 10 KW and the electricity was supplied from general public transformers to avoid the cost of independent transformers of Rs.1.50 million. Afterward the consumers built the shopping plazas, shops and got the supply of electricity from the existing connections. Moreover loads were also extended without authorization which was undue favour to the said consumers.

Non-adherence to the rules resulted in undue favour to the consumers due to non-provision of independent transformers worth Rs.1.50 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in September, 2019. The management replied that only one consumer was running under tariff B-1 for which separate transformer had been sanctioned whereas, other consumers were domestic and were using load within 10 KW for which separate transformers were not mandatory.

The DAC in its meeting held on December 27, 2019 directed the management to get the record verified from Audit within 15 days.

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

(Proposed Draft Para No. 80/2019-20)

10.4.38 Illegitimate installation of transformers in private housing colony acquisition – Rs.1.05 million

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

In HESCO, two (02) distribution transformers worth Rs.1.05 million were illegally augmented and installed in two private housing colonies without recovering the cost as pointed out in the inquiry reports. Neither disciplinary action was taken nor recovery of the cost of transformers was forthcoming from the record.

Non-adherence to rules resulted in illegitimate installation of transformers in private housing colony amounting to Rs.1.05 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the inquiry was under process. The findings & conclusion of inquiry report would be intimated on its finalization.

The DAC in its meeting held on December 27, 2019 directed the management to share inquiry report with Audit and complete remaining actions within 30 days.

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

(Proposed Draft Para No. 740/2019-20)

10.4.39 In-accurate billing without meters at site

According to Para-1.3 of Commercial Procedures, "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 HESCO, 147,624 active consumers were mentioned as "No meter at site through Code 9" which indicated that estimated billing was being charged to the consumers. It also transpired that either meters against these connections were misappropriated or capital cost of these connections was not recovered before allotting reference number. Billing to consumers in such a manner was unjustified and warranted action against the officials concerned.

Non-adherence to Commercial Procedures resulted in in-accurate billing to the consumers without showing meter at site during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the Code-9 was part of Mobile Meter Reading procedure and it was inserted where pictures were not available or clear. However, the matter had been sent to Surveillance & Investigation (S&I) Department to probe into the matter.

The DAC in its meeting held on December 27, 2019 directed the management to conduct detailed inquiry at PEPCO level with aging analysis, categorization of consumers, recovery status and produce the inquiry report within one month.

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

(Proposed Draft Para No. 686/2019-20)

10.4.40 Non-rectification of irregularities in billing discrepancies/exceptions

According to Para-1.3 of Commercial Procedure, the Revenue Officer and Assistant Manager are responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures.

In HESCO, billing exception report (CP-87A) depicted 303,856 irregularities i). missing of multiplying factor, ii) present reading less than previous, iii). Defective code missing, iv). Reading supplied without reconnection, v). present and previous meter reading same etc. was generated by MIS. Aging of the irregularities ranged from 3 months to above one year, which indicated that appropriate attention was not being given to rectify the highlighted irregularities. These irregularities/discrepancies in billing were required to be rectified by the management to improve the quality of service provided to the consumers.

Non-adherence to Commercial Procedures resulted in non-rectification of discrepancies during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the CP-87(A) was being regularly received from MIS and sent to field offices for rectification.

The DAC in its meeting held on December 27, 2019 directed the management to submit the revised reply and get it verified from Audit.

Audit recommends that the management needs to ensure rectification of discrepancies pointed out in the report (CP-87A) and implement DAC's decision.

(Proposed Draft Para No. 692/2019-20)

10.4.41 Illegitimate appointments without open advertisement

As per Para No 7 & 8 of Pakistan WAPDA Accounts Services Rules 1966 'Vacancies of cadre post, when required to be filled by initial recruitment shall normally be advertised in the manner prescribed by the authority from time to time.

In HESCO, in house advertisement was resorted to avoid open competition for appointment of Deputy Manager (Tariff) and Deputy Manager (Taxation & Banking) in BPS-18. Accordingly two officials were appointed against the said posts. Later on, an inquiry was also initiated in July, 2016 but the same was not finalized up to June, 2019 despite lapse of more than three years.

Violation of basic human rights protected under the Constitution of Pakistan resulted in illegitimate appointments without open advertisement up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in December, 2019. The management replied that the appointments were made with the approval of BoD HESCO. Audit contended that appointments by avoiding open advertisement made the recruitment process non-transparent.

The DAC in its meeting held on December 27, 2019 directed the management to conduct inquiry at PEPCO level within 30 days and share it with Audit.

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

(Proposed Draft Para No.928/2019-20)

CHAPTER-11

ISLAMABAD ELECTRIC SUPPLY COMPANY (IESCO)

11. ISLAMABAD ELECTRIC SUPPLY COMPANY (IESCO)

11.1 Introduction

Islamabad Electric Supply Company (IESCO) is a subsidiary of PEPCO. The Company started its operations as a Public Limited Company during May, 1998 registered under Companies Ordinance, 1984. 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-G through NTDC system and sells it to various consumers within Attock, Chakwal, Islamabad, Jhelum and Rawalpindi Districts.

The operational activities are performed through five Operation Circles, Grid System Construction, Project Construction and Grid System Operation Circles. The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	11	07	17,611.23	17,511.91	57,283.00
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities/ Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	04	04	US$ 12.20	US$ 12.20	Nil

11.2 Comments on Financial Statements

11.2.1 Financial Overview

As per the audited Financial Statements for the year 2018-19 the Company remained in loss at the year ended dated 30th June, 2019. However, the loss decreased from Rs.27,338.98 million in the financial year 2017-18 to Rs.7,593.37 million in the financial year 2018-19 registering 72.23% decrease. Moreover, the net electricity sale increased from Rs.107,378.12 million in the financial year 2017-18 to Rs.145,891.67 million in the financial year 2018-19 registering 35.87% increase.

11.2.2 Extracts of the Financial Statements
Statement of Financial Position as on June 30, 2019

(Rs. in million)

	2018-19	% Inc/Dec	2017-18	% Inc/Dec	2016-17
Assets					
Non-current assets					
Property, Plant and Equipment	99,792.71	6.20	93,971.13	4.43	89,988.93
Intangible asset under development	43.68	0	43.68	100	0
Long term loans	122.06	36.93	89.14	48.89	59.87
	99,958.45	**6.22**	**94,103.95**	**4.50**	**90,048.80**
Stores, spares and loose tools	1,156.74	20.76	957.87	43.97	665.32
Trade debts	96,970.19	15.31	84,097.89	27.88	65,761.11
Advances	334.03	(6.71)	358.07	52.91	234.13
Interest accrued on bank deposits	8.61	32.87	6.48	620.00	0.90
Receivable from Govt. of Pakistan	6,328.11	7.99	5,859.70	(60.43)	14,806.78
Security deposits	73.74	0	73.74	64.67	44.78
Other receivables	3,386.31	48.29	2,283.64	(54.61)	5,031.33
Recoverable from tax authorities	22,632.63	12.40	20,136.65	35.48	14,863.42
Receivable from TIBL	30.79	0	30.79	0	30.79
Cash and bank balances	3,332.89	72.62	1,930.78	(17.61)	2,343.60
	134,254.05	**16.00**	**115,735.61**	**11.53**	**103,772.16**
Non-current assets held for sale	65.89	0	65.89	0	65.89
	134,319.94	15.99	115,801.50	11.52	103,838.05
TOTAL ASSETS	**234,278.39**	11.61	**209,905.45**	**8.26**	**193,886.85**
Share capital and reserves					
Authorized share capital 5,000,000,000 (2018: 5,000,000,000) Ordinary shares of Rupees 10 each	50,000	0.00	50,000	0.00	50,000
Issued, subscribed and paid-up capital	5,798.25	0.00	5,798.25	0.00	5,798.25
Revenue reserved-accumulated loss	(47,616.17)	11.64	(42,652.65)	119.84	(19,401.61)
Capital reserves					
Deposits for the issuance of shares	20,250.77	(1.10)	20,030.17	(0.41)	20,112.51
Surplus on revaluation of operating fixed assets-net	30,534.96	(3.78)	31,736.02	(3.64)	32,936.54
	50,785.73	(1.89)	51,766.19	(2.40)	53,049.05
Total equity	**8,967.81**	**(39.86)**	**14,911.79**	**(62.20)**	**39,445.69**
Long term loans	7,053.03	11.06	6,350.64	10.50	5,746.97
Long terms security deposits	6,045.08	8.56	5,568.09	10.74	5,028.20
Staff retirement benefits	41,187.41	3.14	39,932.57	(0.20)	40,011.24
Deferred taxation-net	-	-	-	-	-
Deferred credits	26,997.54	7.31	25,158.74	5.29	23,893.67

	81,283.06	**5.55**	**77,010.04**	**3.12**	**74,680.08**
Current liabilities					
Trade and other payables	138,137.05	32.17	104,511.05	52.45	68,552.20
Accrued mark-up	4,332.90	(53.36)	9,289.69	20.40	7,715.56
Current portion of long term loans	1,557.57	(62.76)	4,182.88	19.74	3,493.32
	144,027.52	22.07	117,983.62	47.92	79,761.08
TOTAL LIABILITIES	225,310.58	15.55	194,993.66	26.26	154,441.16
CONTINGENCIES AND COMMITMENTS	-	-	-	-	-
TOTAL EQUITY AND LIABILITIES	**234,278.39**	**11.61**	**209,905.45**	**8.26**	**193,886.85**

(Source: Audited Financial Statement of IESCO Financial Year 2018-19 – Riaz Ahmad & Co., Chartered Accountant)

Statement of Profit & Loss Account
For the year ended June 30, 2019

(Rs.in million)

	2018-19	% Inc / Dec	2017-18	% Inc / Dec	2016-17
Electricity sale-net	128,926.73	34.02	96,197.25	23.08	78,161.00
Subsidy from Govt. of Pakistan	16,964.94	51.73	11,180.87	31.49	8,503.00
	145,891.67	35.87	107,378.12	23.90	86,664.00
Cost of electricity	(132,916.34)	15.27	(115,304.23)	36.77	(84,308.00)
Gross Profit/(Loss)	12,975.33	63.70	(7,926.11)	236.42	2.356.00
Amortization of deferred credit	1,432.07	8.69	1,317.59	7.38	1,227.00
	14,407.40	118.01	(6,608.52)	84.44	3,583.00
Operating expenses:					
Administrative Expenses	(7,483.59)	14.48	(6,537.20)		
Distribution Costs	(12,772.71)	3.67	(12,319.99)		
Customer Services Costs	(692.26)	7.12	(646.24)		
	(20,948.56)	7.41	(19,503.43)	34.60	(14,490.00)
Loss from operations	(6,541.16)	(74.95)	(26,111.95)	139.40	(10,907.00)
Other income	2,243.36	20.23	1,865.90	67.35	1,115.00
Finance Cost	(1,656.65)	(11.30)	(1,867.70)	35.93	(1,374.00)
Loss before taxation	(5,954.45)	(77.20)	(26,113.75)	133.87	(11,166.00)
Taxation	(1,638.92)	33.76	(1,225.23)	76.29	(695.00)
Loss after taxation	**(7,593.37)**	**(72.23)**	**(27,338.98)**	**130.49**	**(11,861.00)**

(Source: Audited Financial Statement of IESCO Financial Year 2018-19 – Riaz Ahmad & Co., Chartered Accountant)

11.2.3 Qualified Opinion given by the External Auditors on the Financial Statements of IESCO Financial Year 2018-19

It was observed that External Auditors had qualified the accounts of IESCO for the financial year 2018-19 on the following basis:

Bogus receipts were recorded in trade receivables at one of the revenue offices of the Company involving collusion of employees. Accordingly, bank balance and trade receivables were misstated in the books of accounts of the company to the extent of identified embezzlement of Rs.207.75 million for the period from July 2018 to June 2019. Since the matter was currently under investigation the exact amount of fraud could not be determined at this stage.

Incidence of fraud indicated poor internal controls in the organization and warranted urgent measure to address the problem.

11.2.4 Comments on Audited Accounts

i) Profitability

The Company suffered a net loss of Rs.7,593.37 million during the financial year 2018-19. Total accumulated losses have reached to the tune of Rs.47,616.17 million resulting in net capital deficiency. As on June 30, 2019 the company's current liabilities exceeded current assets by Rs.9,773.47 million. This condition indicated existence of material uncertainty as to the Company's ability to continue as a going concern. The Company was suffering from consistent losses over the years which reflected operational inefficiencies as well policy bottlenecks requiring urgent remedial action.

ii) Sales and Cost of sales

The sales of the Company were Rs.145,891.67 million including the subsidy received from Government of Pakistan for an amount of Rs.16,964.94 million and cost of sales of the company stood at Rs.132,916.34 million which was 91% of the sale. This meant that the Company was unable to recover the operating expenses for the year.

iii) Trade Debts and other Receivables

Total receivables of the Company were Rs.129,682.06 million as on June 30, 2019. An amount of Rs.6,328.11 million was receivable from Government of Pakistan against tariff differential subsidy, Rs.3,386.31 million from other Associated Companies, Rs.96,970.19 million from various consumers for electricity sold, Rs.22,632.63 million from tax authorities, Rs.334.03 loan and advances and Rs.30.79 million from Trust Investment Bank Limited. Huge pending receivables were a significant business sustainability risk for the Company and required long term rectification measures. Huge balance of receivables depicted poor recovery efforts of the Company, which needed justification.

iv) Trade and other Payables

Payables of the Company substantially increased from Rs.104,511.05

million in the financial year 2017-18 to Rs.130,137.05 million in the financial year 2018-19. The major amount of Rs.104,146.12 million was payable to CPPA on account of purchase of electricity which showed unsatisfactory financial management and poor liquidity position of the Company. Immediate short term measures and prudent long term action were needed to stop the accumulation of payables and ensure steady reduction of pending payables in the future.

v) Non-reconciliation of CPPA-G claims

The External Auditors of IESCO during their certification audit exercise on IESCO accounts for the financial year 2018-19, highlighted that the Company had not given due disclosure of its liabilities towards CPPA-G as on June 30, 2019. There was a difference of Rs.13,038.88 million between the claims made by CPPA-G towards IESCO and those accepted by IESCO. The claims included supplementary charges of Rs.7,395.99 million and interest on syndicated loans amounting to Rs.1,329.51 million. Had these charges been applied it would have enhanced the expenditure and increased the current year loss to the stated extent. In order to avoid financial impediment in the Power Sector supply chain it was necessary that difference between CPPA-G and IESCO were resolved timely.

vi) Operating expenses

The Operating expenses of the company increased from Rs.19,503.43 million during the financial year 2017-18 to Rs.20,948.56 million during the year 2018-19 registering an increase of Rs.1,445.13 million. As the Company was incurring losses, increase in its operating expenses required justification.

11.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.100,312.51 million were raised in this audit. The amount also includes recoverables of Rs.90,382.40 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement,	207.75

	misappropriation and theft	
2.	Irregularities	
	A. HR/Employees related irregularities	4.42
	B. Procurement related irregularities	195.81
	C. Irregularities pertaining to violation of entity's own rules / regulations	1,161.63
	D. Irregularities pertaining to violation of Regulatory Laws & Regulations	1,704.45
	E. Recoveries	90,382.40
3.	Others	6,656.05

Note:- *Further audit observations pertaining to subject company, being identical in nature with that of other DISCOs, have been included in the Chapter of respective Common Issues of this report.*

11.4 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	02	-	**01** (Para No. 14.4.4)	01 (Para No.14.4.2)

Position of compliance with PAC directives is not satisfactory.

11.5 AUDIT PARAS

11.5.1 Non-recovery of dues from energy defaulters – Rs.90,382.40 million

According to Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) efficient application of billing and collection procedure".

In IESCO, an amount of Rs.90,382.40 million was recoverable from running / P-Disc energy defaulters (Private & Government) having arrears with aging more than 03 months. However, no efforts were made by the management to accelerate the recovery from defaulters. Owing to increasing trend of receivables, IESCO was facing difficulties in discharging its obligations towards CPPA-G.

Non-adherence to Commercial Procedure resulted in non-recovery of Rs.90,382.40 million from running / P-Disc energy defaulters up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that recovery from private consumer was almost 100%.The only barrier was the recovery from public sector departments particularly from Govt. of AJK. Out of Rs.100.5 billion allocated for adjustment by GOP, IESCO share was Rs.68 billion whereas amount of Para is 90,382.4 million which would be recovered in the allocated amount received/adjusted.

The DAC in its meeting held on December 30, 2019 directed the management to provide detailed revised reply and get the stance verified from Audit. DAC further directed the management to ensure recovery from consumers by giving priority to top 100 defaulters.

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

(Proposed Draft Para No. 657/2019-20)

11.5.2 Non-repayment of foreign relent loan - Rs.6,636.85 million

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

In IESCO, an amount of Rs.6,636.85 million was payable on account of foreign relent loan as on June 30, 2019. However, neither annual payment of foreign relent loan was paid to donor agencies nor adjusted against receivables of Government of Pakistan. This showed financial mismanagement of the company.

Non-adherence to rules resulted in non-repayment of foreign relent loan of Rs.6,636.85 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that the payment of long term re-lent foreign loans of IESCO had been linked with payment /adjustment of AJK receivables of IESCO. By the end of June 30, 2019 an overall adjustment of Rs.10,285.95 million had been received from GOP and recorded accordingly. As and when any adjustment was received the status would be updated.

The DAC in its meeting held on December 30, 2019 directed the management to get the position verified from Audit.

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

(Proposed Draft Para No. 770/2019-20)

11.5.3 Irregular expenditure incurred in excess of Distribution Margin – Rs.1,652 million

As per NEPRA's Multi Year Tariff Determination notified vide SRO. 377(I)/2018 dated March 22, 2018, "Distribution Margin (O&M cost i-e salaries, wages &other benefits, Post-Retirement benefits and other operating expenses) against NEPRA permissible limit of Rs.13,720 million".

In IESCO, an expenditure of Rs.15,372 million was incurred during the financial year 2018-19 under operation and maintenance cost against an amount of Rs.13,720 million allowed under Distribution Margin. Resultantly, an expenditure of Rs.1,652 million was incurred in excess of Distribution Margin which was irregular.

Non-adherence to the Tariff Petition resulted in irregular expenditure of Rs.1,652 million incurred in excess of Distribution Margin during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that the audited accounts of IESCO had already been approved by Board of Directors IESCO. Hence the expenditure had been regularized as the competent authority in case of IESCO was the "BOD". Audit contended that the expenditure incurred in excess of Distribution Margin was required to be got approved from NEPRA.

The DAC in its meeting held on December 30, 2019 directed the management to verify the audited figure of distribution margin.

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

(Proposed Draft Para No. 674/2019-20)

11.5.4 Non-reconciliation of electricity revenue collection - Rs.466.97 million

According to Chapter-3 (3.2) of Financial & Accounting Policies and Procedures Manual, "i) Finance Director is responsible to oversee the overall accounting and financial aspects of DISCOs. 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 verification of daily scrolls collected from the banks, reconciliation with banks through CP-48 and CP-49, preparation of different CP forms for submission to the MIS Department and maintenance of cash book".

In IESCO, an amount of Rs.466.97 million was appearing as difference of the Bank Account Reconciliation (CP-48) and CP-104 of bank statements on account of electricity revenue collection against 17 Revenue offices of IESCO. 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.466.97 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that the difference between CP-104 and CP-48 arose due to mistake in CP-102 (Remittance) figures by CSO staff. CP-102 was required to be sent to Computer center up to 3rd of each month after obtaining bank statements from branches. Sometimes bank statement from any branch was not received to CSO and remittance figure was taken telephonically from branch and effected in CP-102 which effected the closing balance of CP-104. While CP-48 was prepared manually after obtaining all bank statements in hard form.

The DAC in its meeting held on December 30, 2019 directed the management to get the position verified from audit and reconcile electricity revenue collection alongwith justification for non-reconciliation in the matter.

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

(Proposed Draft Para No. 687/2019-20)

11.5.5 Undue generation of revenue through over billing - Rs.333.94 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 IESCO, the percentages of energy losses of 28 feeders were in negative figures during the financial year 2018-19. The negative losses revealed that the units billed were in excess of units received on these feeders, which was an indication of overbilling of 20.46 million units worth Rs.333.94 million to the consumers. Audit was of the view that overbilling showed lack of control in the IESCO and reduced the authenticity of their data.

Non-adherence to Commercial Procedure resulted in undue generation of revenue of Rs.333.94 million through over billing to consumers during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry during September to November, 2019. The management replied that line losses were due to wrong coding of feeders, shifting / bifurcation of load and difference in billing cycle. The reply was not acceptable as no proper measures were adopted to avoid overbilling.

The DAC in its meetings held on December 30, 2019 directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for negative line losses. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture and provide the record 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 decision besides fixing responsibility.

(Proposed Draft Para No. 688/2019-20)

11.5.6 Embezzlement of cash through bogus cash posting of scrolls – Rs.207.75 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 subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In Islamabad Operation Circle IESCO, embezzlement of cash amounting to Rs.207.75 million was made by the staff of Manager Customer Services, Islamabad Division-I through bogus posting of scrolls and fake bank statements along with bill stubs with fake bank stamps during 2018-19. FIR had been lodged with FIA against eight (08) officials. An Inquiry Committee was also constituted by the IESCO management to probe into the matter and find out the actual loss vide letter dated 22.7.2019. Outcome of FIA investigation and finalization of departmental inquiry report was not made known to Audit.

Weak internal controls resulted in embezzlement of cash amounting to Rs.207.75 million through bogus cash posting of scrolls during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that an amount of Rs.145.13 million had been recovered, whereas the balance amount of Rs.62.62 million was still recoverable. It was also stated that the case was under investigation with FIA.

The DAC in its meeting held on December 30, 2019 directed the management to submit departmental inquiry proceeding, and action taken against responsible be got verified from Audit.

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

(Proposed Draft Para No. 499/2019-20)

11.5.7 Non-provision / renewal of bank guarantees by sponsors of housing societies - Rs.176.35 million

According to the policy of planning, designing & execution of external electrification of housing societies & commercial building Circulating vide G.M (PE &S) WAPDA letter dated May 21, 1998 bank guarantee equivalent of 25% of the entire estimated cost will be submitted by the sponsoring agency before getting approval for execution of work through WAPDA / Company's approved contractors valid for entire period up to completion of full electrification work of the scheme.

In IESCO, bank guarantees worth Rs.151.70 million by three housing societies were not provided and bank guarantee worth Rs.24.64 million relating to one housing society was expired but the same was not renewed. Management should have obtained the requisite bank guarantees worth Rs.176.35 million up to the completion of electrification of housing schemes.

Non-adherence to the policy of electrification of housing societies resulted in non-provision/renewal of bank guarantees worth Rs.176.35 million from the consumers up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that M/s Elite (pvt) Ltd did not provide the bank guarantee M/s Al-Ghunair Giga Islamabad & M/s Islamabad Cooperative Housing Society Attock had revalidated bank guarantee. Whereas M/s Kallar Kahar Township Kalar Kahar's request for execution of the work by IESCO instead of self-execution had been received from the Sponsor and was under process for approval.

The DAC in its meeting held on December 30, 2019 directed the management to get the completed actions verified from Audit and follow up the pending action.

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

(Proposed Draft Para No. 689/2019-20)

11.5.8 Delay in completion of ERP Project from the contractor - Rs.114.26 million

As per RFP-ERP Implementation IESCO Section-5 (Schedule of Requirements), Project Timelines-5.4, IESCO intends to complete the implementation and roll-out in approximately 14 months according to phase wise implementation and rollout plan from the signing of contract.

In IESCO, a contract agreement worth Rs.114.26 million as signed with M/s Abacus Consulting Technology (Pvt), Ltd, Islamabad on May 5, 2017 for ERP Project with a completion period of 14 months i.e. July 5, 2018 but the project could not be completed till September 30, 2019. However, neither LD was deducted nor action was taken as per contract agreement. Resultantly, company had faced delay in execution of ERP project.

Non-adherence to the implementation schedule resulted in delay of completion of ERP Project worth Rs.114.26 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that the contractor had submitted request for extension of time. In case of deferment of EoT from BoD the L.D would be charged to contractor accordingly.

The DAC in its meeting held on December 30, 2019 directed the management to get the completed action verified from Audit and follow up the pending action.

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

(Proposed Draft Para No. 690/2019-20)

11.5.9 Energy losses on independent feeders beyond permissible limit - Rs.86.88 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 for HT feeders was 3% for rural / urban areas.

In IESCO, the percentage of energy losses of 27 independent feeders remained in excess of the permissible limit of 3%, which entailed energy loss of 5.79 million units worth Rs.86.88 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 Formation	Proposed Draft Para No.	No. of feeders	Percentage of losses (%)	Unit lost (Beyond 3%)	Amount (Rs.in million)
1.	Jhelum Operation Circle	47/2019-20	05	4% to 11.2%	1.83	27.43
2.	Islamabad Operation Circle	551/2019-20	9	3.5% to 14.70%	1.27	19.10
3.	Rawalpindi Operation Circle	578/2019-20	13	3.74% to 21.08%	2.69	40.35
		TOTAL	**27**		**5.79**	**86.88**

Non-adherence to Distribution Rehabilitation Guidelines resulted in energy losses of Rs.86.88 million on independent feeders beyond permissible limit during the financial year 2018-19. The same was required to be recovered from the consumers.

Audit was of the view that losses on independent feeders showed operational inefficiencies of the respective management.

The matter was taken up with the management during July to September, 2019 and reported to the Ministry during September to November, 2019. The management replied that the line losses were due to wrong coding of feeders, difference in billing cycle, off size conductor, alternate source and shifting of load. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit on independent feeders was provided.

The DAC in its meetings held on December 30, 2019 directed the management to carry out feeder wise analysis of all the feeders pointed out in the para and justify the line losses beyond permissible limit with CP-22-A, B, C, D & E. DAC further directed to provide the record of completed actions to Audit for verification within a month. Further progress was not reported till finalization of the report.

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

11.5.10 Non-deduction of GST from the invoices of consultants – Rs.52.45 million

As per Rule-12(1) of Punjab Sales Tax on Services Act 2012, "A registered person shall: a). Issue a proper sales tax invoice in respect of every taxable service provided to a withholding agent; b). File monthly return as prescribed in the relevant rules; c). Subject to Rule-13, be entitled to adjust input tax against the output tax taking due credit of the sales tax deducted by the withholding agent or agents and deposited under the rules; and d). Ensure that he or it allows withholding of sales tax to only such of his service recipients as are withholding agents.

In Construction Circle IESCO, an amount of Rs.327.79 million was paid to the contractors on which the Provincial Sales Tax @ 16% of payment amounting to Rs.52.45 million was required to be deducted from the invoices, which was not done.

Non-adherence to sale tax rules resulted in non-deduction of PST amounting to Rs.52.45 million from the consultants up to the financial year 2017-18.

The matter was taken up with management in August, 2018 and reported to the Ministry in December, 2019. The management replied that the company was registered and working under Federal Government of Pakistan, hence Provincial Sales Tax was not applicable on the payments of Contractor /

Supplier. The management further stated that the matter had been taken up with the appellate tribunal.

The DAC in its meeting held on December 30, 2019 directed the management to provide the revised reply alongwith provision of evidence for taking up the matter with appellate tribunal.

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

(Proposed Draft Para No. 1179/2019-20)

11.5.11 Non-provision of land by the sponsors of housing societies for offices – Rs.35.00 million

According to Memorandum of Understanding (MoU) signed between IESCO and sponsors of the housing society, the sponsor of housing society shall provide/transfer a piece of 2 Kanal land to IESCO free of cost for construction of IESCO SDO/complaint offices.

In Operation Circle Rawalpindi IESCO, a piece of 2 Kanal land was not provided / transferred by sponsors of two (2) housing societies electrified during 2008-09 as per Memorandum of Understanding (MoU). As a result the company was deprived from land valuing Rs.35.00 million.

Non-adherence to the Memorandum of Understanding (MoU) resulted in non-provision of land valuing Rs.35.00 million by sponsors of housing society's up to financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that land of 0.025 Kanals was allocated whereas allocation for land of 1.075 Kanals was underway. After finalization of allocation, audit would be informed accordingly.

The DAC in its meeting held on December 30, 2019 directed the management to follow up the matter with concerned sponsors of housing societies.

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

(Proposed Draft Para No. 446/2019-20)

11.5.12 Irregular issuance of purchase order for supply of 11 KV outgoing panel - Rs.32.90 million

As per bidding document clause 11, the bid (s) shall be evaluated on the following criteria and contract will be awarded to the lowest responsive bidder

(s) in terms of following parameters. i) Bid conforms to tender conditions and laid down specifications, ii) Responsiveness in terms of technical and commercial evaluation, iii) Previous performance of the bidder (s) and that of product supplied by them, iv) Technical competency and production capability, v) Financial Stability in terms of contracts executed during last 03 years (for the respective items (s) under procurement, vi) Manufacturing experience & vii) Performance appraisal of the product supplied by the bidder.

In IESCO, a purchase order worth Rs.32.90 million for supply of 11 KV outgoing panel was issued to a non-responsive bidder i.e M/s Ghafoor Engineering, Lahore, as declared by technical evaluation committee. The bidder did not have the experience as required in above bidding documents. Hence, purchase order was issued in violation of bidding documents which was irregular.

Non-adherence to bidding documents resulted in irregular issuance of purchase order for supply of 11kv outgoing panel worth Rs.32.90 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that M/s Ghafoor Engineering Lahore had been supplying the offered type of Panels since 2014 and its overall experience was 4 and half year at the time of bid opening. However, as per clause-11, the bidder shall have at least five year of experience. Therefore M/s Ghafoor Engineering Lahore had been declared substantially responsive lowest evaluated bidder as per PPRA Rule 2-h (i & ii). Audit contended that the bidder did not qualify with reference to the prescribed experience for the said supply.

The DAC in its meeting held on December 30, 2019 directed the management to provide relevant record to justify the issuance of purchase order.

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

(Proposed Draft Para No. 697/2019-20)

11.5.13 Blockage of funds due to unnecessary purchase of stores / electrical material - Rs.32.04 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 IESCO, electrical material worth Rs.32.04 million lying in Regional and Field stores remained slow-moving / inactive from 2006 to 2018. 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 to the stated extent could have been avoided.

Non-adherence to Authority's instructions resulted in blockage of funds due to un-necessary purchase of stores / electrical material amounting to Rs.32.04 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that relevant record i.e. Letter of Acceptance, S.R, Release Order, DTR & Stock Card were ready for verification.

The DAC in its meeting held on December 30, 2019 directed the management to provide the revised reply alongwith aging analysis of the respective stored material.

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

(Proposed Draft Para No. 729/2019-20)

11.5.14 Non-installation of material - Rs.30.45 million

According to Para-2.2 (Section-8) of Distribution Stores Manual, sub-divisions must not draw the materials until they have needed. They are not allowed to hold any material which cannot be used immediately.

In Construction Circle IESCO, material valuing Rs.30.45 million against bifurcation of two works i.e. bifurcation of 11 KVA Dhrabi feeder and Kattas feeder was drawn from store but was not installed at the respective sites. The dates of completion of the works were February, 2018 and September, 2018. Neither the material was installed and works completed, nor the same was returned to store.

Non-adherence to Distribution Stores Manual resulted in non-installation of material amounting to Rs.30.45 million against electrification works up to the year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that an Inquiry Committee had been constituted by Additional Chief Engineer (CO) IESCO Islamabad vide dated September 26, 2019. On receipt of Inquiry proceedings action taken would be informed to Audit.

The DAC in its meeting held on December 30, 2019 directed the management to expedite the inquiry proceedings within 30 days.

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

(Proposed Draft Para No. 156/2019-20)

11.5.15 Avoidable expenditure on procurement of land – Rs.19.20 million

According to Section-15 (1) of Land Acquisition and Resettlement Framework (LARF) "voluntary provision (donations) of unoccupied land for the installation of a grid station by the community requesting linkage to the power grid, such as planned housing development schemes and industrial estates."

In GSC IESCO, a purchase agreement between Bahria Town and IESCO for procurement of 32 kanal Land from Bahria Town (@ Rs.0.6 million per kanal) costing Rs.19.20 million for installation of a 132 Kv grid station Barakhu was made. Bahria Town was a planned housing scheme and land for construction of said grid station was to be acquired through voluntary provision (donation) from the housing scheme which was not forthcoming from the record. This resulted in avoidable financial burden of Rs.19.20 million upon the company's exchequer.

Non-adherence to Land Acquisition and Resettlement Framework (LARF), resulted in avoidable expenditure on procurement of land Rs.19.20 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in November, 2019. The management replied that there was a plan to purchase a piece of land from the Bahria Town but the plan was never executed and no land was purchased from Bahria Town for the construction of 132 KV Grid Station Barakahu. Instead, the Grid Station was build up within the vicinity of IESCO's own land. Audit contended that the land for said grid station should have been obtained through voluntary provision from the housing scheme.

The DAC in its meeting held on December 30, 2019 directed the management to investigate the matter and submit the fact finding report within 30 days.

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

(Proposed Draft Para No. 656/2019-20)

11.5.16 Non-recovery of liquidated damages from contractor - Rs.14.10 million

As per RFP Clause-6.28 (1)(a), purchaser may recover from the contractor, a sum equivalent to 0.5% of " the total contract price" for delay in completion of the service(s) for each week of delay, or part thereof beyond the scheduled completion date, subject to a maximum of 10% of the total contract price.

In IESCO, a work order worth Rs.216.95 million for supply, installation, testing and commissioning of servers and allied equipment for running SAP ERP S/4 Hana (FPS02) Solution was awarded to M/s Tech Access Pak Pvt. Limited on July 26, 2018 with completion date October 25, 2018. The contractor completed the work on January 24, 2019 with delay period of 13 weeks. Resultantly liquidated damages worth Rs.14.10 million were required to deducted but the same was not recovered from the contractor.

Non-adherence to contract agreement clause resulted in non-recovery of liquidated damages from suppliers worth Rs.14.10 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management stated that reply was under preparation.

The DAC in its meeting held on December 30, 2019 directed the management to submit detailed reply and get the position verified from Audit.

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

(Proposed Draft Para No. 774/2019-20)

11.5.17 Irregular evaluation of tender without valid bid bond - Rs.13.33 million

As per bidding documents special condition clause viii, the bids not accompanied with the requisite bid security will be considered non-responsive.

In IESCO, a tender No. 37 was opened for procurement of electrical equipment and a purchase order worth Rs.13.33 million was placed upon M/s Crown Winding Wire Industries. The tender opening committee mentioned on the comparative statement that the bid bond submitted by the said bidder did not relate to the tender. Despite submission of irrelevant bid bond, the purchase order was placed upon the said bidder on the recommendation of tender evaluation committee.

Non-adherence to bidding documents resulted in irregular evaluation of tender worth Rs.13.33 million during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that tender number was erroneously written on the bid bond as 148 instead of 37. Moreover, during the month of 07/2018 no tender containing such number was floated neither opened besides tender No. 33 to No.44 only. As M/s Crown Winding Wire Industries Lahore was the lowest in two items hence to refrain IESCO from financial loss, contract was awarded to the firm by saving Rs.269,500/-. Audit contended that the matter of submission of irrelevant bid bond was required to be inquired into to ascertain the factual position.

The DAC in its meeting held on December 30, 2019 directed the management to conduct inquiry and produce the facts finding report to Audit within 30 days.

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

(Proposed Draft Para No. 915/2019-20)

11.5.18 Non-replacement of defective material – Rs.10.41 million

According to Clause-9 of Purchase Order, 'the supplier will furnish a warranty certificate, certifying that goods supplied conform exactly to the specifications laid down in the contract and are brand new and that in the event of the material being found defective or not conforming to the specifications / particulars governing supply at the time of delivery and for a period of 12-months from the date of completion of supply, he will be held responsible for all losses and that unacceptable goods shall be substituted with the acceptable at their expense & cost.

In IESCO, a purchase order dated November 16, 2017 was issued to M/s Highland Ceramics, Gujranwala for purchase of 50,000 11 KV Pin Insulators worth Rs.10.41 million. The material was supplied by issuing the Inspection Certificate by the Chief Engineer (QA&I) NTDC up to April, 2018. But from December, 2018 various complaints were received from field formations regarding manufacturing default/use of substandard material in manufacturing of these Pin Insulators. On complaint, the manufacturer agreed to replace the material, but up to August, 2019 only 15000 Pin Insulators were replaced by the supplier leaving a balance of 35,000 Pin Insulators, which were still pending.

Non-adherence to the provisions of contract agreement resulted in purchase of substandard material to the tune of Rs.10.41 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that presently, 15000 Pin Insulators had been supplied by the firm for replacement wherein inspection call for 5000 had been received vide letter dated November 21, 2019. Furthermore, the firm had also been served with notice dated December 18, 2019 regarding non-supply of remaining material.

The DAC in its meeting held on December 30, 2019 directed the management to get the completed action verified and expedite the pending action.

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

(Proposed Draft Para No. 775/2019-20)

11.5.19 Irregular award of consultancy services contract – Rs.7.35 million

As per Rule-30 (1) of Public Procurement Rules-2004, "all bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents". According to rule-38 of PPRA rules, 'the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity'.

In IESCO, expression of interest (EOI) for hiring of Consultancy Services for HT/LT System Augmentation Program (SAP) of IESCO was advertised in daily newspapers dated September 13, 2018. Four (4) Consultancy Firms submitted their bids. Technical bids were opened on September 25, 2018. According to evaluation criteria, 5 marks were fixed for at least five years experience of the firm. It was observed that M/s Rays Consultancy Services, Islamabad had no experience whereas total 5 marks were granted to the firm along with other three firms having more than five years experience. As per evaluation criteria, the firm M/s Rays consultancy without experience might have been disqualified. Subsequently the firm M/s Rays Consultancy managed to be the lowest evaluated bidder and the contract was awarded to the firm, which was irregular.

Non-adherence to the PPRA rules resulted in irregular award of consultancy services contract amounting to Rs.7.35 million during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that M/s Rays had been working in housing society for developing the electrification of these societies since 2016. Further, M/s Rays had participated with JV and M/s FAS, established in 2014, working in different Power sectors in Pakistan as well as in abroad, therefore M/s Rays-FAS JV was awarded full five number in first trait of evaluation criteria. Audit contended that as per evaluation criterion the firms having experience less than five years did not qualify for the additional five (05) marks.

The DAC in its meeting held on December 30, 2019 directed the management to provide the revised reply alongwith bidding documents for verification by Audit.

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

(Proposed Draft Para No. 748/2019-20)

11.5.20 Irregular award of work order without open competition - Rs.3.46 million

Under Rule- 20 of PPRA Rules-2004, "the Procuring agencies, shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works."

In GSC IESCO, a work order amounting to Rs.3.46 million for removing system constraints for construction of tower foundation, erection and stringing for shifting of 132 KV Grid station, Chakri on express circuit 132 KV new Rawat - Chakwal was placed upon a contractor without inviting tenders. The award of contract without open competition was violation of Public Procurement Rules.

Non-adherence to Public Procurement Rules (PPRs) resulted in irregular award of work order valuing Rs.3.46 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that abnormal situation raised due to the overloading of the 132 KV New Rawat to Adyala to Chakri circuit. The matter was referred to emergency forum of IESCO, the committee directed to execute the work through direct contracting by exercising the PPRA Rule 42-c(ii) on emergency basis instead of adopting tendering procedure which required a lot of time.

The DAC in its meeting held on December 30, 2019 directed the management to provide the documentary evidence of emergency and get the matter verified from Audit within 15 days.

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

(Proposed Draft Para No. 459/2019-20)

11.5.21 Non-recovery of penalties - Rs.2.73 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".

In Operation Chakwal Circle IESCO, an amount of Rs.2.73 million was pending against penalties imposed upon the officials at fault, but implementation of these penalties was not forthcoming from the record which showed least interest of the higher management to improve its internal controls and to safeguard the assets of the company.

Non-adherence to the rules resulted in non-recovery of penalties amounting to Rs.2.73 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that an amount of Rs.0.56 million had been recovered, whereas recovery of Rs.2.17

million was underway.

The DAC in its meeting held on December 30, 2019 directed the management to get the completed action verified from audit and expedite the pending action.

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

(Proposed Draft Para No. 162/2019-20)

11.5.22 Irregular payment of special allowance - Rs.1.69 million

According to Civil Establishment Code (Estacode) Sl. No. 75(iii), "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 IESCO, an additional charge was granted to Mr. Irfan Mehmood (Accounts) for the post of Secretary IESCO from September 2016 to September, 2019 (36 Months). Initially additional charge allowance @ Rs.12,000/- per month was allowed which was increased to Rs.50,000/- per month w.e.f. 01.01.2017 onward. Hence, an amount of Rs.1.69 million on account of special allowance was paid. The grant of additional charge allowance for more than six months was irregular because BOD had the responsibility to appoint Secretary under Cooperate Governance Rules -2013. No efforts in this regard for appointment of a Company Secretary were forthcoming from the record. Hence, payment of Rs.1.69 million on account of special allowance made to the officer was irregular.

Non-adherence to Government of Pakistan rules resulted in irregular payment of special allowance amounting to Rs.1.69 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that recruitment process for selection of Company Secretary IESCO through advertisement from open market was under process for obtaining NOC from Establishment Division, GoP Islamabad. Since the post of Company Secretary was specialized position and could not be kept vacant in order to run the affairs of the Company Secretariat smoothly. BoD IESCO being competent authority, allowed additional charge alongwith allowance to said employee.

The DAC in its meeting held on December 30, 2019 directed the management to effect the recovery beyond the limit of additional charge allowance as per rules and get the process of regular appointment of Company secretary expedited.

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

(Proposed Draft Para No. 750/2019-20)

CHAPTER-12

LAHORE ELECTRIC SUPPLY COMPANY (LESCO)

12. LAHORE ELECTRIC SUPPLY COMPANY (LESCO)

12.1 Introduction

Lahore Electric Supply Company (LESCO) 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-G through NTDC system and sells it to various consumers within Kasur, Lahore, Okara, Nankana Sahib and Sheikhupura Districts.

The operational activities are performed through seven Operation Circles and Grid System Construction, Project Construction & Grid System Operation Circles. The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	15	11	59,817.84	25,226.74	96,519.00
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	04	04	US$ 6.53	US$ 6.53	Nil

12.2 Comments on Financial Statement

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 LESCO, financial statements of the company for the financial year 2018-19 could not be finalized by the management up till December 31, 2019.

12.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.22,906.93 million were raised in this audit. The amount also includes recoverables of Rs.6,539.25 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:-

Sr. No.	Classification		Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft		31.12
2.	Irregularities		
	A.	HR/Employees related irregularities	25.16
	B.	Procurement related irregularities	189.61
	C.	Management of Accounts with Commercial Banks	909.17
	D.	Irregularities pertaining to violation of entity's own rules / regulations	3,864.14
	E.	Irregularities pertaining to violation of Regulatory Laws & Regulations	9,833.64
	F.	Recoveries	6,539.25
3.	Others		1,514.84

Note:- *Further audit observations pertaining to subject company, being identical in nature with that of other DISCOs, have been included in the Chapter of respective Common Issues of this report.*

12.4 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
LESCO	2016-17	06		**02** (15.4.3, 15.4.15)	**04** (15.4.6, 15.4.10, 15.4.17, 15.4.19)

Position of compliance with PAC directives is not satisfactory.

12.5 AUDIT PARAS

12.5.1 Loss of revenue due to abnormal line losses on feeders - Rs.9,606.24 million

According to Rule-7(c) of Public Sector Companies Corporate Governance Rules regarding the identification and monitoring of the principal risks and opportunities of the Public Sector Company and ensuring that appropriate systems are in place to manage these risks and opportunities, including, safeguarding the public reputation of the Public Sector Company.

In LESCO, the percentage of line losses on 463 feeders remained abnormally higher than the targets of losses set by the NEPRA as 11.76%. Hence, 640.42 million units were lost, which caused revenue loss of Rs.9,606.24 million. The detail is as under:

Sr. No.	Name of Formation	Proposed Draft Para No.	Percentage of losses	No. of feeders	Units Lost (million)	Amount (Rs.in million)
1.	CEO LESCO	1126/2019-20	18.1 to 99.6%	463	640.42	9,606.24

Non-adherence to the rules resulted in loss of revenue amounting to Rs.9,606.24 million due to operational mismanagement during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that high losses on feeders were due to lengthy feeders, poor substations, difference in reading cycle, shifting / bifurcation of load and wrong feeder coding. However, efforts were being to reduce the line losses. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit was provided.

The DAC in its meetings held on December 26, 2019 did not accept the stance of the management and directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for line losses beyond NEPRA target. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture 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.

12.5.2 Non-recovery of receivables from energy defaulters - Rs.6,420.75 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 LESCO, an amount of Rs.6,420.75 million was recoverable from running and permanently disconnected (P-Disc.) energy defaulters (Government and private). In this respect, no efforts were made by the management to accelerate the recovery from defaulters. The detail is as under:-

Sr. No.	Name of Company	Proposed Draft Para No.	Amount (Rs.in million)
1.	Eastern Operation Circle	651/2019-20	265.43
2.	Southern Operation Circle	820/2019-20	26.55
3.	Okara Operation Circle	909/2019-20	1,435.62
4.	Northern Operation Circle	1060/2019-20	368.92
5.	CEO LESCO	1094/2019-20	4,324.23
		TOTAL	**6,420.75**

Non-adherence to Commercial Procedure resulted in non-recovery of Rs.6,420.75 million from energy defaulters up to the financial year 2018-19.

Audit was of the view that subject matter was a significant issue having major business sustainability risks for the LESCO. It was also a main source for accumulation of circular debt in the Power Sector.

The matter was taken up with the management during June to December, 2019 and reported to the Ministry during September to December, 2019. The management replied that in some cases amount had been recovered and efforts were being made to recover the remaining amount.

The DAC in its meetings held on December 26, 2019 directed the management to produce the recovery record to Audit within a week and expedite recovery from remaining consumers by giving priority to top 100 defaulters as per the aging / significance of outstanding dues. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision besides fixing responsibility for inordinate delay in clearance of arrears.

12.5.3 Undue generation of revenue through over billing - Rs.1,612.17 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 LESCO, the percentages of energy losses of 358 feeders were in negative figures during the financial year 2018-19. The negative losses revealed that the units billed were in excess of units received on 358 feeders, which was an indication of overbilling of Rs.1,612.17 million to the consumers. Audit was of the view that overbilling showed lack of control in the LESCO and reduced the authenticity of their data. The details is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	No. of Feeder	No. of Units (million)	Amount (Rs.in million)
1.	Eastern Operation Circle	649/2019-20	43	21.50	322.50
2.	Central Operation Circle	862/2019-20	66	19.98	399.63
3.	Northern Operation Circle	1064/2019-20	36	21.74	326.05
4.	Chief Executive Office	1141/2019-20	213	37.60	563.99
	Total		**358**	**100.82**	**1,612.17**

Non-adherence to Commercial Procedure resulted in undue generation of revenue of Rs.1,612.17 million through over billing to consumers during the financial year 2018-19.

The matter was taken up with the management during October to December, 2019 and reported to the Ministry during November to December, 2019. The management replied that line losses were due to wrong coding of feeders, shifting / bifurcation of load and difference in billing cycle. The reply was not acceptable as no proper measures were adopted to avoid overbilling.

The DAC in its meetings held during December 26, 2019 directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for negative line losses. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture and provide the record 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 decision besides fixing responsibility.

12.5.4 Non-clearance of ADB loan liabilities - Rs.1,315.16 million

As per Economic Affairs Division (budget section) Islamabad letter No. 6-16(5)/DMR-II/2011 dated 21st May, 2019 the overdue amount on account of principal, interest and Exchange Risk Fee against foreign loans relent to LESCO was to be deposited to the Government Treasury and paid challan in original duly verified from the Federal Treasury Office/DAO concerned to be sent to EAD for confirmation and record.

In PMU LESCO Lahore, the outstanding dues worth Rs.1315.16 million against four (04) ADB Loans were not repaid to the Government up to June 30, 2019 in defiance of the advice of Economics Affairs Division. Despite lapse of a period of more than one year clearance of above liability was not forthcoming from the record.

Non-adherence to the EAD directions resulted in non-clearance of liability of Rs.1315.16 million up to financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that an amount of Rs.1,015 million for the financial year 2018-19 had been paid to government.

The DAC in its meeting held on December 26, 2019 directed the management to provide the record in respect of payment of Rs.1015 million to Audit for verification within a week and expedite payment of loan liabilities.

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

(Proposed Draft Para No. 1011/2019-20)

12.5.5 Less remittance of electricity bills in LESCO's main accounts by banks – Rs.909.17 million

According to Chapter-3 (3.2) of Financial & Accounting Policies and Procedures Manual, "i) Finance Director is responsible to oversee the overall accounting and financial aspects of DISCOs. 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 verification of daily scrolls collected from the banks, reconciliation with banks through CP-48 and CP-49, preparation of different CP forms for submission to the MIS Department and maintenance of cash book”.

In LESCO, it was noticed from the collection-remittances summary that an amount of Rs.909.17 million had been less remitted in LESCO’s main accounts by the banks. Resultantly, the Company was deprived of its legitimate revenue to the stated extent. The detail is as under:-

Sr. No.	Formation	Proposed Draft Para No.	Amount (Rs.in million)
1.	Eastern Operation Circle	661/2019-20	14.59
2.	Southern Operation Circle	761/2019-20	800.23
3.	Central Operation Circle	865/2019-20	94.35
		TOTAL	**909.17**

Non-adherence to Financial & Accounting Policies and Procedures Manuals resulted in less remittance of Rs.909.17 million in LESCOs main accounts by banks during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry during November to December, 2019. The management replied that some of the amount had been transferred to LESCO’s main account while efforts were being made to minimize the difference of remittance.

The DAC in its meeting held on December 26, 2019 directed the management to provide the documentary evidence in support of completed action to Audit within a week besides expediting reconciliation and provision of record 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 decision besides fixing responsibility.

12.5.6 Energy losses on independent feeders beyond permissible limit - Rs.626.96 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 for HT feeders was 3% for rural / urban areas.

In LESCO, the percentage of energy losses of 112 independent feeders remained in excess of the permissible limit of 3%, which entailed energy loss of

Rs.626.96 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 Formation	Proposed Draft Para No.	No. of feeders	Percentage of losses (%)	Unit lost (Beyond 3%)	Amount (Rs.in million)
1.	Kasur Operation Circle	512/2019-20	9	3.4% to 72.7%	1.69	30.65
2.	Eastern Operation Circle	647/2019-20	4	4.95% to 25.47%	2.50	37.53
3.	Northern Operation Circle	1063/2019-20	9	3.9% to 43.98%	2.67	40.09
4.	Sheikhupura Operation Circle	1106/2019-20	16	4.09% to 31.96	4.96	64.46
5.	CEO LESCO	1125/2019-20	74	3.1% to 100%	48.34	454.23
		TOTAL	**112**		**60.16**	**626.96**

Non-adherence to Distribution Rehabilitation Guidelines resulted in energy losses of Rs.626.96 million on independent feeders beyond permissible limit during the financial year 2018-19. The same was required to be recovered from the consumers.

Audit was of the view that high-end losses on independent feeders showed operational inefficiencies of the respective management.

The matter was taken up with the management during September to December, 2019 and reported to the Ministry during October to December, 2019. The management replied that the line losses were due to wrong coding of feeders, difference in billing cycle, off size conductor, alternate source and shifting of load. The reply was not acceptable as being generic and no justification with evidence for losses beyond permissible limit on independent feeders was provided.

The DAC in its meetings held on December 26, 2019 at Lahore, directed the management to carry out feeder wise analysis of all the feeders pointed out in the para and justify the line losses beyond permissible limit with CP-22-A, B, C, D & E. DAC further directed to provide the record of completed actions to Audit for verification within a month. Further progress was not reported till finalization of the report.

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

12.5.7 Non-recovery of cost of independent grid stations from consumers - Rs.461.05 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 brakers and other necessary equipment and apparatus".

In LESCO, seven (07) industrial consumers had qualified for provision of independent grid stations owing to extension of load more than 5,000 KW. So far no action had been taken for installation of independent grid stations. Hence, undue favour of Rs.461.05 million was extended to the respective consumers by non-recovery of the cost of independent grid stations. The detail is as under:-

Sr. No.	Formation	Proposed Draft Para No.	No. of Consumers	Amount (Rs.in million)
1.	Chief Executive Office	25 & 1089/2019-20	03	278.46
2.	M&T West	957/2019-20	01	104.11
3.	M&T East	1102/2019-20	01	78.48
4.	Sheikhupura Operation Circle	1155/2019-20	02	0
		TOTAL	**07**	**461.05**

Non-adherence to NEPRA's instructions resulted in non-recovery of cost of independent gird stations worth Rs.461.05 million from consumers up to the financial year 2018-19.

The matter was taken up with the management during June to December, 2019 and reported to the Ministry during September and December, 2019. The management replied that some of the consumers had been issued notices for removal of illegal load whereas the load of remaining consumers was either regularized or within sanctioned load. Audit contended that the consumers had extended the load many times beyond 5000 KW, hence, they qualified for provision of independent grids.

The DAC in its meeting held on December 26, 2019 directed the management to inquire the matter for fixing responsibility upon the officers for not taking prompt action at the event of extension of load. DAC further directed to expedite recovery of departmental dues for independent grids from consumers 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 decision.

12.5.8 Concealment of line losses due to credit of 34.720 million units to consumers - Rs.449.56 million

According to Para-1.3 of Commercial Procedure, the Revenue Officer and Assistant Manager are responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures.

In LESCO Lahore, 34.72 million units were charged to 7311 Nos. consumers in excess. The excess charged units to the consumers were adjusted by giving a credit against the wrong readings. This resulted in concealment of line losses due to overbilling of 34.72 million units to the consumers as well as an attempt to show progress in recovery amounting to Rs.449.56 million.

Non-adherence to the provisions of the Commercial Procedure resulted in concealment of line losses as well as exaggerated progress of recovery due to non-affording of credit of 34.72 million units valuing Rs.449.56 million up to the Financial Year.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the units refunded were 0.35 % of the total sale for the period January to June, 2019 and amount refunded was only 0.29 % of the total billing for the same period. Hence, % age of units had a negligible impact over the line losses. The reply was not tenable as Audit pointed out that the percentage of adjustment / bill corrections should have been less than 0.01% as per Memorandum of understanding (MoU) signed between Ministry of Water & Power and DISCOs.

The DAC in its meeting held on December 26, 2019 directed the management to give revised reply to justify the units refunded above the 0.01 % to Audit within a week.

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

(Proposed Draft Para No. 1080/2019-20)

12.5.9 Non-completion of rehabilitation work of over loaded feeders - Rs.334.79 million

As per para 4.1.3 & 4.1.6 of WAPDA Distribution and Rehabilitation Guidelines, total time will be restricted to 130 days i.e from approval of proposals, inspection and completion certificate. The officer related to completion/supervision of work will share delay beyond 130 days.

In Construction Circle LESCO, expenditure of an amount of Rs.334.79 million was to be incurred on the rehabilitation of 90 Nos feeders to reduce the line losses. The rehabilitation work on nine (09) feeders was incomplete for more than 7 years. Hence, due to inordinate delay in completion of works, targets of reduction of line losses could not be achieved.

Non-adherence to the Distribution and Rehabilitation Guidelines resulted non-completion of works up to the financial year 2018-19.

The mater was taken up with the management in July, 2018 and reported to the Ministry in November, 2019. The management replied that some of the works had been completed while remaining were either pending or not received in Circle office.

The DAC in its meeting held on December 26, 2019 directed the management to give work wise justification for delay of pending works besides getting the completed works verified from Audit within 15 days.

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

(Proposed Draft Para No. 652/2019-20)

12.5.10 Irregular operation and maintenance of distribution system by owner of Private Housing Scheme – Rs.211.06 million

As per NEPRA's Memo dated February 04, 2019, "all Operation, maintenance, up-gradation, extension or reinforcement of distribution systems being undertaken by persons other than the concerned distribution company is to cease and forthwith be assumed by the concerned Distribution Company"

In Southern Operation Circle LESCO, a private housing scheme (Sui Northern Housing Society Lahore Cantt.) was operating and maintaining its own electrical distribution system in violation of NEPRA's above clarification. The said housing scheme was purchasing electricity from LESCO under Tariff C-2b and reselling it to the residents of society through its own system for billing and collection. Thus, the sale of Rs.211.06 million made by LESCO to the said society was illegal and unjustified.

Non-adherence to NEPRA's instruction resulted in irregular operation and maintenance of distribution system by owner of private housing scheme amounting to Rs.211.06 million during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that necessary advice had been sought from head quarter. Audit contended that operation and maintenance of distribution system by owner of private housing scheme in violation of NEPRA's instructions was irregular which needed to be justified.

The DAC in its meeting held on December 26, 2019 directed the management to submit revised detailed reply to Audit within a week.

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

(Proposed Draft Para No. 764/2019-20)

12.5.11 Irregular procurement of electrical equipment in violation of PPRA rule - Rs.151.19 million

As per PPRA Rule 38, Limitation on splitting or regrouping of proposed procurement.-Save as otherwise provided and subject to the regulation made by the Authority, with the prior approval of the Federal Government, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website. As per PPRA Rule 40 Limitation on negotiations.- Save as otherwise provided there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder:

In LESCO, Lahore, three (3) purchase orders worth Rs.151.19 million were placed for the procurement of electrical equipment (11kv dropout cutout) against tender No.2255 by splitting quantity into four equal lots of 6875. Three bidders quoted different rates against different lots but agreed upon on a single rate of Rs.4899. This state of affairs indicated that the procurement was managed by splitting and regrouping the total quantity and purchase orders were awarded by making negotiations with the bidders. Hence healthy competition was denied by violating the PPRs which led to mis-procurement to the stated extent. Moreover two evaluation reports of tender No.2255 were prepared. In the original evaluation report, in Lot II M/s Khalifa & Sons quoted lowest rate of Rs.4800 per item. In revised evaluation report, name of bidder M/s Khalifa & Sons was not mentioned and M/s A.H Associate was mentioned as the lowest bidder with offered rate of Rs.4800 per item. M/s A.H Associate was ordered to supply 13750 dropout / cutout, M/s Ajmer Engineering and M/s EAC were ordered to supply 6875 each. Further both the tender evaluation reports were prepared by two different committees which also needed to be justified as to why a revised evaluation of tender had to be made.

Non-adherence to the PPRA Rules resulted in irregular procurement worth to Rs.151.19 million during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the procurement in lots was justifiable according to PPRA clarification vide memo dated October 16, 2017. Moreover, all the firms reduced their rates voluntarily and no negotiation with any of the firms was made. The reply was not tenable as Audit contended that the post bid reduction and accord of all the four bidders at the same rate of Rs.4,899 was result of negotiation, which was not allowed under PPRA Rules.

The DAC in its meeting held on December 26, 2019 directed the management to submit revised reply in the light of audit contention within 15 days.

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

(Proposed Draft Para No. 1095/2019-20)

12.5.12 Wasteful expenditure due to incomplete contract work - Rs.150.72 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".

In PMU LESCO, a contract agreement No.ADB-Tranche-IV-LESCO-03(S)-2017 dated 08.11.2017 was signed between LESCO and M/s DESCON-Chint (Consortium) for construction of turnkey 132 KV GIS Grid Station at Punjab University under Tranche-IV Loan No.3096-PAK. The contractor left the work incomplete after receiving an amount of Rs.150.72 million. The amount paid to the contractor had gone wasted because the work had been stopped since long and achievement of envisaged benefits was not possible at that stage.

Non-adherence to the rules resulted in wasteful expenditure of Rs.150.72 million during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the said Grid Station was to be constructed at the premises of Punjab University New Campus. Work was awarded to contractor, however the University Management had stopped the work due to suo moto notice of Court. The stoppage of work was beyond the control of LESCO.

The DAC in its meeting held on December 26, 2019 directed the management to submit detailed revised reply to Audit within a week.

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

(Proposed Draft Para No. 1009/2019-20)

12.5.13 Non-recovery of fixed charges from Agricultural Tubewell Consumers – Rs.107.36 million

According to schedule of tariff issued by GoP, Tariff D2(a) and D2(b) is applicable to Agricultural tube well connections having sanctioned load 5 kw and above and fixed charges @ Rs 200 per kw are recoverable as per schedule of electricity tariff.

In Operation Circle Shaikhupura LESCO, 6,897 tubewell connections having sanctioned of 44739 KW were sanctioned under tariff D2(a) and D2(b). However, fixed charges were not recovered. Non-recovery of fixed charges resulted in loss of Rs.107.36 million.

Non-adherence to the rules resulted in non-recovery of fixed charges from agricultural tubewell consumers amounting to Rs.107.36 during the financial year 2018-19.

The matter was taken up with the management and reported to the Ministry in December, 2019. The management replied that the differential of notified (fixed + variable) charges and subsidized charges became the liability of Federal Government".

The DAC in its meeting held on December 26, 2019 directed the management to expedite recovery of fixed charges and get the recovery record verified from Audit within a month.

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

(Proposed Draft Para No. 1121/2019-20)

12.5.14 Non-installation of equipment drawn from store - Rs.107.03 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 LESCO, electrical equipment valuing Rs.107.03 million was drawn from warehouse by field formations for installation on works but installation of such equipment was not made by line staff and work was not completed since January 2018. Non-installation of material could delay timely completion of works besides chances of misappropriation of equipment.

Non-adherence to the Authority's instructions resulted in non-installation of electrical equipment valuing Rs.107.03 million during the financial year 2018-19.

The matter was taken up with management and reported to the Ministry in December, 2019. The management replied that some of the material had been installed and remaining could not be installed as the works were under progress.

The DAC in its meeting held on December 26, 2019 directed the management to give revised reply to justify as to why the material was drawn in advance and not returned to Store besides ensuring its utilization on works or return to Store within a month. DAC further directed to provide the record of installed material to Audit for verification within a week.

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

(Proposed Draft Para No. 1081/2019-20)

12.5.15 Non-refund of excess units charged to consumers - Rs.74.21 million

According to para 4.4(b) of Chapter 4 of Consumer Service Manual, at any time of doubt regarding the accuracy of any metering equipment, the DISCO may after informing the consumer, install another duly calibrated and tested metering equipment (checking metering equipment) in series with the impugned metering equipment to determine the difference in consumption or maximum demand recorded by the check metering equipment and that record by the impugned metering equipment during a fixed period.

In M&T East & West Circles LESCO, consumption data of replaced meters was retrieved in M&T Lab and it was found that excess units valuing Rs.74.21 million were charged to the consumers which were required to be refunded / credited to concerned consumers but was not done.

Non-adherence to instructions resulted in charging of excess units to consumers amounting to Rs.74.21 million during the financial year 2018-19.

The matter was taken up with the management in November 2019 and reported to the Ministry in December, 2019. The management replied that list of consumers had been sent to concerned formations by M&T West. Reply would be sent after consulting the record by concerned formation. In Nankana Circle, 21 Nos. consumers were involved. Refund had been given to all 21 Nos. consumers. Reply relating to M&T East Circle was awaited.

The DAC in its meeting held on December 26, 2019 directed the management to verify the completed actions and expedite the remaining actions relating to M&T West and submit detailed reply pertaining to M&T East.

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

(Proposed Draft Para No. 961 & 1099/2019-20)

12.5.16 Non-refund of saving amount against Orange Line Metro works - Rs.71.31 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 LESCO, it was observed that an amount of Rs.150.96 million was received as estimated cost of orange line metro works against which ten (10) works worth Rs.71.31 million were not executed. However, neither these works were executed nor amounts were refunded to the sponsor.

Non-adherence to the rules resulted in non-refund of saving of deposit works amounting to Rs.71.31 million up to the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that most of the Orange Line Train works were under progress and further explained that 10 works were deleted. On completion of the whole project, excess / saving would be recovered / returned.

The DAC in its meeting held on December 26, 2019 directed the management to submit work wise detailed revised reply substantiating deletion of works to Audit within a week besides ensuring adjustment of excess expenditure / savings.

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

(Proposed Draft Para No. 873/2019-20)

12.5.17 Unjustified payment through own sources instead of ADB loan - Rs.48.96 million

As per Section 3.05 of the Loan Agreement the Loan Closing Date for the purposes of the Loan Regulations shall be 30 September 2015 or such other date as may from time to time be agreed between the Borrower and ADB.

In Project Management Unit (PMU) LESCO, a contract agreement for procurement of plant, design, supply, installation, laying, testing, and commissioning of under Ground Copper Cable on Turnkey basis under ADB Loan was awarded on 22.03.2017. The subject contract could not be executed within the stipulated period of ADB loan closing on 31.01.2019 which resulted in payment of Rs.48.96 million through LESCO own resource.

Non-compliance to the time schedule of ADB loan LESCO has to bear extra burden on its resources by paying the remaining payments.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the shipment of material was completed after approval of technical data, manufacturing and pre-shipment inspections, therefore, the loan closing date was elapsed.

The DAC in its meeting held on December 26, 2019 directed the management to submit detailed revised reply justifying non-utilizing of loan within loan closing period within a week.

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

(Proposed Draft Para No. 1058/2019-20)

12.5.18 Blockage of funds due to un-necessary procurement of electrical equipment - Rs.47.96 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 PMU LESCO, electrical equipment valuing Rs.47.96 million was lying at warehouse. The equipment was procured during 2007 to 2010 and not issued for consumption since 2011 which showed that equipment purchased was not needed/demanded which resulted in blockage of funds to the stated extent.

Non-adherence to WAPDA Memorandum resulted in unnecessary purchase of electrical material worth Rs.47.96 million up to the financial year 2018-19.

The matter was taken up with the management in November 2019 and reported to the Ministry in December, 2019. The management replied that most of the said items / material consisted of spares, which were usually consumed slow as per requirement.

The DAC in its meeting held on December 26, 2019 directed the management to carry out age wise analysis and come up with future plan for utilization of slow moving items.

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

(Proposed Draft Para No. 1031/2019-20)

12.5.19 Loss due to unauthorized return of deducted Liquidated Damages - Rs.36.72 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".

In PMU LESCO, a contract agreement No.ADB-LESCO-02(S)-2015 for procurement of 1000 Nos. 11/415 KV 200 KVA Pole Mounted Transformers under Trench-II Loan-2727-PAK was signed on January 31, 2017 between LESCO and M/s TLT Transformers (Pvt.) Ltd. Sri Lanka. The due date of delivery of shipment of the material was April 16, 2018 but the same was delivered late in the Regional Store Shalimar, LESCO. Accordingly an amount of Rs.36.72 million (US $ 322,801) was deducted by Finance Section. After that BOD LESCO approved Extension of time in its 205th meeting dated March 09, 2019. The approval of Extension of Time after about one year of shipment of material was quite irregular and unjustified and undue favor to the supplier.

Non-adherence to the rules resulted in un-authorized return of deducted liquidated damages amounting to Rs.36.72 million up to financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the extension of time case was approved by BOD LESCO and LD of only 27 days was charged to the supplier.

The DAC in its meeting held on December 26, 2019 directed the management to provide the record in support of reply to Audit for verification within week.

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

(Proposed Draft Para No. 1010/2019-20)

12.5.20 Undue benefit to the consumers due to non-installation of independent transformers - Rs.33.04 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 Operation Circle Eastern LESCO, 175 industrial consumers having load up to 7.46 KW were given connections under tariff B-I from the existing distribution transformers. However, the consumers had extended their load and became eligible to be provided independent transformers after recovering an amount of Rs.33.04 million from them, which was not done.

Non-adherence to Authority’s instructions resulted in undue benefit of Rs.33.04 million to the consumers due to non-installation of independent transformers during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019 but no reply was given by the management.

The DAC in its meeting held on December 26, 2019 directed the management to submit reply within a week.

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

(Proposed Draft Para No. 650/2019-20)

12.5.21 Misappropriation of distribution transformers - Rs.21.39 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 Central Operation Circle LESCO, ninety (90) distribution Transformers valuing Rs.21.39 million of different capacities were either not existing at sites or installed with different serial numbers as pointed out in checking of physical line inventory. This state of affairs was evident of misappropriation of transformers, however, no administrative action was forthcoming from record.

Weak inventory control resulted in misappropriation of distribution transformers valuing Rs.21.39 million during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management stated that reply would be submitted after the findings of investigation in the matter.

The DAC in its meeting held on December 26, 2019 directed the management to inquire the matter within 10 days and fix the responsibility upon the person (s) at fault.

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

(Proposed Draft Para No. 907/2019-20)

12.5.22 Loss due to non-acceptance of debit memo on account of free electricity - Rs.20.78 million

According to note to Clause-4.7 of WAPDA Commercial Procedure, free electricity supply information with RO/CSO and computer centre will be revalidated every year in July by obtaining fresh applications. As per note to Clause-4.8, it would be the responsibility of the concerned Drawings & Disbursing Officer to ensure that the facility of free electricity is availed by the bonafide WAPDA employee.

In LESCO, free electricity worth Rs.20.78 million was supplied to the employees of different formations / Companies / WAPDA / PEPCO and debit advices were issued accordingly. These debit advices were not accepted by the concerned formations and were reversed by dis-owning the employees to whom free electricity was supplied. No action was taken for removing the free electricity account of the employees who were not owned by the Companies. Further recovery of billed amount against the concerned account numbers was also not forthcoming from the record made available to Audit.

Non-adherence to the Commercial Procedure resulted in loss of Rs.20.78 million due to non-acceptance of debit advices on account of free electricity during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that debited advices of Rs.16.56 million had been cleared while no reply was submitted for debited advices worth Rs.4.22 million.

The DAC in its meeting held on December 26, 2019 directed the management to inquire the matter to find out the reasons for non-acceptance of free electricity debit advices by other companies besides mentioning the last acceptance of debit advice within a month besides provision of evidence of accepted debit advices within 15 days.

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

(Proposed Draft Para No. 662 & 797/2019-20)

12.5.23 Loss due to overbilling to the Lahore Ring Road Authority - Rs.18.05 million

According to G.M. (C&M) Power memo dated December 01, 2007, Minutes of CEOs DISCOs Conference – 26th November, 2007, MD PEPCO showed his concern over the issues of excessive billing, parking of units and pilferage of electricity. Line losses due to theft of electricity with the collusion of staff are covered by bogus billing. Staff involved in theft of electricity must be imposed punishment to create deterrence. Moreover, as per instructions issued by the Manager Director PEPCO dated December 12, 2010. "strict disciplinary action, without any exception, shall be taken against the officers and staff found involved in the overbilling."

In Operation Circle Eastern LESCO, an amount of Rs.18.05 million was appearing as arrears for months together against three (03) connections of Lahore Ring Road Authority (LRRA) at Quaid-e-Azam interchange. The management of LRRA had complained about overbilling but necessary corrective action was not forth coming from record despite joint site checking of meters. Necessary disciplinary actions against the concerned officials involved in billing discrepancies were also not forth coming from record.

Non-adherence to PEPCO's instructions resulted in loss of Rs.18.05 million \ due to overbilling to the Lahore Ring Road Authority up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that the matter was under correspondence with Lahore Ring Road Authority.

The DAC in its meeting held on December 26, 2019 directed the management to resolve the matter expeditiously.

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

(Proposed Draft Par No. 643/2019-20)

12.5.24 Non-recovery of excess expenditure incurred over and above deposited amount from sponsors - Rs.14.42 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 LESCO, an expenditure of Rs.14.42 million was incurred on fifteen (15) 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.14.42 million from sponsors of deposit works up to the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that an amount of Rs.1.6 million against 05 works had been recovered while in remaining 10 works, recovery of Rs.12.82 million was pending.

The DAC in its meeting held on December 26, 2019 directed the management to get verified the recovery record from Audit within a week and expedite remaining recovery within a month.

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

(Proposed Draft Para No. 872/2019-20)

12.5.25 Recurring loss due to application of wrong tariff to educational institutions - Rs.10.90 million

According to NEPRA's Tariff determination of LESCO for the F.Y 2015-16 to 2019-20, Tariff A-3 is also applicable to the educational institutions.

In LESCO Lahore, educational institutions were running under tariff of A-1 instead of tarif A-3. Neither the change of tariff nor the recovery of difference of tariff was forthcoming from record. Hence, company was sustaining revenue loss of Rs.10.90 million every month.

Non-adherence to NEPRA's tariff determination resulted in recurring loss of Rs.10.90 million on account of wrong application of tariff during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that tariff of 2903 consumers had been changed to A-3, 694 consumers were either P.Disc or no school existed at site and remaining 28 were under process.

The DAC in its meeting held on December 26, 2019 directed the management to ensure recovery of tariff differential amount and provide the record of completed action to Audit besides expediting pending actions within a month.

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

(Proposed Draft Para No. 1154/2019-20)

12.5.26 Non-recovery of security deposits from consumers under Tariff C-2 (Bulk Supply) - Rs.8.56 million

According to Government of Pakistan SRO No. 04(1)/2011 dated January 3, 2011, In case of change of tariff, extension / reduction of load / shifting of site / change of name, the security amount shall be updated according to prevailing rates, "the rate of Security Deposits applicable under Tariff C-2(a) & C-2(b) (Bulk Supply) was Rs.2,080/- per kW".

In Southern Operation Circle LESCO, the connected load of three (03) consumers of Tariff C-2(a) & C-2(b) (Bulk Supply) was abnormally beyond their sanctioned load. These consumers were extending their load illegally since 2016 (as per available customer data summary of PITC). The illegally extended load was not got regularized which deprived the Company from recovery of security deposits amounting to Rs.8.56 million.

Non-adherence to the rules resulted in non-recovery of security deposits of Rs.8.56 million from consumers up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that recovery had been made from one consumer while notices had been issued to remaining two consumers.

The DAC in its meeting held on December 26, 2019 directed the management to expedite recovery of departmental charges by regularizing the extended loads and get the record verified from Audit within a month.

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

(Proposed Draft Para No. 760/2019-20)

12.5.27 Non-renewal of expired bank guarantees of industrial consumers - Rs.5.78 million

According to Clarification regarding updating security deposits issued by NEPRA vide No. NEPRA/TCD-05/2691-2710 dated April 14, 2011, the option for bank guarantees in lieu of security deposit shall be available to the industrial consumers under B-3 and B-4 categories only with a validity period of three years.

In Southern Operation Circle LESCO, two (02) industrial consumers had provided bank guarantees amounting to Rs.5.78 million against security deposits. These bank guarantees were expired and required to be renewed for another period of three years but no efforts were made for obtaining extended / renewed performance guarantees from the consumers.

Non-adherence to the NEPRA's instructions resulted in non-renewal of expired bank guarantees amounting to Rs.5.78 million of the industrial consumers up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that notices had been issued to the consumers for updating of bank guarantees.

The DAC in its meeting held on December 26, 2019 directed the management to expedite the renewal of bank guarantees and get the record of completed action verified from Audit within 15 days.

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

(Proposed Draft Para No. 762/2019-20)

12.5.28 Loss due to non-finalization of inquiry against official involved in theft of electricity - Rs.4.38 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".

In Central Circle LESCO, three (03) officials were found involved in electricity theft directly or indirectly by deceiving the department. Only departmental action was initiated but no inquiry in this context was finalized so as to assess the loss suffered by the Company.

Non-adherence to the rules resulted in loss of Rs.4.38 million due to non-finalization of inquiry against official involved in electricity theft during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that show cause notices would be finalized in due course.

The DAC in its meeting held on December 26, 2019 directed the management to inquire the matter within 10 days.

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

(Proposed Draft Para No. 908/2019-20)

12.5.29 Embezzlement / bogus payment in pension accounts – Rs.4.31 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".

In Central Circle LESCO, embezzlement of Rs.4.31 million was made by an official (LM-II) through bogus pensionary accounts. The amount so far calculated was not finalized due to misplacement of Account Section Record pertaining to incumbent officer/official involved in forgery. An inquiry to probe into misplacement of record was also initiated by authority which was yet pending. Both the inquiries were pending despite lapse of a period of more than three years, which showed weak internal controls of the company.

Non-adherence to the rules resulted in non-finalization of inquiry regarding embezzlement of Rs.4.31 million in pensionary funds up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that the competent authority had been requested for constitution of inquiry committee. It was further explained that the matter was also under investigation with FIA.

The DAC in its meeting held on December 26, 2019 directed the management to expedite departmental inquiry for fixing the responsibility and provide the record of completed action to Audit within a month besides pursuing the matter with FIA.

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

(Proposed Draft Para No. 857/2019-20)

12.5.30 Non-recovery due to illegitimate use of electricity by disconnected consumers running at site - Rs.4.02 million

As per Abridged Conditions of 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 M&T East LESCO, fifty (50) Nos. disconnected connections were checked and found running at site illegally and extracting electricity supply directly, which caused loss of revenue to the company worth Rs.4.02 million. Effective steps were not taken by operational staff to stop theft of electricity.

Non-adherence to Abridged Conditions of Supply resulted in non-recovery of Rs.4.02 million due to illegitimate extraction of electricity by disconnected consumers running at site during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management stated that the reply would be submitted after consulting the record.

The DAC in its meeting held on December 26, 2019 directed the management to submit the reply along with evidence to Audit within a week.

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

(Proposed Draft Para No. 1101/2019-20)

12.5.31 Loss of revenue due to misuse of tariff - Rs.3.21 million

According to Chapter-7 (7.5) of Consumer Service Manual, "Mis-use of Tariff a) the consumer shall, in no case use the connection for the purpose other than for which it was originally sanctioned. In case of violation, the consumer is liable for disconnection and/or penal action. b) DISCO shall serve seven (7) days clear notice to the consumer who is found mis-using his approved sanctioned tariff. However, DISCO shall immediately change the tariff and shall determine the difference of charges of the previous period of mis-use to be recovered from consumer".

In M&T East LESCO, twenty one (21) domestic connections were checked by XEN (M&T) East LESCO and pointed out that these consumers were engaged in the commercial activities but were running under domestic tariff. Due to mis-use of tariff the Company sustained a loss of Rs.3.21 million.

Non-adherence to Consumer Service Manual resulted in loss of Rs.3.21 million due to mis-use of tariff by the domestic consumer during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. No reply was submitted by the management.

The DAC in its meeting held on December 26, 2019 directed the management to submit the reply along with evidence to Audit within a week.

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

(Proposed Draft Para No. 1100/2019-20)

12.5.32 Loss due to non-recovery from defaulters and non-proceeding of disciplinary action against delinquents - Rs.2.98 million

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

In LESCO, as per (S&I) Directorate report in fifty nine (59) cases, consumers had not deposited the arrear amounting to Rs.2.98 million but with the connivance of the LESCO staff new connections were installed there against. It was further stated that fourteen numbers of officials / officers were involved in illegitimate installation of new connections, only one Line Superintendent was kept under suspension.

Non-adherence to rules resulted in loss of Rs.2.98 million due to non-recovery from defaulters and non-proceeding of disciplinary action against delinquents during the period July, 2018 to December, 2018.

The matter was taken up with the management in June, 2019 and reported to the Ministry in September, 2019. The management replied that the disciplinary actions had been finalized. Audit contended that action was taken against line staff only and no action was taken against the officers who accorded approvals for connections without clearance of outstanding dues.

The DAC in its meeting held on December 26, 2019 directed the management to inquire the matter and fix responsibility against the officers who accorded sanctions without clearance of outstanding dues besides ensuring recovery of the same within a month.

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

(Proposed Draft Para No. 37/2019-20)

12.5.33 Non-recovery from consumer due to non-debiting of outstanding arrear to the running Connections – Rs.2.58 million

According to Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures".

In Central Circle LESCO, an amount of Rs.2.58 million was outstanding for period more than 31 months against the consumer having reference No. 46-11242-1678000 (P. Disc). As per policy the outstanding amount was to be debited to the running connection of the said consumer bearing reference No. 24-11242-9000601 but the same was not done for making early recovery.

Non-adherence to Commercial Procedures resulted in non-recovery of Rs.2.58 million from consumer due to non-debiting outstanding arrear up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that the recovery was pending due to government connection (Distt. & Session Judge).

The DAC in its meeting held on December 26, 2019 directed the management to expedite the recovery and provide the recovery record to Audit for verification within a month.

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

(Proposed Draft Para No. 863/2019-20)

12.5.34 Un-necessary purchase of stores / electrical material - Rs.2.52 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 GSC LESCO, sixty-two (62) Ethernet modems valuing Rs.4.91 million were purchased in 2013 for installation on Grid Stations. However, only 25 modems were installed on grid stations whereas 37 modems valuing Rs.2.52 million were returned to Store in September, 2018 being unutilized after five years. Warranty of such equipment was also expired. 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.

Non-adherence to Authority's instructions resulted in blockage of funds due to un-necessary purchase of stores / electrical material valuing Rs.2.52 million up to the financial year 2018-19.

The matter was taken up with management and reported to the Ministry in December, 2019. The management replied that the Ethernet Modems were purchased for AMR project as per requirement in compliance to M/o Water & Power office Memo dated 17.12.2012. Meanwhile, installation of GSM sim based latest technology meters was started under USAID instead of Ethernet Modems energy meters.

The DAC in its meeting held on December 26, 2019 directed the management to provide detailed revised reply justifying non-utilization of ethernet modems with future plan for their utilization to Audit within a week.

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

(Proposed Draft Para No. 1087/2019-20)

12.5.35 Loss due to wrong application of tariff - Rs.2.46 million

According to NEPRA's tariff conditions, tariff H was applicable to the residential colonies attached to industrial premises.

In Operation Circle LESCO Kasur, One (01) residential colony attached to industrial premises was running illegally under Tariff-A-Ib (03) instead of Tariff-H which resulted in loss due to tariff differential worth Rs.2.46 million during 2018-19. Hence, undue favour was extended to the consumer amounting to Rs.2.46 million through wrong application of tariff.

Non-adherence to NEPRA's instructions resulted in non-recovery of cost of independent feeder amounting to Rs.2.46 million during financial year 2018-19.

The mater was taken up with the management in September, 2019 and reported to the Ministry in December, 2019. The management replied that the notice had been issued to the consumer.

The DAC in its meeting held on December 26, 2019 directed the management to ensure application of appropriate tariff to the consumer besides recovery of tariff differential amount and provide the record of completed actions to Audit for verification within a month.

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

(Proposed Draft Para No. 1057/2019-20)

12.5.36 Irregular payment of bonus to the third party hired personnel - Rs.1.7 million

According to Clause-3.5 of Service Agreement between LESCO and Sidat Hyder Morshed Associates Pvt referred to as "SHMA", "each consultant shall be employed only by SHMA and shall neither be employed by the LESCO, nor represent himself as being an employee of the LESCO, nor paid any salary or remuneration or any benefit ancillary thereto by the LESCO". As per Clause-5.1 (a), "Lump sum salary package including any other payment under the Employment Agreement mentioned in clause-3.3 which SHMA incurs".

In LESCO Lahore, bonus of Rs.1.7 million was directly paid to the persons hired through third party i.e. Sidat Hyder Morshed Associates Pvt (SHMA). Neither the hired persons were the employees of LESCO nor the payment of bonus was covered in the service agreement as only lump sum salary package payment was required to be made to SHMA for disbursement among its employees. Hence, payment of bonus and that too directly to the hired personnel was unjustified and needed to be recovered.

Non-adherence to service agreement resulted in irregular payment of bonus of Rs.1.7 million to the third party hired personnel during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the bonus was given after the approval of BOD LESCO. The reply was not agreed to as the bonus to lump sum paid third party hired consultants was also against the contractual provisions.

The DAC in its meeting held on December 26, 2019 directed the management to submit revised reply justifying irregular payment of bonus within a week to Audit.

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

(Proposed Draft Para No. 1092/2019-20)

12.5.37 Loss due to theft of electricity by permanently disconnected consumer running at site - Rs.1.40 million

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

In LESCO, a permanently disconnected connection bearing Ref No. 10-11542-0997900 was running at site which entailed a loss of Rs.1.4 million to the Company. However, recovery of loss and disciplinary action against the responsible official (s) was not forthcoming from the record.

Non-adherence to the rules resulted in loss due to theft of electricity amounting to Rs.1.40 million up to the financial year 2018-19.

The matter was taken up with the management in December, 2018 and reported to the Ministry in December, 2019. The management replied that the recovery was imposed upon the officials involved in this case but they had got stay from the Court and cases were under trial.

The DAC in its meeting held on December 26, 2019 directed the management to pursue legal and departmental actions against the officials / consumer involved in theft of energy besides making the loss good and provide the relevant record to Audit for verification within a month.

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

(Proposed Draft Para No. 1198/2019-20)

12.5.38 Undue benefit given to industrial consumers due to application of wrong tariff B-2 to B-3 - Rs.1.04 million

Tariff B-3 is applicable for supply to industries having sanctioned load of more than 500 KW up to and including 5000 KW for supply at 11 KV and 33 KV.

In LESCO, Planning and Development section 01 No industrial consumer sanctioned under tariff B-2 was running illegally beyond their load. In this way the consumer was given undue benefit of enjoying the extended load without depositing additional security, material cost, and fixed charges to the tune of Rs.1.042 million.

Non-adherence to the rules resulted in undue benefit of Rs.1.042 million given to industrial consumers during the period July, 2018 to December, 2018.

The matter was taken up with the management in June, 2019 and reported to the Ministry in September, 2019. The management replied that the notice had been issued to the consumer.

The DAC in its meeting held on December 26, 2019 directed the management to expedite regularization of load by recovering departmental dues within a month.

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

(Proposed Draft Para No. 40/2019-20)

12.5.39 Loss to public exchequer due to wrong application of tariff - Rs.1.04 million

According to NEPRA's Schedule of Tariff for supply under Tariff-B, industrial supply means the supply for bona fide industrial purposes in factories and for the purpose of application of this tariff an "industry" means a bona fide undertaking or establishment engaged in manufacturing, value addition and / or processing of goods. Moreover, according to clarification issued by the G.M (Customer Services) WAPDA, Lahore vide office letter dated August 17, 2000, tariff chargeable to Telephone Exchanges would be Tariff-A-2.

In Operation Circle Eastern LESCO, four (04) energy connections were running under industrial tariff instead of commercial tariffs as required under the rules. The said consumers were enjoying the relief of Rs.3 per kwh unit under the Prime Minister's relief package to industries, which was unjustified and caused loss of Rs.1.04 million to the Company`s Exchequer.

Non-adherence to NEPRA's tariff conditions resulted in loss of Rs.1.04 million due to wrong application of tariff during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. No reply was given by the management.

The DAC in its meeting held on December 26, 2019 directed the management to submit reply within a week.

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

(Proposed Draft Para No. 659/2019-20)

CHAPTER-13

MULTAN ELECTRIC POWER COMPANY (MEPCO)

13. MULTAN ELECTRIC POWER COMPANY (MEPCO)

13.1 Introduction

Multan Electric Power Company (MEPCO) is a subsidiary of PEPCO. The Company started its operations as a Public Limited Company in May, 1998 registered under Companies Ordinance, 1984. 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-G 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, Grid System Construction Circle, Project Construction and Grid System Operation Circles. The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue/ Receipts audited FY2018-19 (Rs.in million)
1.	Formations	16	11	34,269.39	25,360.32	68,594.64
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities/ Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	03	03	US$ 4.26	US$ 4.26	Nil

13.2 Comments on Financial Statements

13.2.1 Financial Overview

As per the audited Financial Statements for the year 2018-19 the Company remained in loss at the year ended dated 30th June, 2019. However, the loss decreased from Rs.33,824.727 million in the financial year 2017-18 to Rs.22,782.329 million in the financial year 2018-19 registering 32.65% decrease. Moreover, the net electricity sale increased from Rs.180,237.035 million in the financial year 2017-18 to Rs.235,312.26 million in the financial year 2018-19 registering 30.56% increase.

13.2.2 Extract of the Financial Statements
Statement of Financial Position as at June 30, 2019

(Rs.in millions)

	2019	%age	2018	%age	2017
Equity & Liabilities					
Issued, subscribed and Paid up Capital	10,823.636	-	10,823.636	-	10,823.636
Deposit for issue of Share Capital	31,337.632	2.44	30,590.261	(5.90)	32,508.450
Surplus on Revaluation	-	-	-	-	-
Accumulated Losses	(133,599.364)	25.77	(106,224.502)	72.77	(61,482.748)
Shareholders' Equity	**(91,438.096)**	41.09	**(64,810.605)**	257.09	**(18,149.662)**
Liabilities against Government Investment	-	-	-	-	-
Long term Loans/financing	8,811.427	(4.58)	9,234.628	1.70	9,080.648
Staff retirement benefits	79,175.418	12.47	70,394.154	24.39	56,593.072
Long term security deposits	9,179.842	12.44	8,164.535	13.24	7,210.181
Receipts against deposit work	20,722.976	1.34	20,448.935	17.56	17,393.862
Deferred Credit	57,195.876	9.53	52,220.168	7.70	48,487.703
Deferred mark-up	0	(100.00)	626.688	114.69	291.904
Total Non-current Liabilities	**175,084.539**	8.69	**161,089.108**	15.84	**139,057.371**
Trade & Other Payables	122,306.646	5.39	116,046.041	132.39	49,936.279
Accrued Markup	9,305.255	29.29	7,197.301	14.20	6,302.177
Provision for Taxation	-	-	-	-	-
Current portion of long term debt	5,376.169	20.20	4,472.645	24.11	3,603.804
Total Current Liabilities	**136,988.070**	7.26	**127,715.987**	113.42	**59,842.261**
Total Liabilities	**312,072.609**	8.06	**288,805.095**	45.20	**198,899.632**
Total Equity & Liabilities	**220,634.513**	(1.50)	**223,994.490**	23.93	**180,749.971**
Assets					
Property Plant & Equipment	108,889.818	8.86	100,028.337	9.81	91,088.703
Intangible assets	10.102	(63.13)	27.397	(38.70)	44.692
Long Term Loans	80.630	4.77	76.960	0.99	76.206
Long term deposits	0.049	-	0.049	-	0.049
Total Non-Current Assets	**108,980.599**	8.84	**100,132.743**	9.78	**91,209.651**
Stores, spares & loose tools	8,103.426	40.60	5,763.585	46.25	3,940.785
Trade Debts against sale of Electricity	28,795.205	(26.25)	39,045.857	41.75	27,545.653
Loans & Advances	349.921	(15.03)	411.795	64.44	250.430
Other Receivables	57,164.705	(0.92)	57,697.403	48.86	38,758.498
Tax refunds due from government	6,679.288	(37.42)	10,673.864	5.24	10,142.850
Total Receivables	**101,092.545**	(11.00)	**113,592.504**	40.87	**80,638.216**
Accrued Interest	103.482	113.34	48.505	21.07	40.064
Cash & Bank Balances	10,457.888	2.32	10,220.739	15.33	8,862.111
Total Current Assets	**111,653.914**	(9.86)	**123,861.747**	38.33	**89,540.319**
Total Assets	**220,634.513**	(1.50)	**223,994.490**	23.93	**180,749.971**

(Source: Audited Financial Statement of MEPCO Financial Year 2018-19 – Riaz Ahmad & Co., Chartered Accountant)

Statement of Profit & Loss Account
For the year ended June 30, 2019

(Rs.in millions)

	2018-19	*% age*	*2017-18*
Sale of Electricity	165,347.625	18.13	139,972.299
Subsidy from Government of Pakistan on sale of Electricity	69,964.632	73.76	40,264.736
Sale of Electricity including Subsidy	235,312.257	30.56	180,237.035
Cost of Electricity	(225,725.413)	17.14	(192,693.791)
Gross Profit/(Loss)	**9,586.843**	(176.96)	**(12,456.756)**
Amortization of deferred Credit	2,758.528	10.78	2,490.165
	12,345.372	(222.87)	**(9,966.591)**
Operating Expenses excluding Depreciation	(31,940.190)	46.01	(21,875.165)
Depreciation	(4,693.124)	10.19	(4,259.095)
	(36,650.610)	40.15	**(26,151.555)**
Loss from Operations	(24,305.238)	(32.71)	(36,118.145)
Misc. Other Income	3,812.923	11.28	3,426.437
Financial Expenses	(2,290.014)	102.12	(1,133.018)
	(22,782.329)	(32.65)	(33,824.727)
Taxation	-	-	-
Net Profit/(Loss) after Tax	**(22,782.329)**	(32.65)	**(33,824.727)**

(Source: Audited Financial Statement of MEPCO Financial Year 2018-19 – Riaz Ahmad & Co., Chartered Accountant)

13.2.3 Comments on Audited Accounts

i) Profitability

The Company suffered a net loss of Rs.22,782.33 million during the financial year 2018-19. Total accumulated losses have reached to the tune of Rs.133,599.36 million resulting in net capital deficiency. As on June 30, 2019 the company's current liabilities exceeded current assets by Rs.25,334.16 million. This condition indicated existence of material uncertainty as to the Company's ability to continue as a going concern. The Company was suffering from consistent losses over the years which reflected operational inefficiencies as well policy bottlenecks requiring urgent remedial action.

ii) Sales and Cost of sales

The sales of the Company were Rs.235,312.26 million including the subsidy received from Government of Pakistan for an amount of Rs.69,964.63 million and cost of sales of the company stood at Rs.225,725.41 million which was 95.92% of the sale. This meant that the Company was unable to recover the operating expenses for the year.

iii) Trade Debts and other Receivables

Total receivables of the Company were Rs.92,989.12 million as on June 30, 2019. An amount of Rs.39,910.50 million was receivable from Government of Pakistan against tariff differential subsidy, Rs.7,254.21 million from other Associated Companies, Rs.28,795.21 million from various consumers, Rs.6,679.29 million from tax authorities and Rs.349.92 million from employees on account of loan and advances Huge pending receivables were a significant business sustainability risk for the Company and required long term rectification measures. Huge balance of receivables depicted poor recovery efforts of the Company, which needed justification.

iv) Trade and other Payables

Payables of the Company substantially increased from Rs.116,046.04 million in the financial year 2017-18 to Rs.122,306.65 million in the financial year 2018-19. The major amount of Rs.104,090.97 million was payable to CPPA-G on account of purchase of electricity which showed unsatisfactory financial management and poor liquidity position of the Company. Immediate short term measures and prudent long term action were needed to stop the accumulation of payables and ensure steady reduction of pending payables in the future.

v) Non-Recognition of Debit note of Rs.13,244.70 million of mark up paid by CPPA-G

The Company received Debit notes aggregating of Rs.13,244.70 million (issued by Central Power Purchasing Agency (CPPA-G) against syndicated mark up payments for financing agreements executed between Power Holding (Pvt) Limited "PHPL" and Government of Pakistan for the purposes of repayment of liabilities of DISCOs against cost of electricity purchased. However, the Company has not yet recognized the impact of said Debit notes/arrangements in its books of accounts. Had these supplemental charges been recognized, it would have increase the expenditure and increase loss by Rs.13,244.70 million. In order to avoid financial impediment in the Power Sector supply chain it was necessary that difference between CPPA-G and MEPCO were resolved timely.

vi) Operating expenses

The Operating expenses of the company increased from Rs.21,875.17 million during the financial year 2017-18 to Rs.31,940.19 million during the year 2018-19 registering an increase of Rs.10,065.01 million. As the Company was incurring losses, increase in its operating expenses required justification.

13.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.11,252.17 million were raised in this audit. The amount also includes recoverables of Rs.1,050.20 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft		17.64
2.	Irregularities		
	A.	HR/Employees related irregularities	2.54
	B.	Procurement related irregularities	116.15
	C.	Irregularities pertaining to violation of entity's own rules / regulations	493.60
	E.	Irregularities pertaining to violation of Regulatory Laws & Regulations	9,545.99
	F.	Recoveries	1,050.20
3.	Value for money and service delivery issues		26.04

Note:- *Further audit observations pertaining to subject company, being identical in nature with that of other DISCOs, have been included in the Chapter of respective Common Issues of this report.*

13.4 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	-		01 (Para No.6.4.1)

Position of compliance with PAC directives is not satisfactory.

13.5 AUDIT PARAS

13.5.1 Non-recovery of reconciled General Sales Tax Subsidy by the Punjab Government - Rs.8,609.63 million

As per Finance Division, Government of Pakistan letter dated 28th June, 2007, 25% subsidy on electricity charges on the use of agricultural tube wells was approved to boost agricultural production. The cost will be shared equally between Federal / Provincial Governments."

In MEPCO, an amount of Rs.8,609.63 million was recoverable against agreed subsidy amount of General Sales Tax on tube well connection from Government of Punjab. Non-payment of reconciled subsidy on General Sales Tax from the Government of Punjab was a recurring loss to the Company which 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.8,609.63 million from provincial government up to the financial year 2018-19.

The matter was taken up with the management in October 2019 and reported to the Ministry in November, 2019. The management replied that the matter was being pursued vigorously with the Government of Punjab for getting the payment.

The DAC in its meeting held on January 02, 2020 directed the management to expedite the efforts for recovery from Government of Punjab and provide the record of completed actions to Audit.

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

(Proposed Draft Para No. 719/2019-20)

13.5.2 Loss of revenue due to abnormal line losses on feeders - Rs.785.10 million

NEPRA fixed targets of energy losses at 15.0% for the financial year 2017-18 which remained in vogue in F.Y 2018-19 in respect of MEPCO.

In MEPCO, the percentage of line losses on 141 feeders was abnormally higher than the targets of losses set by the NEPRA. Hence, 60.38 million units were lost, which caused revenue loss of Rs.785.10 million. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	(%) of Losses	No. of feeders	Units Lost (million)	Amount (Rs.in million)
1.	Muzaffargarh Operation Circle	853/2019-20	14.2% to 27.63%	56	31.48	409.30
2.	Bahawalnagar Operation Circle	879/2019-20	15.08% to 28.37%	23	19.23	250.03

3.	D.G Khan Operation Circle	895/2019-20	15.37% to 59.76%	62	9.67	125.77
		TOTAL		**141**	**60.38**	**785.10**

Non-adherence to NEPRA's target resulted in loss of revenue amounting to Rs.785.10 million during the financial year 2018-19.

The matter was taken up with the management during September & October, 2019 and reported to the Ministry during November & December, 2019. The management replied that high losses on feeders were due to lengthy feeders, poor substations, difference in reading cycle, shifting / bifurcation of load and wrong feeder coding. However, efforts were being to reduce the line losses. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit was provided.

The DAC in its meetings held on January 02, 2020 did not accept the stance of the management and directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for line losses beyond NEPRA target. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B,C,D & E for elucidating true picture 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.

13.5.3 Non-recovery of receivables from energy defaulters - Rs.531.47 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 MEPCO, an amount of Rs.531.47 million was recoverable from permanently disconnected / running energy defaulters. In this respect, no efforts were made by the management to accelerate the recovery from defaulters. The detail is as under:-

Sr. No.	Name of Formations	Proposed Draft Para No.	Amount (Rs.in million)
1.	Multan Operation Circle	123/2019-20	129.67
2.	Bahawalpur Operation Circle	464/2019-20	133.09
3.	Sahiwal Operation Circle	538 & 756/2019-20	265.62
4.	Bahawalnagar Operation Circle	757/2019-20	3.09
		TOTAL	**531.47**

Non-adherence to Commercial Procedure resulted in non-recovery of Rs.531.47 million from energy defaulters up to the financial year 2018-19.

Audit was of the view that subject matter was a significant issue and major business sustainability risks for the MEPCO. It was also a major source for accumulation of circular debt in the Power Sector.

The matter was taken up with the management during August to October, 2019 and reported to the Ministry during September to November, 2019. The management replied that in some cases amount had been recovered and efforts were being made to recover the remaining amount.

The DAC in its meetings held on January 02, 2020 directed the management to produce the recovery record to Audit within a week and expedite recovery from remaining consumers by giving priority to top 100 defaulters as per the aging / significance of outstanding dues. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision besides fixing responsibility for inordinate delay in clearance of arrears.

13.5.4 Non-payment of outstanding dues by M/s Rahim Bux Textile Mills - Rs.326.15 million

As per Section-23 of WAPDA Act-1958, any sum due to the authority shall be recoverable as arrears of Land Revenue.

In MEPCO an amount of Rs.326.15 million was recoverable from M/s Rahim Bux Textile Mills and its five allied units on account of electricity dues which were not paid. Consequently, the connections were permanently disconnected, but the recovery could not be affected. The arrear was needed to be recovered under Land Revenue Act.

Non-adherence to authority`s instructions resulted in non-recovery of Rs.326.15 million during the financial year 2018-19.

The matter was taken up with the management in April, 2019 and reported to the Ministry in October, 2019. The management replied that the said para was duplicate of DP No. 627/2017-18 (Para No. 2.1.4 of AR: 2017-18). However, status of recoverable amount was that out of total amount an amount of Rs.40.00 million had been recovered with balance recoverable amount of Rs.286.15 million. Audit pointed out that in PDP 627/2017-18 recoverable amount was Rs.275.49 million whereas in the instant Para the recoverable amount had increased up to Rs.326.15 million, which showed that the matter was not being pursued properly by the management.

The DAC in its meeting held on January 02, 2020 directed the management to expedite necessary steps as per SoPs for recovery of outstanding dues and provide the record of completed actions to Audit for verification within a month.

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

(Proposed Draft Para No. 341/2019-20)

13.5.5 Non-recovery of cost of independent grid station due to non-consolidation of load - Rs.202.55 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 breakers 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 Manager (M&T-I) MEPCO Multan, four (04) connections with sanctioned load of 4550, 4900, 4750 & 4700 KW were running in the same premises in the name of Fazal Cloth Mills & Fazal Weaving Mills, Qadar Pur Rawan Multan respectively. Since, the combined load of the said connections was 18,900 KW, therefore, the technical committee of M&T also recommended for consolidation of load. However, consolidation of load by recovering Rs.202.55 million from consumer being the cost of independent grid station was not forthcoming from the record.

Non-adherence to the NEPRA instructions resulted in non-recovery of cost of independent grid station amounting to Rs.202.55 million due to non-consolidation of load up to the financial year 2018-19.

The matter was taken up with the management in November 2019 and reported to the Ministry in December, 2019. The management replied that the matter had been reported to the concerned operation formation.

The DAC in its meeting held on January 02, 2020 directed the management of PEPCO to conduct inquiry within a month and provide its report to Audit.

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

(Proposed Draft Para No. 936/2019-20)

13.5.6 Non-recovery from the defaulter - Rs.192.58 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 Circle Multan MEPCO, a consumer connection in the name of M/s Colony Textile Mills bearing reference No.30-15138-0000100 under tariff B-4 (17) was got sanctioned with load of 1950 KW with independent 11 KV feeder. The consumer refused to pay the outstanding amount of arrears Rs.192.58 million since last 17 years. Neither the consumer connection was disconnected and allied material was removed from the site nor were the arrears of energy charges recovered from the consumer.

Non-adherence to abridged condition resulted in non-recovery of Rs.192.58 million from the defaulter during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that the Para was duplicate of DP-262/2001(Para No. 49 of Audit Report 2000-01).

The DAC in its meeting held on January 02, 2020 directed the management to get the stance of duplication verified from Audit within 15 days.

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

(Proposed Draft Para No. 217/2019-20)

13.5.7 Irregular and unjustified charging of excess units on account of AMR meter - Rs.166.04 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 MEPCO, as per D.G. (IS) MEPCO letter dated July 7, 2019 a post billing comparison of readings charged on the bills for AMI batches B-27, B-29 and B-30 with the readings on C-3 (Galaxy) was made up to the billing month of June, 2019. According to which 16.040 MKWh were excess charged. Resultantly, irregular and unjustified revenue amounting to Rs.166.04 million was generated from the consumers connected with AMR system. Neither any inquiry was conducted nor the excess units were withdrawn/adjusted.

Non-implementation of Commercial Procedure resulted in undue generation of revenue of Rs.166.04 million during the financial year 2018-19.

The matter was taken up with the management in October 2019 and reported to the Ministry in November, 2019. The management replied that there was no excess charging on AMR meters as billing was being done through SIM communication.

The DAC in its meeting held on January 02, 2020 directed the management to provide the record in support of reply to Audit for verification within a week.

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

(Proposed Draft Para No. 712/2019-20)

13.5.8 Non-finalization of inquiry regarding over-billing to the tube well consumers-Rs.112.88 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 MEPCO, a complaint was lodged by District Chairman Pakistan Kissan Ittehad Vehari that 11.288 million energy units were excess charged to the tube well consumers deliberately in Mailsi division. The matter was probed by the inquiry committee and validated the complaint but did not recommend action against delinquents. The excess units were also not adjusted. The generation of revenue valuing Rs.112.88 million as a result of overbilling was not in line with the Commercial Procedure and was completely unjustified.

Non-implementation of Commercial Procedure resulted in undue generation of revenue worth Rs.112.88 million during the year 2018-19.

The matter was taken up with the management in October 2019 and reported to the Ministry in November, 2019. The management replied that out of 196 tube well connections 132 were given credit of Rs.2.54 million and remaining 64 connections involving Rs.110.35 million had been completing their reading run over. Moreover, disciplinary action had been finalized against the nine (09) officials and decision against two SDOs was pending.

The DAC in its meeting held on January 02, 2020 directed the management to provide the record in support of reply to Audit for verification within a week and ensure disciplinary actions against officers and officials expeditiously.

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

(Proposed Draft Para No. 716/2019-20)

13.5.9 Undue generation of revenue through over billing - Rs.82.23 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 MEPCO, the percentages of energy losses of 38 feeders were in negative figures during the financial year 2018-19. The negative losses revealed that the units billed were in excess of units received on feeders, which was an indication of overbilling of Rs.82.23 million to the consumers. Audit was of the view that overbilling showed lack of control in the MEPCO and reduced the authenticity of their data. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	No. of Feeder	No. of Units (million)	Amount (Rs.in million)
1.	Multan Operation Circle	86/2019-20	28	1.63	20.60
2.	Sahiwal Operation Circle	433/2019-20	8	1.67	23.11
3.	Bahawalnagar Operation Circle	472/2019-20	2	2.96	38.52
	TOTAL		**38**	**6.26**	**82.23**

Non-adherence to Commercial Procedure resulted in undue generation of revenue of Rs.82.23 million through over billing to consumers during the financial year 2018-19.

The matter was taken up with the management during August to September, 2019 and reported to the Ministry during September & October, 2019. The management replied that line losses were due to wrong coding of feeders, shifting / bifurcation of load and difference in billing cycle. The reply was not acceptable as no proper measures were adopted to avoid overbilling.

The DAC in its meetings held on January 02, 2020 directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for negative line losses. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture and provide the record 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 decision besides fixing responsibility.

13.5.10 Irregular award of work in violation of PPRA Rules - Rs.39.40 million

Clause 4.5 of the Book of Financial Powers of departments of NTDC/DISCOs refers variation /change order up to maximum limit of 25% of original contract price.

In GSC MEPCO, a contract for the construction of tower foundations, erection of towers, stringing, testing & commissioning of 132 KV STD T/L Dammar Wala-Jatoi-T-off Alipur (30-KM, SDT, Lynx) was awarded to M/s Pir Arif Said & M/s Chenab Construction Company (JV) Jhang at contract cost of Rs.29.661 million on March 09, 2017. The cost of the subject work was revised up to Rs.39.401 million due to additional work, 32.84% higher of the original contract price, which was in violation of the provision of Book of Financial Powers of departments of NTDC/DISCOs. Hence, undue favor was afforded to the contractor by awarding irregular additional work worth Rs.39.40 million beyond 25% of original contract price.

Non-adherence to rules resulted in irregular award of contract worth Rs.39.40 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that the matter was referred to PPRA for necessary clarification, and in the light of its comments, the BOD had accorded the approval of increase in cost of original contract by 32.84%.

The DAC in its meeting held on January 02, 2020 directed the management to conduct an inquiry and provide its report to Audit within 30 days.

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

(Proposed Draft Para No. 390/2019-20)

13.5.11 Irregular recovery of cost of defective meters from consumers - Rs.36.29 million

As per Clause 4.4 of the Consumer Service Manual, the consumer is not liable for any discrepancy or fault in metering equipment that is not attributable to any act or omission of the consumer. Accordingly, NEPRA has directed all the distribution companies to cease the practice of charging cost forthwith for replacement of meter to the consumers, specifically on account of meter display errors, where the discrepancy or fault is not attributable to any act or omission of the consumer".

In MEPCO, 13,764 single / three phase, TOD and MDI defective meters were replaced by recovering the cost of Rs.36.26 million from consumers, which was irregular being contrary to NEPRA's directions. The detail is as under:-

Sr. No.	Formation	Proposed Draft Para No.	No. of Meters	Amount (Rs.in million)
1.	M&T-I MEPCO	919/2019-20	8,273	26.90
2.	Multan Operation Circle	1045/2019-20	5,491	9.39
		TOTAL	**13,764**	**36.29**

Non-adherence to NEPRA directions resulted in irregular recovery of cost of defective meters worth Rs.36.29 million from consumers during the financial year 2018-19.

The matter was taken up with the management during August & November, 2019 and reported to the Ministry in December, 2019. The management replied that inquiry committee had been constituted for investigating and fixing responsibility besides determining of refundable amount.

The DAC in its meeting held on January 02, 2020 DAC directed the management to finalize the inquiry proceedings within a month and provide its report to Audit. Further progress was not reported till finalization of the report.

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

13.5.12 Losses on independent feeders beyond permissible limit - Rs.27.15 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 for HT feeders was 3% for rural / urban areas.

In MEPCO, the percentage of energy losses of 13 independent feeders remained in excess of the permissible limit of 3%, which entailed energy loss of Rs.27.15 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 Formation	Proposed Draft Para No.	No. of feeders	Percentage of losses (%)	Unit lost (Beyond 3%)	Amount (Rs.in million)
1.	Multan Operation Circle	84/2019-20	8	3.15% to 8%	1.78	22.57
2.	Bahawalpur Operation Circle	537/2019-20	5	3.99% to 25.27%	0.43	4.58
		TOTAL	**13**		**2.21**	**27.15**

Non-adherence to Distribution Rehabilitation Guidelines resulted in energy losses of Rs.27.15 million on independent feeders beyond permissible limit during the financial year 2018-19. The same was required to be recovered from the consumers.

Audit was of the view that high-end losses on independent feeders showed operational inefficiencies of the respective management.

The matter was taken up with the management during August to September, 2019 and reported to the Ministry during September to November, 2019. The management replied that the line losses were due to wrong coding of feeders, difference in billing cycle, off size conductor, alternate source and shifting of load. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit on independent feeders was provided.

The DAC in its meetings held on January 02, 2020 directed the management to carry out feeder wise analysis of all the feeders pointed out in the para and justify the line losses beyond permissible limit with CP-22-A, B, C, D & E. DAC further directed to provide the record of completed actions to Audit for verification within a month. Further progress was not reported till finalization of the report.

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

13.5.13 Wasteful expenditure on the construction of transmission line - Rs.26.04 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".

In MEPCO, Power Purchase Agreement was made on January 05, 2011 with M/s Hamza Sugar Mills Limited (HSML) for purchase of 2.5 MW bagasse based power (on take & pay basis) for the period of four years and the power was being evacuated through 11KV City Feroza Feeder. Due to high line losses on the feeder, a separate 11 KV T/L was proposed to be constructed by MEPCO to evacuate the energy from (HSML). Due to paucity of funds, MEPCO executed interest free loan agreement with (HSML) repayable in thirty six (36) equal installments. The transmission line was completed at cost of Rs.26.04 million and was energized on March 01, 2016. However the energy supply was not made by (HSML) w.e.f. April 25, 2017 and the transmission line remained redundant. Thus the expenditure of Rs.26.04 million on the construction of 11 KV independent line without provision of safeguard of interest of company was wasteful.

Non-adherence to the rules instructions resulted in loss of Rs.26.04 million to the Company up to the financial year 2018-19.

The matter was taken up with the management in April, 2019 and reported to the Ministry in October, 2019. The management replied that construction of 11 KV line was the responsibility of MEPCO as per CCPA policy for evacuation of power from said IPP but CCPA had imposed certain restrictions in their power purchase policy. Hence the said line would be used for other purpose as and when required.

The DAC in its meeting held on January 02, 2020 directed the management to make inquiry for fixing responsibility and submit report to Audit within 30 days.

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

(Proposed Draft Para No. 261/2019-20)

13.5.14 Less recovery of liquidated damages and unjustified refund of LD to supplier –Rs.21.79 million

As per contract agreement, "applicable rate for liquidated damage charges was 2% of contract price per month and maximum deduction for liquidated damage was 10% of the contract price".

In PMU MEPCO, an educational purchase order for supply of 132 KV D/C Towers Type ZM-I along with 3 Meter Leg Extension was issued to M/s Associated Technologies (Pvt.) Limited Lahore at contract cost of Rs.254.22 million on March 11, 2015 with due delivery date up to July 09, 2015. Contrary to this, the supplier failed to deliver the material within stipulated period of time as the material was inspected from June 03,2015 to June 08,2015 but not accepted .The delivery of the material was made on September 08,2015 in ware house after getting inspection certificate on August 20,2015.The delivered material was also found substandard by NTDC and the supplier completed the rectification of the material on September 21,2016 (more than one year after GRN and due delivery date). 10% LD worth Rs.25.42 million was recommended to be deducted by Manager procurement (PMU) but the Finance office PMU deducted only 6% LD ie Rs.15.25 million. After expiry of 4 years, an Inquiry Committee was constituted on April 25, 2019 to resolve the matter, which recommended extension of time for 50 days with the direction to charge

2% LD instead of 6%. Accordingly an amount of Rs.6.54 million was refunded to the supplier by PMU with the approval of CEO. Audit held that less-recovery of LD amounting to Rs.15.61 million {(254,217,600/- X 10%) – 9,811,200/-} and refund of deducted amount worth Rs. 6.54 million and approval of EoT for 50 days after lapse of four (4) years was irregular and tantamount to undue favour to supplier.

Non-adherence to contract clause resulted in less-recovery of liquidated damage Rs.15.25 million and unjustified refund of LD amounting to Rs.6.54 million to supplier during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that the recommendations of inquiry committee for refund of Rs.6.54 million was rejected by BOD, hence, the amount Rs.15.61 million had not been refunded to the firm. Audit contended that the management had not submitted the reasons for less deduction of LD.

The DAC in its meeting held on January 02, 2020 directed the management to provide the documentary evidences in support of reply to Audit for verification within a week.

Audit recommends that the management needs to fix responsibility for less deduction and refund of LD after four years.

(Proposed Draft Para No. 331/2019-20)

13.5.15 Loss due to award of bill distribution contract at higher rate – Rs.17.33 million

As per Rule-2 (f), Definitions, of Public Procurement Rules-2004, "corrupt and fraudulent practices" the action of a public official or the supplier or contractor in the procurement process or in contract execution to the detriment of the procuring agencies; or misrepresentation of facts in order to influence a procurement process or the execution of a contract, collusive practices among bidders (prior to or after bid submission) designed to establish bid prices at artificial, non-competitive levels and to deprive the procuring agencies of the benefits of free and open competition and any request for, or solicitation of anything of value by any public official in the course of the exercise of his duty.

In MEPCO, bids against tender for outsourcing bill distribution in Operation Circle Muzaffargarh were sought from MEPCO pre-qualified courier companies. Bid submitted by twelve (12) registered builders, construction firms and general order suppliers were opened on April 04, 2016. M/s Al-Mujahid Enterprise was declared the lowest bidder with bid value of Rs.1.45 per bill, however the lowest bidder i.e. M/s Al-Mujahid refused to carry out the work and contract was awarded to 2nd lowest bidder i.e. M/s. Madina Construction Co. at the bid value of Rs.2.10 per bill. The award of contract to 2nd lowest bidder without forfeiture of CDR of M/s Al-Mujahid Enterprises and approval of competent authority was irregular, which resulted in extra expenditure of Rs.17.33 million. Further M/s Al-Mujahid was engaged in bill distribution contract in another circle of MEPCO and award of contract to Al-Madina Construction Company was evident of collusive practice of both the bidders.

Non-adherence to the PPRA rules resulted in loss of Rs.17.331 million due to award of bill distribution contract at higher rate up to the financial year 2018-19.

The matter was taken up with the management in April, 2019 and reported to the Ministry in October, 2019. The management replied that departmental inquiry committee had been constituted on October 16, 2019 and its proceedings were under process.

The DAC in its meeting held on January 02, 2020 directed the management to finalize the inquiry proceedings expeditiously and provide 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 decision besides justifying entertaining bids / award of contract to non-courier company. Non-adoption of other available options for hiring the services of the registered courier firms including state owned postal services also needed to be justified.

(Proposed Draft Para No. 354/2019-20)

13.5.16 Sub-standard execution of foundation work by the Contractor - Rs.14.67 million

As per Section-06 (Employer's Requirements) under clause SI-15(2) of bidding document that "The Contractor will deploy a Project Manager for the execution of work who will keep liaison with the employer to resolve/rectify problems/defects pointed out by Employer and site Engineer for each site".

In GSC MEPCO, the contract for the construction of 132 KV Grid Station Fort Abbas was issued to M/s PEL and was energized on February 28, 2017. Xen SS&T MEPCO Division Vehari Pointed out that 132 KV C.B FTA-1 trapped in the ground on one side due to which C.T. had become unbalanced/crooked. The Grid Station was still under warranty period but unbalanced foundation of 132 KV C.T. and switch yard was not rectified in order to avoid any mishap in future. Thus an undue benefit was being afforded to the contractor on account of payment of Rs.14.67 million for the unbalanced foundation.

No adherence to the contractual provision resulted in substandard execution of foundation work worth Rs.14.67 million by the Contractor during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that the said grid station was commissioned on February 28, 2017 and operation certificate was issued on February 22, 2018. The defect liability period of the grid station had been expired. However the matter had been taken up with contractor who agreed to remove the defect without any additional cost. As and when the defect was removed the same would be reported.

The DAC in its meeting held on January 02, 2020 directed the management to conduct an inquiry at PEPCO level within 30 days.

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

(Proposed Draft Para No. 327/2019-20)

13.5.17 Undue favor to the contractor due to irregular award of work - Rs.12.12 million

Clause 4.5 of the Book of Financial Powers of departments of NTDC/DISCOs refers variation /change order up to maximum limit of 25% of original contract price

In GSC MEPCO, Multan, two (2) contracts worth Rs.7.91 million were awarded to contractor on July 03, 2015 for construction of tower / pole foundations of 132KV transmission line. Latter on the cost of the subject works was revised up to Rs.12.12 million i.e. 53.02% higher than original contract price on pretext of change in site/ design. This showed that the management extended undue favor to the contractor by awarding additional work which was 53.02% above the original cost.

Non-adherence to the rules resulted in irregular award of contract worth Rs.12.12 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in December, 2019. The management replied that an inquiry committee had been constituted to probe into the matter.

The DAC in its meeting held on January 02, 2020 directed the management to finalize the inquiry proceedings within a month and provide its report to Audit.

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

(Proposed Draft Para No. 935/2019-20)

13.5.18 Loss due to misappropriation of material - Rs.9.86 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 Construction Circle MEPCO, two (02) work orders for 11 KV rehabilitation / bifurcation under ELR and DOP were issued during the financial year 2003-04 with an estimated cost of Rs.16.10 million. After that an amount of Rs.9.86 million had been booked in the heads of material, labour and overhead. The consumption form and completion report was neither finalized nor was any inquiry constituted against the delinquents which led to likely misappropriation of material worth Rs.9.86 million.

Non-implementation of rules for safeguarding the assets of the Company resulted in loss due to misappropriation of material worth Rs.9.86 million up to the financial year 2018-19.

The matter was taken up with the management in July, 2019 and reported to the Ministry in October, 2019. The management replied that the case was pending in FIA court, the final decision of which would be communicated in due course. Audit contended that no departmental inquiry had been made by the management.

The DAC in its meeting held on January 02, 2020 directed the management to conduct departmental inquiry under E&D rules, submit its report to Audit within a month and follow up case in FIA court.

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

(Proposed Draft Para No. 183/2019-20)

13.5.19 Un-justified payment to PITC against permanently disconnected consumers - Rs.9.74 million

As per agreement signed between MEPCO and PITC on February 24, 2016 valid from July 01, 2015, the license / support fee per consumer per month will be charged @ Rs.1.10/-.

In MEPCO, an amount of Rs.17.26 million was paid to PITC vide Payment Voucher No. 308 dated February 25, 2019 against total number of consumers including running and PDISC on account of customer billing. As per progress report of June, 2019, 635,790 consumers were permanently disconnected. Therefore payment of Rs.9.74 million against the P-Disc consumers was not justified.

Non-adherence to the contract agreement resulted in loss due to payment to PITC against P-Disc consumers valuing Rs.9.74 million during the financial year 2018-19.

The matter was taken up with the management in October 2019 and reported to the Ministry in November, 2019. The management replied that if payment against Dead Defaulters was not made to PITC, MEPCO monthly billing / reports would have consequently been suffered.

The DAC in its meeting held on January 02, 2020 directed the management to submit the revised reply with reference to the provisions of the agreement with PITC to Audit within a week.

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

(Proposed Draft Para No. 720/2019-20)

13.5.20 Loss due to non-installation of capacitors at the 11 KV Feeders - Rs.8.25 million

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

In Operation Circle Sahiwal MEPCO, ten (10) 11 KV feeders' capacitors were not installed or became out of order which resulted in low power factor. Due to non-installation of healthy capacitors, power worth Rs.8.25 million was wasted which was a loss to the Company.

Non-implementation of provisions of Distribution Rehabilitation Guidelines resulted in wastage of power worth Rs.8.25 million during the financial year 2017-18.

The matter was taken up with the management in August, 2018 and reported to the Ministry in April, 2019. The management replied that capacitors on 05 feeders had been replaced / installed while the installation of remaining 05 feeders was under progress.

The DAC in its meeting held on January 02, 2020 directed the management to submit justification for loss and inquire the matter for fixing the responsibility within a month.

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

(Proposed Draft Para No. 05/2019-20)

13.5.21 Loss due to embezzlement of electrical material - Rs.7.79 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 subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In Construction Circle MEPCO, electrical material i.e osprey conductor worth Rs.7.79 million was embezzled / misappropriated by the line staff / contractors. An inquiry committee recommended for recovery of Rs.7.79 million from the three (03) employees within ten (10) days. In spite lapsed of three (03) years recovery of Rs.7.79 million was not affected from neither the accused employees nor the action was initiated against dealing officer on account of delay.

Non-adherence of authority instructions resulted in loss of Rs.7.79 million due to embezzlement/misappropriation of electrical material during the financial year 2018-19.

The matter was taken up with the management in July, 2019 and reported to the Ministry in October, 2019. The management replied that the Para was duplicate of DP-782/2016-17 (Para 411 of AR 2016-17).

The DAC in its meeting held on January 02, 2020 directed the management to get the duplication verified from Audit within 15 days.

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

(Proposed Draft Para No. 180/2019-20)

13.5.22 Irregular approval of extension of load with lesser capacity transformers – Rs.7.39 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 Operation Circle Sahiwal, MEPCO, load of twenty eight (28) consumers were extended but not up to the maximum recorded load. Consequently, lesser capacity transformer was installed instead of higher ones as per maximum recorded load at site. Hence, the consumers were given undue benefit due to deposit of additional security, capital cost, and rehabilitation charges to the tune of Rs.7.39 million.

Non-adherence to the Authority's instructions resulted in undue favour of Rs.7.39 million to the consumers during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that notices had been issued to the consumers.

The DAC in its meeting held on January 02, 2020 directed the management to devise a built-in system so that the action could be initiated as the event occurred. It was further directed to serve notices to the consumers strictly as per SoPs and after regularization of extended loads, relevant record be provided to Audit for verification within a month.

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

(Proposed Draft Para No. 437/2019-20)

13.5.23 Non-recovery of penalty imposed on employees - Rs.2.54 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".

In MEPCO, penalty of Rs.2.54 million was imposed upon thirteen (13) employees on account of theft of vehicle and financial embezzlement, however, recovery was not made from them. The detail is as under:-

Sr. No.	Formation	Proposed Draft Para No.	No. of Employees	Amount (Rs.in million)
1.	Construction Circle MEPCO	187/2019-20	03	1.50
2.	CEO MEPCO	263/2019-20	10	1.04
		TOTAL	**13**	**2.54**

Non-adherence to the rules resulted in non-recovery of penalty of Rs.2.54 million from employees up to the financial year 2018-19.

The matter was taken up with the management during April and July, 2019 and reported to the Ministry in October, 2019. The management replied that an amount of Rs.0.56 million had been recovered and balance amount was being recovered through monthly installments.

The DAC in its meeting held on January 02, 2020 directed the management to get the completed actions verified from Audit within a week and expedite the pending actions in the light of recommendations of inquiry report. Further progress was not reported till finalization of the report.

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

13.5.24 Irregular re-connection of supply before clearance of pending electricity charges – Rs.2.09 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 DG Khan, MEPCO, seven (07) No. permanently disconnected connections were reconnected without the clearance of pending electricity charges Rs.2.09 million, which were required to be recoverable.

Non-adherence to the Commercial Procedure resulted in non-recovery of energy charges amounting Rs.2.09 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that out of seven (07) in five (05) cases, the transformers & meter cable were not removed and the connections were running at site, for which letters of explanations had been served upon concerned Line Superintendents.

The DAC in its meeting held on January 02, 2020 directed the management to finalize disciplinary proceedings for fixing responsibility besides ensuring proper implementation of EROs and expedite recovery of dues. It was directed to provide the record of completed actions to Audit for verification within a month.

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

(Proposed Draft Para No. 413/2019-20)

13.5.25 Unjustified payment to the contractor on account of bill distribution - Rs.1.11 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".

In, MEPCO contract for electricity bill distribution for Operation Circle Muzaffargarh was awarded to M/s Madina Construction Company on March 08, 2016. The electricity bills were not distributed by the contractor from November, 2016 to January, 2017. The same was done by MEPCO staff. However, full payment of Rs.1.11 million was made to the contractor which was non-transparent and irregular.

Non-adherence to the rules resulted in unjustified payment of Rs.1.11 million to the contractor on account of bill distribution during the financial year 2018-19.

The matter was taken up with the management in April, 2019 and reported to the Ministry in October, 2019. The management replied that inquiry committee had been constituted to probe into the matter which was under process.

The DAC in its meeting held on January 02, 2020 directed the management to finalize the inquiry and submit its report after implementation of recommendations of inquiry committee to Audit within 15 days.

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

(Proposed Draft Para No. 256/2019-20)

CHAPTER-14

PESHAWAR ELECTRIC SUPPLY COMPANY (PESCO)

14. PESHAWAR ELECTRIC SUPPLY COMPANY (PESCO)

14.1 Introduction

Peshawar Electric Supply Company (PESCO) started its operations as a Public Limited Company during May, 1998 registered under Companies Ordinance, 1984. The Company has obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within the defined geographical boundaries. The Company purchases electricity from CPPA-G through NTDCL system and sells it to various consumers of whole area of Khyber Pakhtunkhwa (KPK).

The operational activities are performed through eight Operation Circles, Project Construction Circle, Grid System Construction Circle and Grid System Operation circle. The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	14	10	16,443.55	29,780.62	61,406.51
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	03	03	US$ 4.92	US$ 4.92	Nil

14.2 Comments on Financial Statements

14.2.1 Financial Overview

As per the audited Financial Statements for the year 2018-19 the Company remained in loss at the year ended dated 30th June, 2019. However, the loss decreased from Rs.65,581.29 million in the financial year 2017-18 to Rs.46,952.50 million in the financial year 2018-19 registering 28.41% decrease. Moreover, the net electricity sale increased from Rs.122,057.16 million in the financial year 2017-18 to Rs.166,050.83 million in the financial year 2018-19 registering 36.04% increase.

14.2.2 Extracts of the Financial Statements
Statement of Financial Position as on June 30, 2019

(Rs in millions)

	2019	% Inc/Dec	2018	% Inc/Dec	2017
EQUITY AND LIABILITIES					
SHARE CAPITAL AND RESERVES					
Authorized:					
5,000,000,000 (2018: 5,000,000,000) ordinary shares of Rupees 10 each	50,000.00	-	50,000.00	-	50,000.00
Issued, subscribed and paid up share capital	0.01	-	0.01	-	0.01
Deposits for issue of share capital	20,176.27	11.58	18,082.03	-	18,082.03
Accumulated loss brought forward	(281,922.33)	19.98	(234,969.84)	38.72	(169,388.54)
Shareholders' equity	(261,746.06)	20.68	(216,887.80)	43.34	(151,306.51)
NON-CURRENT LIABILITIES					
Liabilities Against Government Investment	64,123.29	-	64,123.29	(21.94)	82,145.41
Long term loans - secured	5,968.31	(16.09)	7,112.42	(28.87)	9,999.56
Deferred liabilities					
Staff retirement benefits	89,885.99	30.35	68,958.66	64.20	41,996.82
Deferred credit	31,490.36	5.43	29,868.00	14.04	26,190.08
	121,376.35	22.82	98,826.66	44.93	68,186.90
TOTAL NON-CURRENT LIABILITIES	**191,467.95**	12.59	**170,062.37**	6.07	**160,331.87**
CURRENT LIABILITIES					
Trade and other payables	354,243.10	37.74	257,189.61	22.01	210,792.56
Accrued markup	4,373.19	22.23	3,577.90	25.46	2,851.90
Current maturity of long term loans	2,343.76	(93.83)	37,991.27	10.52	34,375.19
Provision for taxation	1,517.46	29.62	1,170.74	41.47	827.56
	362,477.51	20.85	299,929.52	20.53	248,847.21
CONTINGENCIES AND COMMITMENTS	-		-		
ASSETS					
NON-CURRENT ASSETS					
Property, plant and equipment	72,106.08	6.12	67,949.42	14.70	59,240.52
Long term loans - considered good	12.63	(31.91)	18.55	(29.47)	26.30
TOTAL NON-CURRENT ASSETS	**72,118.71**	6.11	**67,967.97**	14.68	**59,266.82**
CURRENT ASSETS					
Stores, spare parts and loose tools	4,496.90	41.13	3,186.33	(9.46)	3,519.06
Trade debts	70,809.21	16.08	60,999.54	15.72	52,711.00
Loans and advances - considered good	1,200.05	9.18	1,099.12	17.57	934.84
Other receivables-considered good	89,272.70	1.96	87,559.65	9.30	80,109.19
Receivable from GoP (Ministry of Finance)	49,858.39	83.74	27,134.99	(52.92)	57,641.97
Short term investments	2,521.59				
Cash & Bank Balances	1,921.85	(62.73)	5156.49	39.75	3689.69
	220,080.70	18.88	185,136.12	(6.78)	198,605.76
	292,199.40	15.45	**253,104.09**	(1.85)	**257,872.57**

(Source: Audited Financial Statement of PESCO Financial Year 2018-19 – Rafaqat Babar & Co., Chartered Accountant)

Statement of Profit & Loss Account
For the year ended June 30, 2019

(Rs.in millions)

	2019	%	2018 RESTATED
Sale of electricity	107,567.24	23.20	87,312.41
Subsidy from Government of Pakistan on sale of electricity	58,483.59	68.32	34,744.75
	166,050.83	36.04	122,057.16
Cost of electricity	(169,013.67)	18.24	(142,941.66)
Gross profit	(2,962.85)	(85.81)	(20,884.50)
Amortization of deferred credit	1,603.18	7.58	1,490.29
	(1,359.66)	(92.99)	(19,394.21)
OPERATING COST			
Other operating cost excluding depreciation	(26,447.85)	23.82	(21,360.42)
Depreciation on property, plant and equipment	(2,871.32)	8.59	(2,644.20)
	(29,319.17)	22.14	(24,004.62)
Operating loss	(30,678.83)	(29.31)	(43,398.83)
Other Income			
Rental and service income	45.90	3.56	44.32
Others	5,757.34	16.26	4,952.07
	5,803.24	16.15	4,996.39
Financial expense	(2,870.28)	756.19	(335.24)
Loss before taxation	(27,745.87)	28.37)	(38,737.68)
Taxation	(1,517.43)	28.25	(1,183.16)
Loss after taxation	(29,263.30)	(26.70)	(39,920.84)
Other Comprehensive Income:			
Items that will not be reclassified to profit or loss			
Actuarial loss on re-measurement of post-retirement benefits	(17,689.20)	(31.06)	(25,660.45)
Total comprehensive loss for the year	**(46,952.50)**	(28.41)	**(65,581.29)**

(Source: Audited Financial Statement of PESCO Financial Year 2018-19 – Rafaqat Babar & Co., Chartered Accountant)

14.2.3 Qualified Opinion given by the External Auditors on the Financial Statements of PESCO Financial Year 2018-19

It was observed that External Auditors had qualified the accounts of PESCO for the financial year 2018-19 on the following basis:

The Company had not recognized supplemental charges of Rs.37,974 million from year 2010 to 2019 in the books of accounts. These were charged by Central Power Purchasing Agency (CPPA). The accumulated losses and corresponding payable to CPPA would have increased by Rs.37,974 million at the reporting date, had these supplemental charges been accounted for in these financial statements.

14.2.4 Comments on Audited Accounts

i) Profitability

The Company suffered a net loss of Rs.46,952.50 million during the financial year 2018-19. Total accumulated losses have reached to the tune of Rs.281,922.33 million resulting in net capital deficiency. As on June 30, 2019 the company's current liabilities exceeded current assets by Rs.142,396.81 million. This condition indicated existence of material uncertainty as to the Company's ability to continue as a going concern. The Company was suffering from consistent losses over the years which reflected operational inefficiencies as well policy bottlenecks requiring urgent remedial action.

ii) Sales and Cost of sales

The sales of the Company were Rs.166,050.83 million including the subsidy from Government of Pakistan for an amount of Rs.58,483.59 million and cost of sales of the company stood at Rs.169,013.67 million which was 101.78% of sales. This meant the Company was unable to recover even its cost of electricity purchased from CPPA which needed justification.

iii) Trade Debts and other Receivable

Total receivable of the Company were Rs.211,140.40 million as on June 30, 2019. An amount of Rs.49.858.39 million was receivable from Government of Pakistan (Ministry of Finance) against tariff differential subsidy, Rs.89,272.70 million from other Associated Companies, Rs.70,809.21 million from various consumers on account of electricity sold and Rs.1,200.05 million pertained to loans and advances. Huge pending receivables were a significant business sustainability risk for the Company and required long term rectification measures. Huge balance of receivables depicted poor recovery efforts of the Company, which needed justification.

iv) Trade and other Payables

Payables of the company substantially increased from Rs.257,189.61 million in the financial year 2017-18 to Rs.354,243.10 million in the financial year 2018-19. The major amount of Rs.317,694.26 million was payable to CPPA on account of purchase of electricity which showed unsatisfactory financial management and poor liquidity position of the Company. Immediate short term measures and prudent long term action were needed to stop the accumulation of payables and ensure steady reduction of pending payables in the future.

v) Operating expenses excluding depreciation

The operating expenses of the company increased from Rs.21,360.42 million in the financial year 2017-18 to Rs.26,447.85 million during the financial year 2018-19 registering an increase of Rs.5,087.43 million. As the Company was incurring losses, increase in its operating expenses required justification.

14.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.90,727.19 million were raised in this audit. The amount also includes recoverables of Rs.48,259.94 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft		280.50
2.	Irregularities		
	A.	Procurement related irregularities	53.55
	B.	Irregularities pertaining to violation of entity's own rules / regulations	2,496.20
	C.	Irregularities pertaining to violation of Regulatory Laws & Regulations	39,637.00
	D.	Recoveries	48,259.94

Note:- *Further audit observations pertaining to subject company, being identical in nature with that of other DISCOs, have been included in the Chapter of respective Common Issues of this report.*

14.4 Brief comments on the status of compliance with PAC directives

Name of Company	Year	No. of Directives	Status of compliance		
			Full	Partial	Outstanding
PESCO	2016-17	2	-	-	**02** (17.4.6, 17.4.10)

Position of compliance with PAC directives is not satisfactory.

14.5 AUDIT PARAS

14.5.1 Loss of revenue due to abnormal line losses on feeders - Rs.39,637 million

According to Rule-7(c) of Public Sector Companies Corporate Governance Rules regarding the identification and monitoring of the principal risks and opportunities of the Public Sector Company and ensuring that appropriate systems are in place to manage these risks and opportunities, including, safeguarding the public reputation of the Public Sector Company.

In PESCO, the percentage of line losses on 302 feeders was abnormally higher than the targets of losses set by the NEPRA as 31.95%. Hence, 2729.22 million units were lost, which caused revenue loss of Rs.39,637 million.

Sr. No.	Name of Formation	Proposed Draft Para No.	(%) of Losses	No. of feeders	Units Lost (million)	Amount (Rs.in million)
1.	CEO PESCO	805/2019-20	50% to 98.6%	302	2729.22	39,637.00
		TOTAL		**302**	**2729.22**	**39,637.00**

Non-adherence to the rules resulted in loss of revenue amounting to Rs.39,637 million due to operational mismanagement during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that high losses on feeders were due to lengthy feeders, poor substations, difference in reading cycle, shifting / bifurcation of load and wrong feeder coding. However, efforts were being to reduce the line losses. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit was provided.

The DAC in its meetings held during December 31, 2019 did not accept the stance of the management and directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for line losses beyond NEPRA target. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture 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.

(Proposed Draft Para No. 805/2019-20)

14.5.2 Non-recovery of receivables from energy defaulters - Rs.25,372.04 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 PESCO, an amount of Rs.25,372.04 million was recoverable from running and permanently disconnected (P-Disc.) energy defaulters (Government and private). In this respect, no efforts were made by the management to accelerate the recovery from defaulters. The detail is as under:-

Sr. No.	Name of Formations	Proposed Draft Para No.	Amount (Rs.in million)
1.	Swat Operation Circle	312/2019-20	9.15
2.	Swat Operation Circle	314/2019-20	24.75
3.	CEO PESCO	945/2019-20	154.99
4.	Peshawar Operation Circle	975/2019-20	24,998.40
5.	Swabi Operation Circle	1036/2019-20	184.75
		TOTAL	**25,372.04**

Non-adherence to WAPDA Commercial Procedure resulted in non-recovery of Rs.25,372.04 million from energy defaulters up to the financial year 2018-19.

Audit was of the view that subject matter was a significant issue and major business sustainability risks for the PESCO. It was also a major source for accumulation of circular debt in the Power Sector.

The matter was taken up with the management during September to October, 2019 and reported to the Ministry during October to December, 2019. The management replied that in some cases amount had been recovered and efforts were being made to recover the remaining amount.

The DAC in its meetings held on December 31, 2019 directed the management to produce the recovery record to Audit within a week and expedite recovery from remaining consumers by giving priority to top 100 defaulters as per the aging / significance of outstanding dues. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision besides fixing responsibility for inordinate delay in clearance of arrears.

14.5.3 Less recovery from consumers against assessed amount - Rs.22,506.82 million

Increase in revenue can improve fiscal deficit and provide investable funds for the expansion of public utilities. Recovery plays a key role in the financial health of distribution companies. Considering its importance, NEPRA has made this parameter an essential component of DISCO's performance criteria and DISCOs are encouraged to achieve the rate of 100% recovery.

In PESCO, the company sold 9,073.542 million units to 3.47 million consumers of various categories and assessed a recoverable amount of Rs.142,509.84 million. However, PESCO recovered only Rs.120,003.02 million (84% of total assessment) against the assessed amount. Therefore, an amount of Rs.22,506.821 million was less recovered. Due to poor performance in recovery, PESCO was deprived of legitimate revenue and was put into revenue shortfall up to the stated extent.

Non-adherence to NEPRA's instructions resulted in less recovery of Rs.22,506.82 million during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that PESCO was trying its level best for 100% recovery of the assessed amount. The PESCO was comprised of a diverse area of jurisdiction of compliant and non-compliant consumers the recovery percentage also varies from area to area.

The DAC in its meeting held on December 31, 2019 directed the management to improve the recovery and devise a mechanism to prevent the seepage of revenue.

Audit recommends that the management needs to implement DAC's decision for ensuring 100% recovery from the consumers.

(Proposed Draft Para No. 974/2019-20)

14.5.4 Undue generation of revenue through over billing - Rs.1,096.32 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 PESCO, the percentages of energy losses of 105 feeders were in negative figures during the financial year 2018-19. The negative losses revealed that the units billed were in excess of units received on feeders, which was an indication of overbilling of Rs.1,747.27 million to the consumers. Audit was of the view that overbilling showed lack of control in the PESCO and reduced the authenticity of their data. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	No. of Feeder	No. of Units (million)	Amount (Rs.in million)
1.	CEO PESCO	808/2019-20	105	62.06	1,096.32

Non-adherence to Commercial Procedure resulted in undue generation of revenue of Rs.1,096.32 million through over billing to consumers during the financial year 2018-19.

The matter was taken up with the management during October, 2018 to July, 2019 and reported to the Ministry during September to December, 2019. The management replied that line losses were due to wrong coding of feeders, shifting / bifurcation of load and difference in billing cycle. The reply was not acceptable as no proper measures were adopted to avoid overbilling.

The DAC in its meetings held during December 26, 2019 to January 02, 2020 directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for negative line losses. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture and provide the record 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 decision besides fixing responsibility.

(Proposed Draft Para No. 808/2019-20)

14.5.5 Energy losses on independent feeders beyond permissible limit - Rs.814.08 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 for HT feeders was 3% for rural / urban areas.

In PESCO, the percentage of energy losses of 111 independent feeders remained in excess of the permissible limit of 3%, which entailed energy loss of Rs.814.08 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 Formation	Proposed Draft Para No.	No. of feeders	Percentage of losses (%)	Unit lost (Beyond 3%)	Amount (Rs.in million)
1.	CEO PESCO	73/2019-20	46	3.2% to 51.4%	18.69	314.02
2.	Hazara-II Operation Circle	349/2019-20	3	6.42% to 10.8%	1.94	29.07
3.	Hazara-I Operation Circle	588/2019-20	4	7% to 51%	2.54	38.09
4.	Swabi Operation Circle	664/2019-20	8	5.58% to 100%	0.12	1.54
5.	Peshawar Operation Circle	786/2019-20	6	4.52% to 65.56%	1.53	15.43
6.	CEO PESCO	803/2019-20	44	3.2% to 98.6%	23.91	415.93
		TOTAL	**111**		**48.73**	**814.08**

Non-adherence to Distribution Rehabilitation Guidelines resulted in energy losses of Rs.814.08 million on independent feeders beyond permissible limit during the financial year 2018-19. The same was required to be recovered from the consumers.

Audit was of the view that high-end losses on independent feeders show operation inefficiencies of the respective management. Not only were high loss sustained, but also recovery also not affected.

The matter was taken up with the management during March to October, 2019 and reported to the Ministry during September to November, 2019. The management replied that the line losses were due to wrong coding of feeders, difference in billing cycle, off size conductor, alternate source and shifting of load.

The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit on independent feeders was provided.

The DAC in its meetings held on December 31, 2019 directed the management to carry out feeder wise analysis of all the feeders pointed out in the para and justify the line losses beyond permissible limit with CP-22-A, B, C, D & E. DAC further directed to provide the record of completed actions to Audit for verification within a month. Further progress was not reported till finalization of the report.

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

14.5.6 Non- recovery due to non-billing to consumers – Rs.336.30 million

Pakhtunkhwa Energy Development Organization (PEDO) was bound to pay the energy consumption charges of consumers of Upper Chitral as per Additional Chief Engineer (Op) PESCO Swat Circle letter dated 24.05.2018.

In PESCO, 22.42 million units worth Rs.336.30 million were consumed by the consumers of Upper Chitral during February, 2018 to April, 2018 and the units were accumulating in the energy meter of the Grid. However, the billing was neither made to the consumers nor recovered from PEDO

Non-adherence to rules resulted in non-recovery of Rs.336.30 million due to non-billing to consumers during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that the matter of billing of pending units would be made after determination of tariff from the proper forum.

The DAC in its meeting held on December 31, 2019 directed the management to submit revised reply regarding non-recovery due to non-billing to respective consumers.

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

(Proposed Draft Para No. 245/2019-20)

14.5.7 Loss due to embezzlement in Revenue Office Kohat and Abbottabad - Rs.229.02 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 PESCO, an amount of Rs.229.02 million was embezzled / misappropriated in Revenue Offices PESCO Kohat and Abbottabad. The officers / officials involved in embezzlement were highlighted in Special Audit Report of internal audit. However, neither any FIR was lodged nor detailed departmental inquiry conducted for fixing proportionate responsibility and making the loss good from culprits.

Non-adherence to Authority rules resulted in loss of Rs.229.02 million due to embezzlement in Revenue Offices during the financial year 2018-19.

The matter was taken up with management in October, 2019 and reported to the Ministry in November, 2019. The management replied that inquiry had been finalized regarding pension embezzlement in RO Abbottabad and actions taken in the light of recommendations of inquiry report while in case of RO Kohat an inquiry committee had been constituted, which was in progress. Moreover, the case had also been referred to FIA / NAB authorities for investigation. Audit contended that inordinate delay in lodging of FIR with FIA and dallying departmental inquiry for fixing proportionate responsibility gave the opportunity to the delinquents to drag the company into litigation.

The DAC in its meeting held on December 31, 2019 directed the management to expedite the recovery and finalize inquiry and follow up the case with FIA/NAB.

Audit recommends that the management needs to implement DAC’s decision besides fixing responsibility for non-lodging of FIR with FIA and delayed inquiry proceedings.

(Proposed Draft Para No. 794/2019-20)

14.5.8 Excess expenditure on account of Overhead Charges - Rs.137.23 million

As per Authority’s letter No. 6555-71/GMO/CEHQ/6-B/DISCOs dated July 01, 2002, installation charges were reduced from 26% to 20% of material cost as:- i) 12% charges will be built-in in the cost of material & ii) 8% charges will be applied at the time of estimation.

In Construction Circle PESCO, material worth Rs.803.84 million was utilized on village electrification under PWP and feeder rehabilitation works. Overheads amounting to Rs.233.69 million were booked. Maximum permissible limit of overheads came to Rs.96.46 million (i.e 12%) of cost of material utilized). In this way overheads to the tune of Rs.137.23 million were booked above the permissible limit which was not justified.

Non-adherence to authority instructions resulted in excess expenditure of Rs.137.23 million on account of overhead charges during the financial year 2018-19.

The matter was taken up with the management in July, 2019 and reported to the Ministry in October, 2019. The management replied that audit had taken into account four (04) works worth Rs.803.84 million instead of six (06) works amounting to Rs.8,733.63 million. Hence, permissible limit of overheads was 1,048.04 million against which an amount of Rs.907.60 million was booked as per Tiral Balance. Audit contended that the position so stated was required to be substantiated with documentary evidence.

The DAC in its meeting held on December 31, 2019 directed the management to get the stance substantiated with documentary evidence and get it verified from Audit.

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

(Proposed Draft Para No. 457/2019-20)

14.5.9 Blockage of Company's funds due to un-necessary purchase of material - Rs.136.15 million

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

In PESCO, 394 items of electrical material worth Rs.136.15 million were lying for want of issuance and consumption for years together. This scenario indicated that 195 items were unissued for a period of more than three (3) years. This resulted in blockage of funds to the tune of Rs.136.15 million.

Non-adherence to Authority's instructions resulted in blockage of funds amounting to Rs.136.15 million due to unnecessary purchase of electrical material up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that the material was procured on the demand of the field formations. These were slow moving items necessary for emergency. Now the field formations were being directed to utilize the same at the earliest.

The DAC in its meeting held on December 31, 2019 directed the management to make age wise analysis of the material, provide future plan and utilization of slow moving items.

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

(Proposed Draft Para No. 973/2019-20)

14.5.10 Irregular credit to permanently disconnected consumers - Rs.131.55 million

According to Para 1.5 of Commercial Procedure, "Adjustments to bills are made only on receipt of a properly authorized bill adjustment note prepared in the Revenue Office."

In PESCO, a huge amount of Rs.131.55 million without units was credited to Permanent Disconnected consumers. In absence of CP-52 and relevant record credit of such a huge amount without units to Permanent Disconnected Consumers is against the rules. Audit holds that such irregular adjustments were made only to reduce the amount arrear as recovery against permanent disconnected consumers is almost impossible.

Non-adherence to Commercial Procedures resulted in irregular credit without units amounting to Rs.131.55 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that the list of account number wise arrears provided contained 10 numbers with a total credit of Rs.131 million, whereas actual amount was equal to Rs.96 million. The amount credited was transposition error which would be debited in coming months.

The DAC in its meeting held on December 31, 2019 directed the management to get the matter reconciled with documentary evidence and get it verified from Audit.

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

(Proposed Draft Para No. 882/2019-20)

14.5.11 Non-recovery of cost of independent grid stations from consumers - Rs.100 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".

In PESCO, two (02) industrial consumers had qualified for provision of independent grid stations owing to extension of load more than 5,000 KW. So far no action has been taken for installation of independent grid station. Hence, undue favour of Rs.100 million was extended to the consumers by non-recovery of the cost of independent grid stations. The detail is as under:-

Sr. No.	Formation	Proposed Draft Para No.	No. of Consumers	Amount (Rs.in million)
1.	Swat Operation Circle	318/2019-20	01	50
2.	M&T	946/2019-20	01	50
		TOTAL	**02**	**100**

Non-adherence to NEPRA's instructions resulted in non-recovery of cost of independent gird stations amounting to Rs.100 million from consumers up to the financial year 2018-19.

The matter was taken up with the management during September and November, 2019 and reported to the Ministry during October and December, 2019. The management replied that notice for regularization of load was being issued to the consumer highlighted in PDP No. 318/2019-20. Moreover, there was duplication of issue in both the PDPs. Audit pointed out that there was no duplication involved as the consumers were different in both the PDPs.

The DAC in its meeting held on December 31, 2019 directed the management to expedite recovery of cost of independent grid stations from consumers and get the recovery record 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 decision besides fixing responsibility.

14.5.12 Blockage of funds due to unnecessary purchase of material – Rs.63.80 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 Project Director, (GSC) Peshawar, materials valuing Rs 63.80 million was lying in different warehouse of GSC since 2007 in the shape of dead/ slow moving items which showed that said material was purchased un-necessarily without keeping in view the demand of GSC. The material was lying in open environment and was exposed to environmental hazards which was resulting in its further deterioration and decrease in value with the passage of time.

Non-adherence to above rule resulted in unjustified procurement of material worth Rs.63.80 million up to financial year 2018-19, causing blockage of funds and gradual loss to the company assets.

The matter was taken up with the management in July, 2019 and reported to the Ministry in October, 2019. The management replied that material worth Rs.10.619 million had been issued and remaining was under process.

The DAC in its meeting held on December 31, 2019 directed the management to provide the revised reply alongwith aging analysis.

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

(Proposed Draft Para No. 416/2019-20)

14.5.13 Loss due to non-execution of work at the risk and cost of contractor – Rs.34.82 million

According to the Para 36(2) in case of default on the part of the contractor in carrying out such order the Employer shall be entitled to employ and pay other persons to carry out the same and all expenses consequent thereon or incidental thereto shall be borne by the contractor and shall be recoverable from him by the Employer or may be deducted by the Employer from any monies due or which may become due to the contractor.

In Project Director (GSC) PESCO, Peshawar, a Contract valuing Rs.34.82 million was awarded to M/s MAK Contractors D.I Khan vide work order No. 7074-77 dated 18.09.2017 under PSDP 7^{th} STG to be completed within

90 days from the date of commencement of work. However, the said contractor could not complete the work within stipulated period and suspended the work. The work was required to be completed at the risk & cost of the defaulted contractor, besides forfeiting his performance guarantee and blacklisting him. However subject action was not taken.

Non-adherence to the Contract provisions resulted in loss of Rs.34.82 million due to non-execution of work at the risk and cost of the contractor during the financial year 2018-19.

The matter was taken up with the management in July, 2019 and reported to the Ministry in September, 2019. The management replied that Contract of M/S MAK Contractors cancelled with forfeiture of 02% CDR amounting Rs.82,000. The registrar Pakistan Engineering Council Islamabad was requested for blacklisting of M/S MAK contractors. The balance work has been retendered recently which was still under process in Director General Public Relation PESCO Peshawar.

The DAC in its meeting held on December 31, 2019 directed the management to provide the revised reply.

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

(Proposed Draft Para No. 117/2019-20)

14.5.14 Embezzlement in payment of pension – 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 subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In Operation Circle Hazara-I PESCO, an amount of Rs.34.56 million on account of pension was fraudulently transferred in different private bank accounts. An inquiry committee was constituted by the Chief Executive Officer PESCO on February 13, 2019. Matter was also referred to FIA for investigations. Ministry of Energy (Power Division) also constituted an inquiry committee under the convenership of CEO GENCO Holding Company (GHCL) on June 17, 2019.

Non-adherence to Authority's instructions resulted in embezzlement of Rs.34.56 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that amount of Rs.34.56 million was embezzled in pension fraud by Mr. Sami ul Haq DAO, during his posting in RO PESCO City Abbottabad. The matter was investigated through an inquiry committee at PESCO level and subsequently by Ministry of Energy (Power Division) under the convener-ship of CEO GENCO. Disciplinary proceedings against responsible officers/ officials are under process at PESCO level.

The DAC in its meeting held on December 31, 2019 directed the management to follow up the court case, share the special report of internal audit and inquiry committee`s report with Audit and expedite pending recovery and allied actions.

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

(Proposed Draft Para No. 587/2019-20)

14.5.15 Non-recovery of electricity dues from industrial consumers - Rs.25.49 million

According to Para 5.1 (a) of chapter 5 of Consumer Service Manual, “all service connection charges after sanction of a new connection, a demand notice for security deposit as per the rate approved by NEPRA and other connection charges as per provision made in Consumer Eligibility Criteria Regulation shall be issued to the applicant for depositing the same in the designated Bank branch.”

In Operation Circle Swat PESCO, an amount of Rs.9.30 million on account of cost of electricity was recoverable from two industrial consumers (M/s Pak Premier Steel Mills & Madina Steel Furnace). The consumers did not pay their electricity dues amounting to Rs.25.49 million.

Non-adherence to Consumer Service Manual resulted in non-recovery of Rs.25.49 million from the defaulting consumers during the financial year 2017-19.

The matter was taken up with management in September, 2019 and reported to the Ministry in October & November, 2019. The management replied that an amount of Rs.15.59 million had been recovered in various months and an amount of Rs.5.49 million was deferred by the court pertaining to Madina Steel

Furnace. Recovery of the remaining amount of Rs.4.41 million was in process pertaining to M/s Pak Premier Steel Mills.

The DAC in its meeting held on December 31, 2019 directed the management to get the recovery verified from Audit and expedite for remaining recovery.

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

(Proposed Draft Para No. 313 & 679/2019-20)

14.5.16 Undue favour to the contractors by non-obtaining proper performance guarantees - Rs.18.73 million

According to PAC Secretariat letter No. F.10(1)/2013-14/2016-PAC dated November 9, 2017, "Chairman PAC has extended the acceptance of insurance guarantees from AA rating insurance companies to private firms / entities while executing the development schemes / projects".

In GSC PESCO, ten (10) performance guarantees of Rs.18.73 million were provided by the contractors for awarding of contract agreements of works. All the said performance guarantees were issued by two insurance companies i.e. M/s Security General Insurance Company and United Insurance Company of Pakistan Limited having credit rating AA(-) instead of AA.

Violation of PAC's directives resulted in undue favour to contractors by non-obtaining of performance guarantees amounting Rs.18.73 million from AA credit rating insurance companies during the financial year 2018-19.

The matter was taken up with the management in July, 2019 and reported to the Ministry in September, 2019. The management replied that insurance guarantees had been obtained from AA rating companies.

The DAC in its meeting held on December 31, 2019 directed the management to get the record verified from Audit within 15 days.

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

(Proposed Draft Para No. 124/2019-20)

14.5.17 Non-payment of electricity dues by the Police Department - Rs.13.20 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 Circle Swabi, PESCO, an amount of Rs.13.20 million was recoverable from the Police Department of Swabi (aging not forthcoming from the record) against two account numbers. However, no efforts were made by the management for recovery from the defaulters. Owing to increasing trend of receivables, PESCO was facing financial difficulties in discharging its obligations.

Non-adherence to the abridged conditions resulted in non-recovery of energy charges Rs.13.20 million up to financial year 2017-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in December, 2019. The management replied that reconciliation of the account was under process with police department. The actual amount recoverable from police department would be recovered and audit would be informed accordingly.

The DAC in its meeting held on December 31, 2019 directed the management to finalize reconciliation with the concerned department and expedite the recovery.

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

(Proposed Draft Para No. 1021/2019-20)

14.5.18 Wrong posting of payments received from Government consumer to private consumers accounts – Rs.10.90 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".

In Operation Circle Hazara-I PESCO, payments received from Government consumers worth of Rs.10.90 million were intentionally transferred to private accounts through CP-139 form. Neither legal action taken against the defaulter(s) nor the departmental inquiry was finalized. Defaulting consumers were concealed by this wrong posing.

Non-adherence to the rules resulted in Fraud / misappropriation of Rs.10.90 million due to willful / wrong posting of Government consumer payments to private accounts through CP-139 up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that the whole amount of para i.e Rs.10.90 million had been recovered. Further the case had already been referred to FIA Abbottabad and presently under investigation by Deputy Director FIA Abbottabad.

The DAC in its meeting held on December 31, 2019 directed the management to get the position verified from Audit.

Audit recommends that departmental action may be taken against those involved in subject fraudulent activity besides accessing the actual amount of fraud.

(Proposed Draft Para No. 636/2019-20)

14.5.19 Irregular payment out of cash drawn for chest – Rs.8.95 million

According to the instructions issued by the Ministry of Water & Power letter No. 1(17)/2007-I&C dated 16.05.20119 and ii) Director General Finance (B&C) WAPDA, WAPDA House Lahore's letter NO. DGF (B&C)/ Cnsold/ 270-76 dated 13.08.2009, "the personal claims include pay/ allowances, arrears, medical reimbursement, honorarium, TA/ DA, payment of advances, leave encashment, educational stipends etc. be made to all the employees including non-gazette staff by issuing crossed cheque."

In PESCO, Peshawar, payment of Rs.8.95 million during the period 07/2018 to 12/2018 was released at Regional Training Centre Charsadda out of the cash drawn for chest instead of issuing crossed cheques. The said payment mechanism was against the SOPs and hence cannot be termed as regular.

Non-adherence to the SOPs resulted in irregular payment of Rs.8.95 million out of cash drawn for chest during the financial year 2018-19.

The matter was taken up with the management in March, 2019 and reported to the Ministry in September, 2019. The management replied that employees had opened their bank accounts for salary and cross cheques were being issued and discontinued the cash drawl.

The DAC in its meeting held on December 31, 2019 directed the management to inquire the matter and reconcile the amount taken within 30 days.

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

(Proposed Draft Para No. 103/2019-20)

14.5.20 Less recovery of Grid Station Sharing Cost from the Sponsor Housing Society's - Rs.8.13 million

According to the instructions issued by PEPCO dated September 19, 2009, 50% cost to be paid by sponsor of housing societies in lump sum in advance.

In PESCO, competent authority approved Five (05) Housing Societies Electrification Schemes and as per rules 50% Grid Station Sharing Cost was required to be recovered from Sponsors of these Housing Societies. However, Out of these Five (05) Housing Societies Schemes only from One (01) Housing Society (Education Employee Foundation H/S Naguman Peshawar) 50% Gird Station Sharing Cost was recovered and from remaining Housing Societies 25% Grid Station Sharing Cost was recovered. This led to less recovery of Rs.8.13 million on account of Grid Station Sharing cost. Due to less recovery, the company had sustained loss of Rs.8.126 million which needs justification and recovery.

Non-adherence to Authority's instructions resulted in less-recovery of Grid Sharing Cost amounting to Rs.8.13 million up to the financial year 2018- 19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that it was a continuous process for providing connections to the consumers. But it was confirmed that Grid Sharing cost had been recovered from the consumers while giving connections. The progress achieved would be intimated accordingly to audit and verification thereof would also be carried out.

The DAC in its meeting held on December 31, 2019 directed the management to submit a revised detailed reply after confirming all the facts regarding the issue of less recovery of Grid Station sharing cost from sponsors.

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

(Proposed Draft Para No. 802/2019-20)

14.5.21 Non-recovery of electricity dues from Govt. resident employees - Rs.6.09 million

According to Para-1.3 of Commercial Procedure, the Revenue Officer and Assistant Manager are responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures.

In Operation Circle Swat, PESCO, an amount of Rs.6.09 million was recoverable from twenty three (23) Govt. employees on account of electricity dues. Neither efforts were made to recover the outstanding amount nor the Equipment Renewal Orders (EROs) were implemented against these defaulters.

Non-adherence to Commercial Procedure resulted in non-recovery of Rs.6.09 million from energy defaulters up to the financial year 2017-19.

The matter was taken up with management in September, 2019 and reported to the Ministry in October, 2019. The management replied that all the 23 Nos. consumers were Government Employees under Deputy Commissioner Lower Dir Timergara who had already been requested to recover the outstanding dues from the employees.

The DAC in its meeting held on December 31, 2019 directed the management to expedite the recovery of electricity dues from the concerned employees.

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

(Proposed Draft Para No. 414/2019-20)

14.5.22 Mis-appropriation of material -- Rs.6.02 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 Project Director (CO) PESCO, material worth Rs.6.02 million against five (05) works was mis-appropriated by the Line superintendents which caused loss to the company. Penalties of recovery of such amount were imposed under E&D rules by the Competent Authority but implementation of penalties was not forthcoming from record.

Non-adherence to Authority’s instructions resulted in mis-appropriation of material worth Rs.6.02 million during the financial year 2018-19.

The matter was taken up with the management in July, 2019 and reported to the Ministry in November, 2019. The management replied that the matter had been taken up by the Project Director (CO) for taking appropriate action against the official regarding recovery of material.

The DAC in its meeting held on December 31, 2019 directed the management to submit the revised reply and expedite action against official concerned.

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

(Proposed Draft Para No. 630/2019-20)

CHAPTER-15

QUETTA ELECTRIC SUPPLY COMPANY (QESCO)

15. QUETTA ELECTRIC SUPPLY COMPANY (QESCO)

15.1 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. The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	12	06	4,027.17	3,302.95	14,889.10
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	03	03	US$ 3.10	US$ 3.10	-

15.2 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 QESCO, financial statements of the company for the financial year 2018-19 could not be finalized by the management up till December 31, 2019.

15.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.327,309.37 million were raised in this audit. The amount also includes recoverable of Rs.315,626.85 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft		75.14
2.	Irregularities		
	A.	Irregularities pertaining to violation of entity's own rules / regulations	388.09
	B.	Irregularities pertaining to violation of Regulatory Laws & Regulations	11,219.30
	C.	Recoveries	315,626.85

Note:- *Further audit observations pertaining to subject company, being identical in nature with that of other DISCOs, have been included in the Chapter of respective Common Issues of this report.*

15.4 AUDIT PARAS

15.4.1 Recoverable energy dues from the consumers - Rs.315,620.39 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 QESCO, a huge amount of Rs.315,620.39 million is receivable from the consumers on account of arrears of electricity dues. Up to the financial year 2017-18, the amount of receivable were Rs.257,853.19 million and the same was increased 22%, in the financial year 2018-19 which indicates the poor performance of the QESCO .

Non-adherence to the rules/regulation of the authority resulted in non-recovery of energy dues amounting to Rs.315,620.39 million from the defaulters during the financial year 2018-19.

The matter was taken up with the management on October 18, 2019 and reported to the Ministry in December, 2019. The management replied that the accumulation was due to non-payment of due share of subsidy i.e. Rs.16,000 by Agricultural consumer and only Rs.10,000/- was being paid by them. The QESCO had taken up the matter with Government of Pakistan and Government of Balochistan to resolve the dispute which was pending.

The DAC in its meeting held on December 31, 2019 directed the management to follow up and get the matter resolved for expeditious recovery.

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

(Proposed Draft Para No. 1014/2019-20)

15.4.2 Irregular utilization of excessive energy by subsidized agriculture tube - wells - Rs.7,391.18 million

According to Economic Coordination Committees' (ECC) decision regarding subsidy for agriculture tube-well consumers in Baluchistan notified on July 02, 2015, Federal Government and Govt of Baluchistan would provide subsidy up to Rs.65,000 per month as 40:60 ratio and consumer would pay Rs.10,000 P.M with the condition that QESCO would ensure eight (08) hours / day electricity supply and installation of 30 HP (22.38 KW) motor. Misuse of tariff either by the consumer for domestic / commercial use or the QESCO to hide the losses / theft of electricity by overbilling would be strictly monitored and disallowed.

In QESCO, 11,995 agriculture tube well consumers with total sanctioned load of 430,201.23 KW were billed with 1,762.72 million units. The consumers were allowed to enjoy average 35.15 & 40.58 KW load in Khuzdar & Sibi Circles respectively instead of restricting them to 30 HP (22.38 KW) load. Hence, 161,846.67 KW load was excessively allowed to the consumers, which entailed excess consumption of 527.94 million units amounting to Rs.7,391.18 million in violation of ECC's decision. Had the sanctioned load contained within prescribed limit, excessive consumption could have been avoided. The detail is as under:-

Sr. No.	Formation	Proposed Draft Para No.	No. of Consumers	Total S/ Load (KW)	Total Units Billed (million)	Amount (Rs.in million)
1.	Khuzdar Operation Circle	523/2019-20	10,433	366,811	1,407.32	5,613.89
2.	Sibi Operation Circle	561/2019-20	1,562	63,390.23	355.40	1,777.29
		TOTAL	**11,995**	**430,201.23**	**1,762.72**	**7,391.18**

Non-adherence to the ECC's decision resulted in irregular utilization of excessive energy of Rs.7,391.18 million by subsidized agriculture tube-wells during the financial year 2018-19.

The matter was taken up with the management on October 02, 2019 and reported to the Ministry in November, 2019. The management replied that the running load at site was jointly verified with the team of Deputy Commissioner. The issue of difference in subsidy amount had not been resolved by Deputy Commissioner.

The DAC in its meeting held on December 31, 2019 directed the management to submit revised/detailed reply along with report of joint committee within 15 days and also directed to follow up the matter with DC for getting its early resolution.

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

15.4.3 Loss of revenue due to abnormal line losses on feeders - Rs.3,828.12 million

According to Rule-7(c) of Public Sector Companies Corporate Governance Rules regarding the identification and monitoring of the principal risks and opportunities of the Public Sector Company and ensuring that appropriate systems are in place to manage these risks and opportunities, including, safeguarding the public reputation of the Public Sector Company.

In QESCO, the percentage of line losses on 102 feeders was abnormally higher than the targets of losses set by the NEPRA as 17.50%. Hence, 254.78 million units were lost, which caused revenue loss of Rs.3,828.12 million. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	Beyond NEPRA Target (%)	No. of feeders	Units Lost (million)	Amount (Rs.in million)
1.	Khuzdar Operation Circle	422/2019-20	18% to 97.7%	54	111.13	1,673.41
2.	Sibi Operation Circle	556/2019-20	27% to 70.14%	38	126.03	1,890.39
3.	Pishin Operation Circle	685/2019-20	29% to 48.1%	10	17.62	264.32
		TOTAL		**102**	**254.78**	**3,828.12**

Non-adherence to the rules resulted in loss of revenue amounting to Rs.3,828.12 million due to operational mismanagement during the financial year 2018-19.

The matter was taken up with the management during September to October, 2019 and reported to the Ministry during October to November, 2019. The management replied that high losses on feeders were due to lengthy feeders, poor substations, difference in reading cycle, shifting / bifurcation of load and wrong feeder coding. However, efforts were being made to reduce the line losses. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit was provided.

The DAC in its meetings held on December 31, 2019 did not accept the stance of the management and directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for line losses beyond NEPRA target. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture 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.

15.4.4 Undue generation of revenue through over billing - Rs.257.24 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 QESCO, the percentages of energy losses of 26 feeders were in negative figures during the financial year 2018-19. The negative losses revealed that the units billed were in excess of units received on feeders, which was an indication of overbilling of Rs.257.24 million to the consumers. Audit was of the view that overbilling showed lack of control in the QESCO and reduced the authenticity of their data. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	No. of Feeder	No. of Units (million)	Amount (Rs.in million)
1.	Khuzdaar Operation Circle	423/2019-20	22	10.24	153.59

2.	Sibi Operation Circle	557/2019-20	4	6.91	103.65
	TOTAL		**26**	**17.15**	**257.24**

Non-adherence to Commercial Procedure resulted in undue generation of revenue of Rs.257.24 million through over billing to consumers during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry during October & November, 2019. The management replied that line losses were due to wrong coding of feeders, shifting / bifurcation of load and difference in billing cycle. The reply was not acceptable as no proper measures were adopted to avoid overbilling.

The DAC in its meetings held during December 31, 2019 directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for negative line losses. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture and provide the record 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 decision besides fixing responsibility.

15.4.5 Blockage of funds due to unnecessary purchase of material – Rs.74.66 million

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

In PMU QESCO, electrical material worth Rs.74.66 million purchased from ADB Loan was lying in store for last ten (10) years. This scenario indicated that material in question was procured without forecasting and assessing the actual demand which caused blockage of Company's funds.

Non-adherence to Authority's instructions resulted in blockage of funds amounting to Rs.74.66 million due to purchase of electrical material up to financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that procured material was not un-necessary. However, some items were slow moving which used for maintenance for smooth running of power system and would be consumed in due course of time.

The DAC in its meeting held on December 31, 2019 directed the management to provide detailed revised reply along with justification.

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

(Proposed Draft Para No. 401/2019-20)

15.4.6 Recurring loss due to non-removal of illegitimate tube well connections - Rs.73.23 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 illegitimate and unregistered consumers".

In Sibi Operation Circle QESCO, 229 illegitimate tube well connections were running. Neither these illegitimate tube well connections were regularized and brought into billing cycle nor illegally installed transformers valuing Rs.45.75 million removed from sites. The revenue loss of Rs.27.48 million was also being sustained by the Company due to operation of these illegitimate 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 recurring loss of Rs.73.23 million due to non-removal of illegitimate tube well connections during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that the issue of running illegal agriculture tube-wells connections had already been taken up with the Government of Baluchistan. All operational formations were directed to report number of illegal tube-wells running in their jurisdiction and action taken.

The DAC in its meeting held on December 31, 2019 directed the management to expedite the efforts for removal of illegal tube-well and also follow up the matter for resolving issue with the Government of Balochistan.

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

(Proposed Draft Para No. 562/2019-20)

15.4.7 Energy losses on independent feeders beyond permissible limit - Rs.18.11 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 for HT feeders was 3% for rural / urban areas.

In QESCO, the percentage of energy losses of 11 independent feeders remained in excess of the permissible limit of 3%, which entailed energy loss of Rs.18.11 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 Formation	Proposed Draft Para No.	No. of feeders	Percentage of losses (%)	Unit lost (Beyond 3%)	Amount (Rs.in million)
1.	Khuzdar Operation Circle	460/2019-20	6	5.3% to 30.45%	0.75	11.20
2.	Sibbi Operation Circle	558/2019-20	3	6.2% to 11.4%	0.38	5.68
3.	Pishin Operation Circle	673/2019-20	2	6.5% to 20.8%	0.08	1.23
		TOTAL	**11**		**1.21**	**18.11**

Non-adherence to Distribution Rehabilitation Guidelines resulted in energy losses of Rs.18.11 million on independent feeders beyond permissible limit during the financial year 2018-19. The same was required to be recovered from the consumers.

Audit was of the view that high-end losses on independent feeders show operation inefficiencies of the respective management. Not only were high loss sustained, but recovery was also not affected.

The matter was taken up with the management in October, 2019 and reported to the Ministry during October to November, 2019. The management replied that the line losses were due to wrong coding of feeders, difference in billing cycle, off size conductor, alternate source and shifting of load. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit on independent feeders was provided.

The DAC in its meetings held on December 31, 2019 directed the management to carry out feeder wise analysis of all the feeders pointed out in the para and justify the line losses beyond permissible limit with CP-22-A, B, C, D & E. DAC further directed to provide the record of completed actions to Audit for verification within a month. Further progress was not reported till finalization of the report.

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

15.4.8 Wasteful expenditure due to non-completion of electrification work of Gulshan-e-Kamal Housing Scheme Quetta - Rs.9.63 million

As per time lines given in para No. 4.1.3 of chapter 4 of distribution rehabilitation guideline the electrification works are to be completed within 130 days from the date of approval.

In QESCO, an estimate of deposit work for electrification of Gulshn-e-Kamal Housing Scheme, Quetta was approved against an amount of Rs.9.63 million in June-2017. The partial material on the work of electrification has been installed and remaining work left incomplete since 02 years. The partial material installed at site was not only the blockage of funds, but also the chances of theft of material could not be ruled out.

Non-adherence to Authority's instructions resulted in non-completion of deposit works in progress amounting to Rs.9.63 million during the financial year 2018-19.

The matter was taken up with the management on October 18, 2019 and reported to the Ministry in November, 2019. The management replied that the completion of deposit work was the responsibility of Project Director Construction QESCO. Audit pointed out that the management had not given any justification for delay in completion of the work.

The DAC in its meeting held on December 31, 2019 directed the management to inquire the matter and fix responsibility for inordinate delay in completion of departmental work.

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

(Proposed Draft Para No. 755/2019-20)

15.4.9 Wasteful expenditure due to non-completion of DOP works - Rs.8.41 million

According to 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".

In QESCO, electrification works amounting to Rs.8.41 million was awarded to M/s Dost Muhammad & Brothers. The works were partially completed and contractor refused to execute the works due to some disputes with the XEN RED-III. The remaining works were still under process since 2014.

Non-adherence to Distribution Rehabilitation Guidelines resulted in non-completion of deposit works amounting Rs.8.41 million to the company in the financial year 2018-19.

The matter was taken up with the management on October 18, 2019 and reported to the Ministry in November, 2019. The management replied that contractor was directed to complete the pending works otherwise the firm would be black listed and also FIR would be lodged against the contractor.

The DAC in its meeting held on December 31, 2019 directed the management to forfeit the security of contractor along with his black listing and submit record for verification to Audit within 15 days.

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

(Proposed Draft Para No. 780/2019-20)

15.4.10 Non-adjustment of irregular credits given to consumers - Rs.6.88 million

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

In QESCO, 435 consumers were given credit of Rs.6.88 million irregularly. The matter was inquired and it was recommended that an amount of Rs.6.88 million should be debited to the consumers which was not forthcoming from the record, resulting in loss to the company to the stated extent.

Non-adherence to the rules resulted in loss of Rs.6.88 million due to non-adjustment of irregular credits given to consumers during the financial year 2018-19.

The matter was taken up with the management on October 18, 2019 and reported to the Ministry in November, 2019. The management replied that the matter was inquired through an inquiry committee and its recommendations had been implemented. Audit contended that besides taking disciplinary actions the wrong credit given to the consumers was also to be withdrawn.

The DAC in its meeting held on December 31, 2019 directed the management to get the stance verified from Audit within 15 days and also provide evidence of withdrawal of wrong credit.

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

(Proposed Draft Para No. 779/2019-20)

15.4.11 Unjustified expenditure on account of bifurcation of 11 KV Anjerri Feeder - Rs.6.27 million

According to Para 4.1.1 (vi) of Distribution Rehabilitation Guidelines, the required benefit / cost (B/C) ratio may be taken as for (a) Reconductoring Proposals > = 1.5 b) Bifurcation and Area Planning > = 2.0.

In QESCO, an estimated amount worth Rs.6.27 million was incurred on the bifurcation of 11 KV Anjerri Feeder under the Head ELR, to reduce the line losses. As per CP-22-A, the rate of line losses in the previous year was 15.9%, whereas after bifurcation, the line losses were increased up to 35%. Such state of affairs clearly indicates the expenditures incurred on the bifurcation were not beneficial for the company.

Non-adherence to the rules/regulation of the authority, the company sustained a wasteful expense of Rs.6.27 million on account of bifurcation of 11 KV Anjeeri Feeder in the financial year 2018-19.

The matter was taken up with the management on October 18, 2019 and reported to the Ministry in November, 2019. The management replied that 410

KW per annum saving would be achieve besides technically justified in terms of BC ratio (11.64).

The DAC in its meeting held on December 31, 2019 directed the management to provide revised reply along with justification within 15 days.

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

(Proposed Draft Para No. 781/2019-20)

15.4.12 Loss due to illegitimate usage of electricity for air-conditioners with the collaboration of line staff - Rs.5.10 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 subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In QESCO, the Director Surveillance recommended to charge the 254,801 energy units amounting to Rs.5.10 million to the consumers using electricity through illegal connection for air conditioners with the collaboration of line staff. But neither the energy units have been debited to the relevant consumers nor the disciplinary action has been taken against officers involved in theft of electricity.

Non-adherence to Authority's instructions resulted in loss of Rs.5.10 million to the company during the financial year 2018-19.

The matter was taken up with the management on October 18, 2019 and reported to the Ministry in November, 2019. The management replied that the matter had been inquired through a committee constituted. Five officers / officials were held responsible and implementation of recommendations of the committee was under process.

The DAC in its meeting held on December 31, 2019 directed the management to implement the recommendation of inquiry report along with recovery from consumer and get it verified form Audit within a month.

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

(Proposed Draft Para No. 834/2019-20)

15.4.13 Unjustified expenditure on repair of distribution transformers – Rs.4.26 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".

In Sibi Operation Circle QESCO, an expenditure of Rs.4.26 million was incurred on the repair of damaged distribution transformers. However, only 06 distribution transformers were reported as damaged by Sibi division and not a single one by Naseerabad division. This was an abnormal transaction as it was unpractical to have incurred an expenditure of Rs.4.26 million an repair of merely 06 distribution transformers. Moreover, neither the transformers' damaged reports of M&T/Transformer workshop were available nor departmental inquiry conducted to arrive at factual position for fixing responsibility.

Non-adherence to the rules resulted in loss of Rs.4.26 million due to damage of distribution transformers during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that consolidation of data regarding damage transformers was under progress with transformers workshop Quetta. Audit contended that expenditure of Rs.4.26 million was made against only 6 Nos. distribution transformers.

The DAC in its meeting held on December 31, 2019 directed the management to provide the detailed record of transformers repaired along with justification of each damaged transformer within 15 days.

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

(Proposed Draft Para No. 564/2019-20)

15.4.14 Recurring loss due to non-replacement of defective meters – Rs.2.63 million

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

In QESCO, 1643 single / three phase meters were defective since long. The average billing was being made to the consumers without observing actual consumption, which caused recurring loss to the Company. Moreover, the cost of Rs.2.63 million for replacement of defective meters was also not recovered from consumers.

Non-adherence to the rules resulted in recurring loss due to non-replacement of defective meters and non-recovery of cost of Rs.2.63 million thereof from consumers during the financial year 2018-19.

The matter was taken up with the management on October 18, 2019 and reported to the Ministry in December, 2019. The management replied that the details of audit observation would be reconciled with Audit.

The DAC in its meeting held on December 31, 2019 directed the management to submit revised reply after obtaining detail of para from Audit within 15 days.

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

(Proposed Draft Para No. 952/2019-20)

15.4.15 Wasteful expenditure on account of non-completion of work and recording the bogus measurements in the EMB - Rs.1.91 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".

In QESCO, a contract was awarded to M/s Khuda-e-Nazar for raising of boundary wall at 132 K.V Grid Station Mand amounting to Rs.1.91 million. After the completion of 40% construction of the wall, the work was stopped due to bogus preparation of EMB and non-payment of 1st running bill. The matter was inquired vide letter No. CEO/15116 dated May 07, 2019 and the officers/officials were held responsible for the recording of bogus EMB and 10% advance payments to the contractor, without provision of rules/regulation of company.

Non-adherence to the rules resulted in loss of Rs.1.91 million on account of non-completion of construction work in the financial year 2018-19.

The matter was taken up with the management on October 18, 2019 and reported to the Ministry in November, 2019. The management replied that the matter was inquired through an inquiry committee and the recommendations of the committee had been implemented against the officers / officials held responsible. Moreover, no payment was made to the contractor regarding work.

The DAC in its meeting held on December 31, 2019 directed the management to get the stance verified within 15 days.

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

(Proposed Draft Para No. 754/2019-20)

15.4.16 Non-recovery of standard rent from the un-authorized occupants - Rs.1.36 million

According to clarification issued by Director Finance (Regulation), WAPDA on January 10, 2007, "where the accommodation is allotted by one organization to the employees of other organization, the standard rent is to be charged by the formation concerned from the formation whose employees have been allotted accommodation". As per Director (Services) PEPCO office letter dated January 01, 2010, "no one is competent to accord permission for unauthorized retention of official accommodation beyond admissible period according to instructions in vogue and recovery of market rent shall be effected from the employees who retained accommodation beyond admissibility".

In QESCO, in Sheikh Mandha and Nawan Killi quarters, the un-authorized persons were residing without recovery of standard rent amounting to Rs.1.36 million. The QESCO Management failed to recover the standard rent from the un-authorized occupants.

Non-adherence to Authority's instructions resulted in non-recovery of Rs.1.36 million on account of standard rent from the un-authorized occupants in the financial year 2018-19.

The matter was taken up with the management on October 18, 2019 and reported to the Ministry in November, 2019. The management replied that the details of audit observation would be reconciled with Audit.

The DAC in its meeting held on December 31, 2019 directed the management to submit revised reply after obtaining detail of para from Audit within 15 days.

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

(Proposed Draft Para No. 784/2019-20)

CHAPTER-16

SUKKUR ELECTRIC POWER COMPANY (SEPCO)

16. SUKKUR ELECTRIC POWER COMPANY (SEPCO)

16.1 Introduction

Sukkur Electric Power Company (SEPCO) is a subsidiary of PEPCO. The Company started its operation as a Public Limited Company in 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. The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1	Formations	09	04	13,260.74	9,425.68	24,910.67
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

16.2 Comments on Financial Statements

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:

16.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.129,168.23 million were raised in this audit. The amount also includes recoverables of Rs.108,767.22 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft		507.28
2.	Irregularities		
	A.	HR/Employees related irregularities	20.00
	B.	Procurement related irregularities	742.27
	C.	Management of Accounts with Commercial Banks	207.41
	D.	Irregularities pertaining to violation of entity's own rules / regulations	9,574.17
	E.	Irregularities pertaining to violation of Regulatory Laws & Regulations	9,333.00
	F.	Recoveries	108,767.22
3.	Others		16.88

Note:- *Further audit observations pertaining to subject company, being identical in nature with that of other DISCOs, have been included in the Chapter of respective Common Issues of this report.*

16.4 AUDIT PARAS

16.4.1 Non-recovery of dues from energy defaulters – Rs.108,764.81 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 SEPCO, an amount of Rs.108,764.81 million was recoverable from 563,700 running / P-Disc energy defaulters of all consumer categories having age one month to more than three years. However, no efforts were made by the management to accelerate the recovery from defaulters. Owing to increasing trend of receivables, SEPCO was facing financial difficulties in discharging its obligations towards CPPA-G.

Non-adherence to Commercial Procedure resulted in non-recovery of Rs.108,764.81 million from running / P-Disc energy defaulters up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that the SEPCO management had prepared mechanism to effect recovery from electricity defaulters. Consequent upon these efforts the %age of recovery against private consumers had been increased in comparison with last year.

The DAC in its meeting held on December 27, 2019 directed the management to ensure recovery from consumers by giving priority to top 100 defaulters as per the aging / significance of outstanding dues.

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

(Proposed Draft Para No. 878/2019-20)

16.4.2 Loss of revenue due to abnormal line losses on feeders - Rs.9,088.51 million

According to Rule-7(c) of Public Sector Companies Corporate Governance Rules regarding the identification and monitoring of the principal risks and opportunities of the Public Sector Company and ensuring that appropriate systems are in place to manage these risks and opportunities, including, safeguarding the public reputation of the Public Sector Company.

In SEPCO, the percentage of line losses on 152 feeders was abnormally higher than the targets of losses set by the NEPRA as 29.75%. Hence, 508.31 million units were lost, which caused revenue loss of Rs.9,088.51 million. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	(%) of losses	No. of feeders	Units Lost (million)	Amount (Rs.in million)
1.	Larkana Operation Circle	275/2019-20	41.4% to 94.3%	94	338.23	6,047.53

2.	Sukkur Operation Circle	948/2019-20	42.3 to 95.3%	58	170.08	3,040.98
		TOTAL		**152**	**508.31**	**9,088.51**

Non-adherence to the rules resulted in loss of revenue amounting to Rs.9,088.51 million due to operational mismanagement during the financial year 2018-19.

The matter was taken up with the management during July & September, 2019 and reported to the Ministry during October & December, 2019. The management replied that the main reasons of high line losses were law & order situation, non-cooperation of local administration, 80% rural area having no big industrial consumers, 80% ratio of domestic consumer etc. Moreover, in the light of directives by Ministry of Energy, anti-theft campaign had been started in SEPCO under zero tolerance policy. In 1st phase securing of high loss urban feeders were planned. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit was provided.

The DAC in its meetings held on December 27, 2019 did not accept the stance of the management and directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for line losses beyond NEPRA target. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture 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.

16.4.3 Abnormal/excessive detection charged to consumers - Rs.8,457.80 million

According to Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures".

In SEPCO, 929.668 million units were charged on account of detection / adjustment during the year 2018-19. The percentage of adjustment / detection to normal billing ranged from 25% to 77% in various months during the year 2018-19. The overall average percentage of detection charged remained 46% in 2018-19. The huge detection charged puts a question mark on the accuracy of normal billing and also an attempt to conceal the line losses.

Non-adherence to Commercial Procedure resulted in abnormal detection charged to consumers amounting to Rs.8457.80 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the Detection bills were served to consumers in the light of discrepancies pointed out by M&T, S&I. Regional Task Force & Field Formation during checking of connections physically at site as per detection policy after completing all codal formalities. Parameters of detection policy were fully observed at the time of charging detection bills. The main reason of excessive detection was billing against consumers having no meter at site. Audit contended that the overall 46% detection charges in 2018-19 was an alarming situation which needed to be addressed.

The DAC in its meeting held on December 27, 2019 directed the management to inquire into the matter of excessive detection charges and non-installation of meters at site.

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

(Proposed Draft Para No. 704/2019-20)

16.4.4 Undue generation of revenue through over billing - Rs.897.86 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 SEPCO, the percentages of energy losses of 37 feeders were in negative figures during the financial year 2018-19. The negative losses revealed that the units billed were in excess of units received on feeders, which was an indication of overbilling of Rs.897.86 million to the consumers. Audit was of the view that overbilling showed lack of control in the SEPCO and reduced the authenticity of their data. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	No. of Feeder	No of Units (million)	Amount (Rs.in million)
1.	Sukkur Operation Circle	368/2019-20	37	50.22	897.86

Non-adherence to Commercial Procedure resulted in undue generation of revenue of Rs.897.86 million through over billing to consumers during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that line losses were due to wrong coding of feeders, shifting / bifurcation of load and difference in billing cycle. The reply was not acceptable as no proper measures were adopted to avoid overbilling.

The DAC in its meetings held during December 27, 2019 directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for negative line losses. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture and provide the record 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 decision besides fixing responsibility.

(Proposed Draft Para No. 368/2019-20)

16.4.5 Non-provision of insurance coverage from the contractor - Rs.723.22 million

According to the contract clause 14.1, "the contractor shall, prior to commencing the works, effect insurances of the type, in the amounts and naming as insured the stipulated in the contract data. The contractor shall provide the engineer/employer with evidence that any required policy is in force that the premiums have been paid". Subject to the provisions of sub-sections (4) and (5), all insurance business relating to any public property, or to any risk or liability appertaining to any public property, shall be placed with the National Insurance Company only and shall not be placed with any other insurer, according to Section 166.3 of Insurance Ordinance 2000.

In Project Director GSC SEPCO Sukkur, Nineteen (19) contracts / works amounting to Rs.723.22 million were awarded to various contractors. However, in contravention of above provisions, the insurance coverage for the contracts was not obtained from the contractor. Thus an undue financial benefit was given to the contractor.

The matter was taken up with the management August, 2019 and reported to the Ministry in November, 2019. The management replied that the works were under progress and satisfactorily completed till to date about 70% to 80% for which the 10% Performance Security on bid cost had been obtained and 10% security deposit had also been deducted from their invoices. At this stage the Performance Guarantee and 10% Security deducted from the invoices may be considered Insurance Guarantee and in future the compliance of Audit would be made accordingly. Audit contended that violation of contract clause.14.1 and section 166.3 of Insurance Ordinance 2000 was required to be inquired into for fixing the responsibility.

The DAC in its meeting held on December 27, 2019 directed the management to get the matter inquired into and deduct the amount from the bill. Further general instructions be issued by PEPCO regarding insurance coverage from the contractors as per Insurance Ordinance 2000.

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

(Proposed Draft Para No. 591/2019-20)

16.4.6 Loss due to embezzlement by SEPCO staff - Rs.503 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 SEPCO, a complaint was lodged regarding embezzlement of Rs.503 million on account of bill adjustment notes allowed/fed into WAPDA Computer Centre (WCC) without approval of competent authority for the period January, 2012 to December, 2017 in Operation Division SEPCO Khairpur. An inquiry committee on departmental level under the convenership of Manager SEPCO

(S&I) Sukkur was constituted on September 05, 2018, however, the report was still awaited. Meanwhile the matter had been undertaken by FIA.

Non-adherence to guidelines resulted in loss of Rs.503 million due to embezzlement of SEPCO staff during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that the subject case was being investigated by the FIA Crime Circle Sukkur vide Inquiry No.18/2018. The action would be taken after outcome of FIA Inquiry against delinquents (If any).

The DAC in its meeting held on December 27, 2019 directed the management to expedite the inquiry and E&D proceedings against the concerned person(s) and follow up the case with FIA.

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

(Proposed Draft Para No. 407/2019-20)

16.4.7 Irregular credit adjustments on account of overbilling to the consumers - Rs.241.59 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 procedures".

In Operation Circle Sukkur SEPCO, a huge amount of Rs.241.59 million was credited to 10250 consumers, on account of wrong reading and revised detection 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. This was done just to conceal the actual line losses and theft of energy.

Non-adherence to Commercial Procedure resulted in huge refund/credits of Rs.241.59 million to consumers on account of wrong reading / revised detection during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that the credit adjustments duly approved by the competent authority (Committee) to redress the genuine grievances of consumers conveyed through Open Katcharies.

The DAC in its meeting held on December 27, 2019 directed the management to take action against responsible who were involved in overbilling and summit the revised reply to Audit.

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

(Proposed Draft Para No. 371/2019-20)

16.4.8 Doubtful collection / bogus scrolling against billing - Rs.207.41 million

According to Chapter-3 (3.2) of Financial & Accounting Policies and Procedures Manual, "i) Finance Director is responsible to oversee the overall accounting and financial aspects of DISCOs. 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 verification of daily scrolls collected from the banks, reconciliation with banks through CP-48 and CP-49, preparation of different CP forms for submission to the MIS Department and maintenance of cash book".

In Operation Circle Larkana & Sukkur SEPCO, Divisional Cash collection book (CP form 104) disclosed that an amount of Rs.207.41 million was appearing as closing balance against scrolls un-credited by bank but as per abstract of cash collection form (CP-48) no such scrolls have been shown pending with bank. The scenario indicated the chances of misappropriation / bogus scroll feeding in the system.

Non-adherence to Financial & Accounting Policies resulted in feeding of incorrect bogus scrolls in the system for Rs.207.41 million in the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October & November, 2019. The management replied that the concerned R.Os had been directed to furnish the detailed appropriate reply. As and when received the position would be informed to Audit accordingly.

The DAC in its meeting held on December 27, 2019 directed the management to inquire the matter within 15 days and fix the responsibility upon the person (s) at fault besides reconciling the scrolls against billing.

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

(Proposed Draft Para No. 255 & 570/2019-20)

16.4.9 Irregular award of work order to avoid variation order - Rs.107.07 million

While giving the approval of variation ranging from 42% to 92% to the original contract / work order for construction of 02 No 132 KV DC line for Sukkur Township & Rasoolabad Grid Station, BoD SEPCO directed the management that such type of variation would not be entertained in future.

In GSC SEPCO, two work orders of Rs.38.69 million and Rs.48.27 million for construction of 132 KV SDT Shikarpur (Lodra) Arain Road Sukkur transmission line were awarded to Mr. Zarif Khan & Brothers and M/s Imtiaz Construction Company respectively. Subsequently, due to change in profile on the basis of Geotechnical report, the foundation designs were changed and two further work orders of Rs.57.40 million and Rs.49.66 million were issued to other contractors for completion of balance work, which caused 148% & 103% increase in original contract value. Instead of issuing the variation order, fresh tendering & issuance of further work orders was just to avoid BoDs approval who categorically disallowed abnormal variation. This was tantamount to splitting of work which was irregular.

Non-adherence to the BoDs instructions resulted in irregular award of work orders of Rs.107.07 million to avoid variation order up to the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in December, 2019. The management replied that Chief Engineer (Design) NTDC Lahore approved the profile on normal foundation design with recommendation that in case soft / saline or high water table, the matter might be referred back for advice prior to execution of work". The same situation was encountered, accordingly Chief Engineer (Design) NTDC Lahore changed the foundation design, which caused increase in work. In presence of BoD's standing instructions for not sending such type of variation cases, the fresh tenders for execution of balance work were called for. Audit contended that the lapse at planning stage caused variation beyond 50% of original contract price, therefore, BoD while granting approval in another variation case showed its strong concern. Hence, the management resorted to fresh tendering for balance work without fixing the responsibility.

The DAC in its meeting held on December 27, 2019 directed the management to submit revised reply with documentary evidence to Audit within a week.

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

(Proposed Draft Para No. 950/2019-20)

16.4.10 Wasteful expenditure on feeders to reduce line losses - Rs.48.58 million

According to Para-2.1.4 of Chapter-2 of Distribution Rehabilitation Guidelines (September 2003), "In this case, overloaded or lengthy feeders are selected. Only one feeder is selected for bifurcation and a new feeder is essentially involved in this case. In many urban and rural areas, the existing HT lines/feeders are extremely overloaded and lengthy. Replacement of these lines with new 11 KV lines can result in considerable loss reduction. In addition to above the introduction of new HT line / feeders can result in improvement of quality of supply and reduction in losses".

In SEPCO, bifurcation of seven (07) No. 11 KV Feeders for reducing line losses under SAP/ELR program was made but the objective for bifurcation to reduce line losses could not be achieved. The line losses on the 11 KV feeders were increased instead of projected results which showed that expenditure incurred amounting to Rs.48.58 million had gone waste.

Non-adherence to Authority's instructions resulted in wasteful expenditure on feeders amounting to Rs.48.58 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that the technical losses after completion of assignment were reduced and all possible efforts were made to reduce administrative loss particularly against those feeders which were supplying the energy of remote / rural areas.

The DAC in its meeting held on December 27, 2019 directed the PEPCO to review ELR performance of the DISCOs for the last five years and report to Audit within 30 days.

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

(Proposed Draft Para No. 376/2019-20)

16.4.11 Energy losses on independent feeders beyond permissible limit - Rs.25.78 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 for HT feeders was 3% for rural / urban areas.

In SEPCO, the percentage of energy losses of 04 independent feeders remained in excess of the permissible limit of 3%, which entailed energy loss of Rs.25.78 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 Formation	Proposed Draft Para No.	No. of feeders	Percentage of losses (%)	Unit lost (Beyond 3%)	Amount (Rs.in million)
1.	Larkana Operation Circle	169/2019-20	4	8.6% to 56%	1.442	25.78

Non-adherence to Distribution Rehabilitation Guidelines resulted in energy losses of Rs.25.78 million on independent feeders beyond permissible limit during the financial year 2018-19. The same was required to be recovered from the consumers.

Audit was of the view that high-end losses on independent feeders show operation inefficiencies of the respective management. Not only were high loss sustained, but recovery was also not affected.

The matter was taken up with the management in July, 2019 and reported to the Ministry in October, 2019. The management replied that the line losses were due to wrong coding of feeders, difference in billing cycle, off size conductor, alternate source and shifting of load. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit on independent feeders was provided.

The DAC in its meetings held on December 27, 2019 at Lahore, directed the management to carry out feeder wise analysis of all the feeders pointed out in the para and justify the line losses beyond permissible limit with CP-22-A, B, C, D & E. DAC further directed to provide the record of completed actions to Audit for verification within a month. Further progress was not reported till finalization of the report.

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

(Proposed Draft Para No. 169/2019-20)

16.4.12 Loss due to wrong application of tariff – Rs.25.74 million

Tariff D-1(b) is applicable to Scarp tube well connections having sanctioned load 5 KW and above as per schedule of electricity tariff.

In Operation Circle Sukkur SEPCO, 857 Scarp tube well connections having sanctioned 10,722.93 KW were sanctioned under tariff A-3(a) instead of relevant tariff D-1(b). The wrong application of tariff resulted in non-recovery of Rs.25.74 million on account of fixed charges.

Non-adherence to schedule of tariff resulted in loss of Rs.25.74 million due to wrong application of tariff from consumer during financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that due to non-availability of A/c No. wise lists the detail of charging tariff and recovery status could not be submitted. Audit asked the management to collect the requisite detail /documents from audit office.

The DAC in its meeting held on December 27, 2019 directed the management to collect the requisite detail from audit, submit revised reply and expedite recovery accordingly.

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

(Proposed Draft Para No. 367/2019-20)

16.4.13 Loss due to illegitimate occupation of SEPCO land by Ex-SEPCO employee - Rs.20 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".

In SEPCO, land measuring 700 Sq yards in the premises of 132 K.V. grid station had been illegally occupied by Ex-SEPCO employee (Mr. Gulsher Ahmed Shar Ex-SDO). The intruder had built his house and ice factory on the encroached land of SEPCO and caused loss of Rs.20 million to the Company due to illegitimate occupation of its land.

Non-adherence to the rules resulted in loss due to illegitimate occupation of SEPCO land by Ex-SEPCO employees for Rs.20 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that the case was under trial with Senior Civil Judge Sukkur .Further progress would follow accordingly.

The DAC in its meeting held on December 27, 2019 directed the management to submit a detailed revised reply regarding illegitimate occupation of SEPCO land.

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

(Proposed Draft Para No. 404/2019-20)

16.4.14 Non-recovery of liquidated damages from the suppliers - Rs.19.05 million

According to Purchase Order Clause-15, if the supplier fails to deliver the stores or any consignment thereof within specified delivery period, the purchase shall be entitled to recover liquidated damages levied at the rate of two percent (2%) per month or fraction thereof, subject to a maximum of 10% of the contract price.

In SEPCO, nineteen (19) purchase orders for supply of different types of electrical material issued to the supplier. However, the suppliers could not deliver the material within the stipulated period, hence, liquidated damages of Rs.19.05 million were required to be recovered from them, which was not done.

Non-adherence to purchase orders clause resulted in non- recovery of liquidated damages of Rs.19.05 million from suppliers up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that all the invoices of suppliers were scrutinized according to P.O Clauses-5, 15 & 10 and no irregularity was made. Audit contended that the management's stance needed to be substantiated with documentary evidences.

The DAC in its meeting held on December 27, 2019 directed the management to get the position verified from Audit. Further progress was not reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision besides justifying disparity among the said PO clauses dealing with delivery period.

(Proposed Draft Para No. 374/2019-20)

16.4.15 Encroachment on defunct P.C. Pole Plant Rohri - Rs.16.88 million

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

In SEPCO, defunct P.C. Pole Plant Rohri measuring area of 53,240 Sq Yards having tentative value of Rs.16.88 million was declared defunct and the land was left unattended. The land was encroached and occupied by land grabbers due to un-attentive and casual behavior of the concerned quarters. Moreover, huge quantities of P.C.C. Poles are being procured in the Company from private contractors for which opportunity for revival of SEPCO's own PCC Pole Plant needed to be explored and materialized.

Non-adherence to guidelines resulted in loss due to illegitimate encroachment/occupation on defunct P.C. Pole Plant Rohri Rs.16.88 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that there was no land encroached / occupied by land grabbers and the possession of the said plant / site was fully under the custody of the SEPCO. Audit desired documentary evidence in support of reply.

The DAC in its meeting held on December 27, 2019 directed the management to get the position verified from Audit.

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

(Proposed Draft Para No. 410/2019-20)

16.4.16 Loss due to non-installation of independent transformers - Rs.11.35 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 Operation Circle Larkana & Sukkur SEPCO, seventy three (73) industrial/ commercial consumers having running load above 7.46 K.W were electrified from the general distribution transformers instead of independent transformers. The field formations neither installed the independent transformers nor got regularized the extended load from the competent authority. The regularization of extended load would have entailed capital / independent transformers cost amounting Rs.11.35 million.

Non-adherence to Authority's instruction resulted in non-recovery of Rs.11.35 million from consumers on account of capital/ independent transformer cost during the financial year 2018-19.

The matter was taken up with the management in July & August, 2019 and reported to the Ministry in October, 2019. The management replied that the Regional Manager (M&T) SEPCO Sukkur had already been directed for verification of alleged connections and provides checking reports. The field formations had been directed to disconnect the supply after completion of notice period.

The DAC in its meeting held on December 27, 2019 directed the management to install independent transformer as per SoP and produce the revised reply.

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

(Proposed Draft Para No. 344 & 372/2019-20)

16.4.17 Loss due to misappropriation of material – Rs.4.28 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 subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

In SEPCO, estimates for four works under Chief Minister Directives (CMDs) were sanctioned for an amount of Rs.4.28 million and were required to be completed in December, 2018. The works were shown completed by field formation. However, during inspection of representative of Energy department of Govt. of Sindh, it was pointed out that no work was executed as pointed out by XEN Construction Division letter dated July 16, 2019. Thus misappropriation of material by field formation could not be ruled out.

Non-adherence to guidelines resulted in loss due to misappropriation of material Rs.4.28 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that the detail of works / supporting documents had not been found attached with the draft para. Audit asked the management to collect the requisite detail from audit office.

The DAC in its meeting held on December 27, 2019 directed the management to collect the requisite detail from Audit and expedite the desired action.

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

(Proposed Draft Para No. 409/2019-20)

16.4.18 Undue billing to disconnected street light connections - Rs.2.90 million

According to Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures".

In SEPCO, 162381 energy units were charged to disconnected street light connections entailing an amount of Rs.2.90 million pointed out in Government of Sindh Energy department letter dated August 30, 2019. The charging of units to disconnected street light connections is held irregular and also showed poor internal controls in the company.

Non-adherence to Commercial Procedure resulted in undue billing to disconnected street light connections to the tune of Rs.2.903 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that as per MoU signed between SEPCO & Government of Sindh (GoS) duly approved by ECC of Cabinet Committee on 07.12.2016, the billing against all GoS connections was being made properly including connections of street lights.

The DAC in its meeting held on December 27, 2019 directed the management to reconcile the requisite detail with Audit and expedite the desired actions.

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

(Proposed Draft Para No. 406/2019-20)

16.4.19 Non-recovery of fixed charges from a consumer sanctioned under tariff C-2(a) – Rs.2.41 million

According to electricity schedule of tariff for SEPCO notified vide SRO.08/2019 dated 01.01.2019 by Ministry of Energy, fixed charges @ Rs 380 per KW per month were applicable to connections sanctioned under tariff C2 (a) "Single Point Supply".

In Operation Circle Sukkur SEPCO, connection bearing reference No 24-38161-1263401 having sanctioned load of 528 KW was sanctioned in May-2011 under tariff C-2 (a), however fixed charges leviable under the applicable tariff were not recovered. Non-recovery of fixed charges resulted in loss of Rs.2.41 million.

Non-adherence of authority instructions resulted in non-recovery of fixed charges from consumer amounting to Rs.2.41 million during financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that the billing to consumer had been made as per NEPRA approved tariff. MDI 46 KW was being supplied but not being billed as fixed charges by MIS. The matter had been taken with MIS for resolving as per approved Tariff policy.

The DAC in its meeting held on December 27, 2019 directed the management to resolve the matter with MIS and expedite the requisite recovery as per tariff policy.

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

(Proposed Draft Para No. 506/2019-20)

16.4.20 Unrealistic billing due to no meters at site

According to Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures".

In SEPCO, 160,957 connections existed as on June 30, 2019 where no meter was installed and billing was being made to the consumers on assumptive basis. The billing on assumptive basis was a tool used by the management to charge energy units on their own sweet will and used for concealment of actual line losses.

Non-adherence to instruction resulted in undue assumptive billing due to no meter at site during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in October, 2019. The management replied that the matter was taken-up with PITC and allotted "9" code against connections having no meter at site / where meters were missed / misplaced. The billing was being made in the light of connected load on load factor basis through adjustment notes (CP-52).

The DAC in its meeting held on December 27, 2019 directed the management to conduct a detailed inquiry at PEPCO level with aging analysis, categorization of consumers and recovery status and produce the inquiry report within one month.

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

(Proposed Draft Para No. 403/2019-20)

CHAPTER-17

TRIBAL AREAS ELECTRIC SUPPLY COMPANY (TESCO)

17. TRIBAL AREAS ELECTRIC SUPPLY COMPANY (TESCO)

17.1 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. The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	05	02	2,023.39	1,100.66	21,098.60
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

17.2 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 TESCO, financial statements of the company for the financial year 2018-19 could not be finalized by the management up till December 31, 2019.

17.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.50,048.60 million were raised in this audit. The amount also includes recoverables of Rs.49,233.13 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft		58.36
2.	Irregularities		
	A.	Management of Accounts with Commercial Banks	69.57
	B.	Irregularities pertaining to violation of entity's own rules / regulations	466.54
	C.	Irregularities pertaining to violation of Regulatory Laws & Regulations	220.99
	D.	Recoveries	49,233.13

Note:- *Further audit observations pertaining to subject company, being identical in nature with that of other DISCOs, have been included in the Chapter of respective Common Issues of this report.*

17.4 AUDIT PARAS

17.4.1 Huge receivables against the consumers - Rs.49,209.90 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 TESCO, Peshawar, total receivables against all the consumer categories were Rs.42,061.92 million in December, 2018, which accumulated to Rs.49,209.90 million up to June, 2019. Due to poor recovery performance, receivables of Rs.7,147.98 million were add up in just six months.

Non-adherence to Commercial Procedure resulted in piling up of huge receivables of Rs.49,209.90 million against the consumers up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that the amount involved was also taken in other PDPs.

The DAC in its meeting held on December 31, 2019 directed the management to expedite the recovery of electricity dues by prioritizing top 100 defaulters and provide the recovery record of completed actions after reconciliation of figures in other observations to Audit for verification within a week.

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

(Proposed Draft Para No. 1030/2019-20)

17.4.2 Blockade of TESCO funds due to inactive material - Rs.191.82 million

According to Para 145 of GFR Volume-I, "Purchases must be made in the most economical manner in accordance with the definite requirements of the public service. At the same time, care should be taken not to purchase stores much in advance of actual requirements, if such purchase is likely to prove unprofitable to Government."

In TESCO, huge quantities of materials amounting to Rs.191.82 million were lying in Regional Store TESCO Hayatabad, Peshawar. The material had not been issued after May, 2018 which shows that this material was purchased unnecessarily in excess of demand, which resulted in blockade of TESCO funds.

Non-adherence to general financial rules resulted in blockade of TESCO funds amounting to Rs.191.82 million due to inactive material up to financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that after scrutiny of the material this office would make efforts either to utilize the same or allocate to other DISCOs.

The DAC in its meeting held on December 31, 2019 directed the management to submit revised reply with aging of inactive material, source of funding for procurement along with future utilization plan to Audit within a week.

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

(Proposed Draft Para No. 848/ 2019-20)

17.4.3 Irregular reconnection / extension of load of an industrial consumer without recovery of arrear – Rs.165.74 million

According to Para 8.3 of Consumer's Service Manual, "the disconnected premises shall be reconnected at the request of the consumer if all outstanding electricity charges are paid."

In TESCO, M/s Dawood Steel Foundry (A/C No. 24-59114-0119303) was disconnected due to arrear of Rs.93.90 million. The consumer applied for reconnection with extension of load from 88 KW to 3000 KW. TESCO management allowed the reconnection of consumer on the condition to pay Rs.9.40 million as down payment. The payment of remaining arrears would be made in monthly installment of Rs.1.5 million along with current electricity bill. The Director (P&E) vide letter dated May 03, 2018 pointed out irregularities in reconnection. Later on, the cost of Independent feeder and security was recovered from the consumer. However, consumer neither paid the outstanding amount nor paid its current electricity charges. Resultantly, arrear of the consumer increased from Rs.93.90 million to Rs.165.74 million up to October, 2019. Moreover, the irregularities pointed out by Director (P&E) were neither investigated nor regularized as per rules and undue favour was extended to the consumer.

Non-adherence of Consumer's Service Manual resulted in irregular reconnection of an industrial connection without recovery of arrear amounting to Rs.165.74 million during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in November, 2019. The management replied that Chief Executive Officer had full powers for recovery of electricity dues in installments from the disconnected consumer. Audit contended that as per NEPRA's reconnection policy the outstanding dues should have been recovered in full prior to reconnection.

The DAC in its meeting held on December 31, 2019 directed the management to ensure recovery of entire dues from the consumer and provide the record of completed actions to Audit within a month.

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

(Proposed Draft Para No. 845/2019-20)

17.4.4 Energy losses on independent feeders beyond permissible limit - Rs.152.59 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 for HT feeders was 3% for rural / urban areas.

In TESCO, the percentage of energy losses of 19 independent feeders remained in excess of the permissible limit of 3%, which entailed energy loss of Rs.152.59 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 Formation	Proposed Draft Para No.	No. of feeders	Percentage of losses (%)	Unit lost (Beyond 3%)	Amount (Rs. in million)
1.	FATA Operation Circle	707/2019-20	19	3.41% to 97%	9.39	152.59

Non-adherence to Distribution Rehabilitation Guidelines resulted in energy losses of Rs.152.59 million on independent feeders beyond permissible limit during the financial year 2018-19. The same was required to be recovered from the consumers.

Audit was of the view high-end losses on independent feeders show operation inefficiencies of the respective management. Not only were high losses sustained, but recovery was also not affected.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the line losses were due to wrong coding of feeders, difference in billing cycle, off size conductor, alternate source and shifting of load. The reply was not acceptable being generic as no justification with evidence for losses beyond permissible limit on independent feeders was provided.

The DAC in its meetings held on December 31, 2019 directed the management to carry out feeder wise analysis of all the feeders pointed out in the para and justify the line losses beyond permissible limit with CP-22-A, B, C, D & E. DAC further directed to provide the record of completed actions to Audit for verification within a month. Further progress was not reported till finalization of the report.

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

(Proposed Draft Para No. 707/2019-20)

17.4.5 Undue generation of revenue through over billing - Rs.122.13 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 TESCO, the percentages of energy losses of 29 feeders were in negative figures during the financial year 2018-19. The negative losses revealed that the units billed were in excess of units received on feeders, which was an indication of overbilling of Rs.122.13 million to the consumers. Audit was of the view that overbilling showed lack of control in the TESCO and reduced the authenticity of their data. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	No. of Feeders	No. of Units (million)	Amount (Rs.in million)
1.	FATA Operation Circle	706/2019-20	13	2.51	39.97
2.	Chief Executive Office	1193/2019-20	16	4.34	82.16
	TOTAL		**29**	**6.85**	**122.13**

Non-adherence to Commercial Procedure resulted in undue generation of revenue of Rs.122.13 million through over billing to consumers during the financial year 2018-19.

The matter was taken up with the management during October, 2018 to September, 2019 and reported to the Ministry during November to December, 2019. The management replied that line losses were due to wrong coding of feeders, shifting / bifurcation of load and difference in billing cycle. The reply was not acceptable as no proper measures were adopted to avoid overbilling.

The DAC in its meetings held during December 31, 2019 directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for negative line losses. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture and provide the record 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 decision besides fixing responsibility.

17.4.6 Non-reconciliation of revenue remittances with banks / Post Offices – Rs.69.57 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 TESCO Peshawar, collection and remittances summary disclosed that an amount of Rs.69.57 million had been less remitted in TESCO's main accounts by the banks/Post Offices during the year 2018-19. Resultantly, the Company sustained loss due to less remittance of revenue to the stated extent.

Non-adherence to the Commercial Procedures resulted in non-reconciliation of revenue remittances of Rs.69.57 million with banks during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that the difference between bank reconciliation statements of CP-48, CP-104 was a continuous process and reconciled in the next month.

The DAC in its meeting held on December 31, 2019 directed the management to provide the documentary evidence in support of reply to Audit for verification within a week.

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

(Proposed Draft Para No. 752 & 881/2019-20)

17.4.7 Non-recovery from employees involved in embezzlement of material - Rs.58.36 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".

In TESCO, Peshawar, embezzlement of material was established against three (03) employees as depicted from inquires conducted by the management. However, implementation of the recommendations of the inquiry committee including recovery of Rs.58.36 million was not forthcoming from the record.

Non-adherence to the rules resulted in non-recovery of Rs.58.36 million from employees involved in embezzlement of material during the financial year 2018-19.

The matter was taken up with the management in March, 2019 and reported to the Ministry in September, 2019. The management replied that SDO & LS-I had lodged the appeal with MD PEPCO against the penalties of recovery and reduction in time scale by 02 steps down for 2 years and MD PEPCO by accepting their appeal had censured both the employees. The third official (LS-I) had lodged a writ petition, which was under trial in court.

The DAC in its meeting held on December 31, 2019 directed the management to provide the accountal record pertaining to the employees censured by MD PEPCO to Audit for verification within a week and pursue the court case vigorously.

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

(Proposed Draft Para No. 131/2019-20)

17.4.8 Loss of revenue due to abnormal line losses on feeders - Rs.55.25 million

NEPRA fixed targets of energy losses ranging at 12.47% for the financial year 2017-18 which remained in vogue in F.Y 2018-19 in respect of TESCO.

In TESCO, the percentage of line losses on six (6) feeders was abnormally higher than the targets of losses set by the NEPRA as 12.47%.

Hence, 3.6 million units were lost, which caused revenue loss of Rs.55.25 million. The detail is as under:-

Sr. No.	Name of Formation	Proposed Draft Para No.	(%) of losses	No. of feeder	Units Lost (million)	Amount (Rs.in million)
1.	FATA Operation Circle	709/2019-20	33.46% to 87.53%	6	3.60	55.25

Non-adherence to the rules resulted in loss of revenue amounting to Rs.55.25 million due to operational mismanagement during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry during November, 2019. The management replied that the line losses were due to delayed allotment of feeder code and difference in reading cycle.

The DAC in its meeting held on December 31 2019, directed the management to carry out analysis of all the feeders including the feeders under observation for last two years to find out the reasons for line losses beyond NEPRA target. It was further directed that the progressive line losses appearing in the CP-22-A be reconciled with CP-22 B, C, D & E for elucidating true picture 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.

(Proposed Draft Para No. 709/2019-20)

17.4.9 Non-disconnecting of running energy defaulters - Rs.23.23 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 FATA Circle TESCO Peshawar, energy arrears of Rs.23.23 million were outstanding against eighteen (18) running defaulters. A show cause notice was served upon Sub Divisional Officer due to non-disconnection of defaulters' connections. Neither the connections were disconnected nor the recovery of arrears made from them.

Non-adherence to Commercial Procedure resulted in non-disconnecting of running energy defaulters of Rs.23.23 million up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in December, 2019. The management replied that the recovery of the arrears was under process.

The DAC in its meeting held on December 31, 2019 directed the management to ensure recovery from the consumers expeditiously and provide the record of completed actions to Audit for verification within a month.

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

(Proposed Draft Para No. 942/19-20)

CHAPTER-18

POWER INFORMATION TECHNOLOGY COMPANY (PITC)

18. POWER INFORMATION TECHNOLOGY COMPANY (PITC)

18.1 Introduction

Power Information Technology Company (PITC) started its operations as a Public Limited Company during June, 2010 and got registered under Companies Ordinance, 1984. PITC is a leading power sector IT Company in Pakistan. The Company is headed by Chief Executive Officer appointed by BoD / PEPCO. PITC is solely responsible for providing software support to ten (10) power distribution and transmission companies (DISCOs) of Pakistan.

The Company had four major units i.e. Operation & Customer Services, Engineering Solution Development, Research and Business Development.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	01	01	1,115.05	404.58	-
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities/ Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

18.2 Comments on Financial Statements

18.2.1 Financial Overview

As per the audited Financial Statements for the year 2018-19 the Company gained profit at the year ended dated 30th June, 2019. However, the profit decreased from Rs.77.768 million in the financial year 2017-18 to Rs.40.671 million in the financial year 2018-19 registering 47.70% decrease.

18.2.2 Extracts of the Financial Statements
Statement of Financial Position as at June 30, 2019

(Rs in millions)

	2018-19	% Inc/Dec	2017-18
Assets			
Non-Current Assets			
Property and equipment	60.58	8.74	55.71
Intangible assets	1.02	(31.08)	1.48
Long term advances	29.65	(18.36)	36.31
Long term deposits	4.44	204.11	1.46
Deffered tax asset	327.50	1.75	321.88
	423	**1.44**	**417**
Current Assets			
Stores	0.95	(38.31)	1.54
Trade debts	435.63	17.05	372.16
Loans and advances	7.51	(5.65)	7.96
Short term prepayments and other receivables	21.20	29.03	16.43
short term investments	350.00	16.67	300.00
tax refunds due from government	121.39	32.97	91.29
cash and bank balances	139.23	(13.73)	161.39
	1,075.92	**13.16**	**950.77**
Total Assets	**1,499.10**	**9.61**	**1,367.63**
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorized share capital			
5,000,000 (2018: 5,000,000) Ordinary shares of Rs. 10 each	50.00	0.00	50.00
Issued, subscribed and paid up share capital			
5 (2018: 5) Ordinary shares of Rs. 10 each fully paid in cash	0.00	0.00	0.00
Share deposit money	50.00	0.00	50.00
Reserves	175.04	(28.99)	246.50
	225.04	**(24.10)**	**296.50**
Non-Current Liabilities			
Post employment benefits	938.41	13.27	828.50
Deferred income	71.36	240.46	20.96
Long term advance	9.68	46.67	6.60
	1,019.46	**19.09**	**856.06**
Current Liabilities			
Trade and other payables	238.01	20.27	197.89
Provision for taxation	16.59	(8.75)	18.18
	254.61	**17.84**	**216.07**
Contingencies and Commitments			
Total Equity and Liabilities	**1,499.10**	**9.53**	**1,368.63**

(Source: Audited financial statements of PITC for the year ended 30, June 2019 – Horwath Hussain Ch. & Co., Chartered Accountant)

Statement of Profit & Loss Account
For the year ended June 30, 2019

(Rs.in million)

	2018-19	% Inc/Dec	2017-18
Revenue	573.53	12.29	510.78
Cost of Revenue	(277.01)	13.28	(244.53)
Gross Profit	**296.53**	**11.37**	**266.25**
Administrative Expenses	(234.23)	29.47	(180.91)
Operating Profit	62.30	(27.01)	85.35
Finance Cost - Bank Charges	(0.09)	80.00	(0.05)
Other Operating expenses	(6.35)	10,483.33	(0.06)
Other Income	41.73	84.56	22.61
Profit before taxation	**97.59**	**(9.82)**	**107.84**
Taxation	(56.92)	89.29	(30.07)
Net Profit for the year	**40.67**	**(47.70)**	**77.77**

(Source: Audited financial statements of PITC for the year ended 30, June 2019 – Horwath Hussain Ch. & Co., Chartered Accountant)

18.2.3 Qualified Opinion given by the External Auditors on the Financial Statements of PITC financial year 2018-19

It was observed that External Auditors had qualified the accounts of PITC for the financial year 2018-19 on the following basis:

i) Liabilities amounting to Rs.147.919 million against provincial sales tax payable to difference revenue authorities in respect of sales tax on its services and on customer complain management system and software licensing fee had not been paid to concerned revenue authorities. In respect of these liabilities, the company had not incorporated any provision for the resulting penalty and default surcharge, since the management believed that the total financial impact could not be determined.

ii) The Revenue amounting to Rs.360.325 million from CCMS services had not been recorded by the company as the DISCOs were not paying the same in contravention to the requirements of the agreements between DISCOs and the Company in 2017-18. The Company was continuously providing the service to DISCOs as agreed in the contract despite the non-payment of service. Resultantly, the revenue, profit for the year and un-appropriated profits were understated by the same amount.

Due to above highlighted shortcomings the Financial Statements of the Company were not giving fair and true picture.

18.2.4 Comments on Audited Accounts

i) Profitability

The Company gained profit of Rs.40.67 million during the financial year 2018-19. Total accumulated profit reached to the tune of Rs.175.04 million resulting increase in net capital reserve. The Company gained profit 47.70% lesser than that of the previous year profit.

ii) Sales and Cost of sales

The revenue of the Company was Rs.573.53 million during the year 2018-19 and cost of revenue of the company stood at Rs.277.01 million which was 48% of the sale. This meant that there was sufficient margin with the Company to meet its operating expenses.

iii) Trade Debts and other Receivables

Total receivables of the Company were Rs.464.34 million as on June 30, 2019. An amount of Rs.435.63 million were receivable from WAPDA and other associated companies, Rs.7.51 million as loan and advances from employees and Rs.21.20 million as other receivables. Huge pending receivables were a significant business sustainability risk for the Company and required long term rectification measures. Huge balance of receivables depicted poor recovery efforts of the Company, which needed justification.

iv) Trade and other Payables

Payables of the Company substantially increased from Rs.197.887 million in the financial year 2017-18 to Rs.238.014 million in the financial year 2018-19. The major amount of Rs.147.918 million was payable as Provincial Sales Tax unsatisfactory financial management and poor liquidity position of the Company. Immediate short-term measures and prudent long-term action were needed to stop the accumulation of payables and ensure steady reduction of pending payables in the future.

v) Operating expenses

The Operating expenses of the company increased from Rs.0.061 million during the financial year 2017-18 to Rs.6.353 million during the year 2018-

19 registering an increase of Rs.6.29 million. For efficient operations a standard average quantum of operating expense volume was warranted.

18.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.943.87 million were raised in this audit. The amount also includes recoverables of Rs.795.96 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Irregularities		
	A.	Irregularities pertaining to violation of Regulatory Laws & Regulations	147.92
	B.	Recoveries	795.96

18.4 AUDIT PARAS

18.4.1 Non-recovery from DISCOs and other entities - Rs.435.63 million

As per clause B(ii) of schedule A of payments agreements between PITC and DISCOs, “all payments shall be in PKR, paid within 30 days of invoice”.

In PITC, Lahore an amount of Rs.435.63 million was required to be recovered from DISCO’s within 30 days of invoice but the same was outstanding / not recovered from the DISCOs, WAPDA & other related entities even after expiry of considerable time. Out of this, an amount of Rs.331.007 million (76 %) was due beyond 180 days, which did speak of modest financial management of the Company.

Non-adherence to the provision of the agreement resulted in non-recovery of Rs.435.63 million from DISCOs and other entities up to financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that Rs.177.547 million had already been recovered. Serious efforts were being made to recover the balance amount of Rs.258.078 million from DISCOs.

The DAC in its meeting held on December 26, 2019 directed the management to resolve the issue of outstanding receivables from DISCOs at PEPCO level and get it verified.

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

(Proposed Draft Para No. 1002/2019-20)

18.4.2 Non-recovery on account of CCMS Services - Rs.360.33 million

As per agreement signed with DISCO in 2017-18, the PITC has to charge fee from DISCOs on account of Customer Complaint Management System (CCMS) services. Moreover, condition 3 of IFRS 15 was to be satisfied for recognition of revenue.

In PITC, the revenue amounting to Rs.360.33 million from CCMS services was not recorded by the Company as the DISCOs were not paying the same in defiance of the agreements between DISCOs and the Company. This lapse of non-realization of revenue from respective DISCOs was indicative of modest financial management of the Company.

Non-adherence to the provision of the agreement resulted in non-recovery of Rs.360.33 million from DISCOs on account of CCMS Services during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the Condition No. 3 of IFRS 15 could not be implemented in true letter and spirit due to non-determination of rates/revenue from DISCOs, which was under process.

The DAC in its meeting held on December 26, 2019 directed the management to get determination of rates/revenue on account of CCMS services from DISCOs at PEPCO level for recovery and get it verified from Audit.

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

(Proposed Draft Para No. 1040/2019-20)

18.4.3 Outstanding liability against provincial sales tax - Rs.147.92 million

According to Para 9.2.2 of WAPDA Accounting and Financial Reporting Manual, "the General Manager Finance of each wing shall be responsible for the enforcement of procedures governing the cash management, maintenance of the records, appropriate usage, accounting for advances and deposits and performing periodic reviews of procedures being followed"

In PITC, Lahore, an amount of Rs.147.92 million was outstanding against provincial sales tax payable to different revenue authorities in respect of sales tax on its services and on customer complaint management system and software licensing fee. This amount had not been paid to the concerned revenue authorities up till June, 2019.

Weak financial management resulted in outstanding liability of Rs.147.92 million against provincial sales tax during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the amount of Rs.19.00 million had been recovered from LESCO & FESCO. The same procedure would be adopted for other DISCOs for the resolution of Sales Tax receivable and respective payable to revenue authorities.

The DAC in its meeting held on December 26, 2019 directed the management to resolve the issue of outstanding receivables from DISCOs at PEPCO level for the resolution of Sales Tax receivable and respective payable to revenue authorities and get it verified.

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

(Proposed Draft Para No. 1003/2019-20)

CHAPTER-19

MINISTRY OF ENERGY
(POWER DIVISION)

19. MINISTRY OF ENERGY (POWER DIVISION)

19.1 Introduction

The Ministry of Energy, Power Division is a Pakistan Government's federal and executive level ministry created on August 4, 2017 after merging of the Ministry of Petroleum and Natural Resources with the power division of the Ministry of Water and Power, respectively. The ministry has two divisions i.e. petroleum and power. The Power Division is responsible for general monitoring of power generation, transmission and its distribution and the power projects in the implementation stages. The following power sector entities come under the supervision of Power Division:-

- Pakistan Electric Power Company (PEPCO) along with its corporate entities
- GENCO Holding Company (GHCL) along with generation companies
- Alternative Energy Development Board (AEDB)
- Private Power Infrastructure Board (PPIB)
- National Energy Efficiency & Conservation Authority (NEECA)
- Central Power Purchasing Agency Guaranteed (CPPA-G)
- Power Holding Private Limited (PHPL)
- National Power Parks Management Company (NPPMCL)

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	01	01	8,793.38	564.15	-
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	23	23*	543,166.22	331,236	800,040
4.	Foreign Aided Projects (FAP)	01	01	US$ 0.00014	US$ 0.00014	-

** The entire formations of the Auditee entities were not covered in the Audit activity.*

19.2 Classified Summary of Audit Observations

Audit observations amounting to Rs.8,336.78 million were raised in this audit. Summary of the audit observation classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Irregularities		
	A.	Irregularities pertaining to violation of Regulatory Laws & Regulations	8,336.78

19.3 AUDIT PARAS

19.3.1 Non-surrendering of unspent amounts – Rs.8,257.16 million

According to Para-71 of General Financial Rules (Volume –I), while framing budget estimates, the authority should exercise utmost foresight. Variation between estimated and actual expenditure captures the level of foresight that goes into budget formulation.

In Ministry of Energy (Power Division), savings from the budget amounting to Rs.8,257.16 million were not surrendered. The lapse was occurred due to the negligence of the management.

Non-adherence to the General Financial Rules resulted in lapse of funds amounting to Rs.8,257.16 million during the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that Rs.844.43 million were allocated as supplementary grant Finance Division on May 23, 2019 for Karkey after the closing date for surrendering of un-spent budget. Moreover, being a case in the international court of law the amount was booked to meet urgent expenses in payment of legal fee. The reply was not acceptable as no documentary evidence was provided by the management in support of reply.

Audit recommends that the said amount might be regularized from the Finance Division besides strengthening the internal controls to avoid recurrence of such lapse in future. Further, there was savings in the approved budget provision indicated that the estimation was made without proper analysis of actual needs of the Ministry, that needs proper justification.

(Proposed Draft Para No. 989/2019-20)

19.3.2 Non-reconciliation of loan data with the Economic Affairs Division (EAD) – Rs.79.62 million

As per Clause-IV under the heading "management structure and manpower requirements", of the PC-II of establishment of PMO in the Ministry of Water & Power for ADB assisted project on Pakistan Energy Efficiency Investment Program (PEEIP) published in March, 2012, "all financial transactions will be recorded separately in the accounts in a matter that allows identification of expenditures. Further, in the second paragraph, it is stated that the PMO will ensure that proper accounts and records are maintained in a timely manner".

In Ministry of Energy (Power Division), the loan transactions of US $ 818,957 equivalent to Rs.79.62 million were booked against loan No. ADB-2553-PAK by the Economic Affair Division (EAD) was not reconciled by the Project Management Office (PMO), besides completion of the project.

Non-adherence to PC-II of the project resulted in non-reconciliation of data of loan of Rs.79.62 million with EAD during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in December, 2019. The management replied that necessary reconciliation was already made and accordingly the un-disbursed amount was cancelled. The reply of the management was not tenable. No documentary evidence was produced in support of reply.

Audit recommends that loan data be got reconciled with the EAD and relevant record be produced to audit.

(Proposed Draft Para No. 1190/2019-20)

CHAPTER-20

ALTERNATIVE ENERGY DEVELOPMENT BOARD (AEDB)

20. ALTERNATIVE ENERGY DEVELOPMENT BOARD (AEDB)

20.1 Introduction

Alternative Energy Development Board (AEDB) is the sole representing agency of the Federal Government that was established in May 2003 with the main objective to introduce, facilitate, promote and encourage development of Alternative Renewable Energy (ARE) in Pakistan at an accelerated rate. The administrative control of AEDB was transferred to Ministry of Water and Power in 2006. The Government of Pakistan has inter alia mandated AEDB to:-

The Government of Pakistan has inter alia mandated AEDB to:-

- Implement policies, programs and projects through private sector in the field of ARE.
- Assist and facilitate development and generation of ARE to achieve sustainable economic growth.
- Encourage transfer of technology and develop indigenous manufacturing base for ARE Technology.
- Promote provision of energy services that are based on ARE resources.
- Undertake ARE projects on commercial scale (AEDB Act 2010).

The Government of Pakistan has tasked the AEDB to ensure 5% of total national power generation capacity to be generated through alternative renewable energy technologies by the year 2030. In addition, under the remote village electrification program, AEDB has been directed to electrify 7,874 remote villages in Sindh and Balochistan provinces through ARE technologies.

The Federal Government established AEDB as a statutory organization by announcing and promulgating the AEDB Act in May 2010. The Act bestowed upon AEDB the authorities and the responsibilities for the promotion and development of ARE.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1	Formations	01	01	*497.00	500.29	Nil
2.	Assignment Accounts (excluding FAP)	01	01			
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

*** All the budgetary grants for non-development and development purpose regulate through assignment account**

20.2 Classified Summary of Audit Observations

Audit observations amounting to Rs.76.06 million were raised in this audit. Summary of the audit observation classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Irregularities		
	A.	HR/Employees related irregularities	66.96
	B.	Irregularities pertaining to violation of entity's own rules / regulations	9.10

20.3 AUDIT PARAS

20.3.1 Irregular payment of remunerations - Rs.29.47 million

Section 5(1) of the AEDB Act, 2010 provides that the Chief Executive Officer shall be appointed by the Federal Government and the terms and conditions of the Chief Executive Officer, his remuneration and privileges shall be such as may be determined by the Federal Government.

In AEDB, Mr. Amjad A. Awan, was appointed as Chief Executive Officer (CEO) on May18, 2015 by Establishment Division. On January 10,2019, the Cabinet regularized the CEO's appointment w.e.f. 20th May 2015 as notified by the Ministry of Energy, Power Division vide Notification dated 21st January 2019, but determination of the terms and conditions of the CEO, his remuneration and privileges, as required above, were not forthcoming from the record made available to Audit. Thus, the remunerations determined by the Board in AES 12 and other privileges for the post of CEO were not justified and the payment of Rs.29.47 million made on account of pay and allowance was irregular.

Non-adherence to AEDB Act, 2010 resulted in irregular payment of Rs.29.47 million to the Chief Executive Officer up to financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in December, 2019. The management replied that Establishment Division on March 24,2016 advised M/O Water and Power to frame Service Rules of the employees of AEDB first and then forward the terms and conditions of incumbent CEO for approval. Whereas Establishment Division on December 19, 2007 had already clarified that concurrence from Establishment Division and Finance Division for AEDB Employees Service Regulations was not required. Due to such reason no terms and conditions of the then CEO had been finalized. Therefore, he himself had drawn salary of CEO in AES-12 as determined by the AEDB Board. Audit contended that determination of pay package of CEO was the responsibility of the Federal Government.

The DAC in its meeting held on January 01, 2020 directed the management to get the Service Rules approved from the Govt. of Pakistan (Finance Division) and get it expedited.

Audit recommends that the expenditure be got regularized from Finance Division besides expediting determinaton of the terms and conditions of CEO from the competent forum.

(Proposed Draft Para No. 991/2019-20)

20.3.2 Non-recovery of emoluments and perks from terminated employees - Rs.26.22 million

According to the judgment of Supreme Court of Pakistan dated January, 2015 Management Pay (MP) scale holders are not entitled to be regularized.

In AEDB, in the light of judgment of Supreme Court of Pakistan, the services of Dr. Basharat Hassn Bashir and Mr. Naveed H Bokhari were terminated on September 8, 2007 which was ratified by BOD on 22nd June 22, 2016 along with recovery of all emoluments /perks received by them since the date of their regularization i.e. 28th October 2013. A considerable period was lapsed but recovery of Rs.26.22 million was not made from the concerned officers up till August, 2019.

Non-adherence to the order of the Chairman AEDB in pursuance of Supreme Court order resulted in non-recovery of emoluments /perks amounting to Rs.26.22 million from terminated employees.

The matter was taken up with the management in July, 2019 and reported to the Ministry in October, 2019. The management replied that the Ex-officers filed an Inter Court Appeal before the Islamabad High Court. The appeal was still sub-judice, therefore, AEDB was not in a position to take further action till issuance of final judgment.

The DAC in its meeting held on January 01, 2020 directed the management to follow up the court case.

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

(Proposed Draft Para No. 435/2019-20)

20.3.3 Non-disposal of off-road vehicles - Rs.9.10 million

According to GFR -167 "subject to any special rules or orders applicable to any particular department stores which are reported to be obsolete, surplus or unserviceable may be disposed off by sale or otherwise under the orders of the authority competent to sanction the writing off of a loss caused by deficiencies and depreciation equivalent to their value".

In AEDB, twenty (20) off-road vehicles worth Rs.9.10 million were not auctioned up to July, 2019. The vehicles were kept in the open yard and exposed to the adverse environmental conditions causing deterioration and decrease in value.

Non-adherence to the rules resulted in non-disposal of off-road vehicles worth Rs.9.10 million up to the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that a committee for finalization of the process of disposal had been constituted for auction of AEDB project vehicles. Moreover, audit para regarding thirteen (13) vehicles of close projects was printed vide Audit para No.41.4.2 (AR-2013-14). Audit contended that no action for disposal of vehicles was taken in last five years despite issuance of prior observation.

The DAC in its meeting held on January 01, 2020 directed the management to expedite the process of disposal of vehicles and get the duplication verified from Audit.

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

(Proposed Draft Para No. 304/2019-20)

20.3.4 Irregular payment of travelling allowance – Rs.7.80 million

According to section 4.20(1) of travelling allowance manual, a Government servant who stays in a hotel, guest house, inspection bungalow/lodge or a residential club shall, in addition to the above daily allowance, be allowed re-imbursement of actual single room rent, subject to the production of receipts/vouchers up to the following maximum per day:-

- Localities where special daily allowance rate is admissible - Three times the amount of special daily allowance.
- Localities where ordinary daily allowance rate is admissible - One and a half times the amount of ordinary daily allowance.

In AEDB, an expenditure of Rs.7.80 million was incurred by the management on account of travelling allowance, four dailies were paid to employee as per Employees Services Regulation which was not aligned with the above-mentioned TA/DA rules, hence, incurrence of expenditure was irregular.

Non-adherence to Travelling Allowance Manual resulted in irregular expenditure of Rs.7.80 million incurred on account of travelling allowance up to the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in October, 2019. The management replied that payment of on account of four (4) DAs for TA/DA of the officers was made as per provision of AEDB Employees Service Regulations (ESR, 2013).

The DAC in its meeting held on January 01, 2020 did not agree with the management stance and directed the management to get the Service Rules approved from the Govt. of Pakistan (Finance Division).

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

(Proposed Draft Para No. 309/2019-20)

20.3.5 Unjustified payment of additional charge allowance - Rs.3.47 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 AEDB, an amount of Rs.3.47 million was paid on account of additional charge allowance to five (05) employees for the last 13 to 24 months. The rate of additional charge allowance was ranging from Rs.13158 to Rs.42,918 P.M, which was over and above the maximum limit of Rs.12,000 per month. Hence, payment of additional charge allowance of Rs.3.47 million was irregular.

Non-adherence to the rules resulted in unjustified payment of additional charge allowance of Rs.3.47 million up to the financial Year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in December, 2019. The management replied that due to ban on recruitment and unavailability of funds, the AEDB management decided to fill the most important vacant positions as per AEDB Employees Service Regulations 2013 by granting additional charge to the officers till the time of new recruitment.

The DAC in its meeting held on January 01, 2020 directed the management to get the Service Rules approved from the Govt. of Pakistan (Finance Division) and also get the current actions verified from Audit.

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

(Proposed Draft Para No. 1022/2019-20)

CHAPTER-21

CENTRAL POWER PURCHASING AGENCY GURANTEED (CPPA(G))

21. CENTRAL POWER PURCHASING AGENCY GURANTEED (CPPA-G)

21.1 Introduction

The Central Power Purchasing Agency (CPPA-G) was incorporated in January 2009 under the Companies Ordinance, 1984. The Company is registered as non-profit organization with the object to implement and administer market mechanisms for electricity procurement and sale by undertaking and performing functions and discharging responsibilities as are or may be laid down from time to time for the company. Since June 2015, CPPA-G has assumed the business of National Transmission and Dispatch Company under Business Transfer Agreement (BTA) pertaining to the market operations and presently functioning as the Market Operator in accordance with Rule-5 of the NEPRA Market Operator (Registration, Standards and Procedure) Rules, 2015. On November 16, 2018 National Electric Power Regulatory Authority (NEPRA) has approved the registration· of CPPA-G as market operator under Rule 3 of the Market Rules.

Being market operator CPPA-G purchases electricity on behalf of distribution companies and sell it on behalf of power generation companies. The CPPA-G is responsible for making payments to the power generation companies and IPPs on account of purchase of energy and capacity in accordance with the Power Purchase Agreements and bill and received energy charges from DISCOs and K-Electric on account of electricity sold.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	01	01	821.66	675.78	-
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

21.2 Comments on Financial Statements

21.2.1 Financial Overview

As per audited financial statement the Company earned surplus of Rs.84.49 million during the financial year 2018-19. In the financial year 2017-18 the Company remained in deficit of Rs.17.95 million, however the deficit was converted into surplus of Rs.84.49 million in the financial year 2018-19 registering an increase of 570.70%. Moreover, the total revenue increased from Rs.640.50 million in the financial year 2017-18 to Rs.854.98 million during the financial year 2018-19 registering an increase of 33.49%. However, receivables of the Company increased for Rs.1,396,221.37 million in the year 2017-18 to Rs.1,803,265.71 million in the year 2018-19 registering an increase of Rs.407,044.34 million. This showed significant constraint faced by CPPA-G in paying off IPP dues during 2018-19.

21.2.2 Extracts of the Financial Statements

Statement of Financial Position as on June 30, 2019

(Rs.in million)

	2018-19	% Inc / (Dec)	2017-18	% Inc / (Dec)	2016-17
ASSETS					
Non-current assets					
Property and equipment	94.78	57.63	60.13	138.14	25.25
Intangible assets	40.21	22.48	32.83	142.65	13.53
Deferred tax asset	-	-	-	-	-
Receivable from NTDCL through loan notes	-	-	-	-	42,412.17
Long term advance - HUBCO	-	-	-	-	802.00
Long term security deposit	21.26	-	-	-	-
	156.25	68.08	92.96	(99.79)	43,252.95
Current assets					
Due from principals	1,709,214.29	32.57	1,289,325.36	252.11	366,172.59
Receivable from NTDCL through loan notes	41,648.94	(1.80)	42,412.17	-	-
Market operation fee receivable	-	-	-	-	94.78
Advance to NTDCL	-	-	-	-	33,847.81
Advances, prepayments and other receivable	6,617.35	2.84	6,434.48	(94.32)	113,353.93
Accrued mark-up	-	-	-	-	-
Taxation recoverable	-	-	-	-	59.79
Mark-up receivable	45,785.13	(21.13)	58,049.36	-	-
Bank balances - deposit accounts	24,520.54	50.27	16,317.69	7.54	15,174.11
	1,827,786,25	29.40	1,412,539,06	167.17	528,703,01
Total Assets	**1,827,942.50**	**29.40**	**1,412,632.02**	**146.98**	**571,955.96**

FUND AND LIABILITIES					
FUND					
General fund	105.20	336.51	24.10	(30.27)	34.56
Net worth	-	-	7,163.23	-	7,163.23
Payable to WAPDA for HUBCO	-	-	-	-	802.00
Current liabilities					-
Energy payables swapped by Government of Pakistan	784,462.87	35.80	577,639.65	- -	-
Energy and other payables	1,043,328.70	26.04	827,790.25	46.78	563,956.17
Provision for taxation	45.73	209.20	14.79	-	-
	1,827,837.30	30.85	1,405,444.69	149.21	563,956.17
Total liabilities	1,827,837.30	29.39	1,412,632.02	146.98	571,955.96
Contingencies and commitments					-
Total fund and liabilities	1,827,942.50	29.40	1,412,632.02	146.98	571,953.96

(Source: Audited Financial Statement of CPPA-G Financial Year 2018-19 – Riaz Ahmad & Co. Chartered Accountant)

Statement of Profit & Loss Account
For the year ended June 30, 2019

(Rs.in million)

	2018-19	**% Inc / (Dec)**	**2017-18**	**% Inc (Dec)**	**2016-17**
Market operation fee	520.89	30.51	399.12	(35.57)	619.48
Profit on bank accounts	334.09	38.41	241.38	19.05	202.75
	854.98	**33.49**	**640.50**	**(22.10)**	**822.23**
EXPENDITURE					-
Operating expenses	(708.14)	7.74	(657.25)	20.37	(546.04)
Finance cost - bank charges	(1.31)	4.80	(1.25)	(55.83)	(2.83)
	(709.45)	**7.74**	**(658.50)**	**19.97**	**(548.87)**
SURPLUS / (DEFICIT) BEFORE TAXATION	**145.54**	**909.01**	**(17.99)**	**(106.58)**	**273.36**
TAXATION					-
Current	(61.05)	91.20	(31.93)	(76.73)	(137.19)
Prior	-		31.97		0
	(61.05)	**(100)**	**0.004**	**100**	**(137.19)**
SURPLUS / (DEFICIT) AFTER TAXATION	**84.49**	**570.70**	**(17.95)**	**(113.18)**	**136.17**

(Source: Audited Financial Statement of CPPA-G Financial Year 2018-19 – Riaz Ahmad & Co. Chartered Accountant)

21.2.3 Qualified Opinion given by the External Auditors on the Financial Statements of CPPA-G Financial Year 2018-19

It was observed that the External Auditors had qualified the accounts of CPPA-G for the financial year 2018-19 on the following basis:

i) Power Purchase Agreement (PPA) with K-Electric had not been signed till date of authorization of accounts for issue for the financial year 2018-19. All the transactions related to K-Electric had been recorded by the Company by considering itself as an agent of K-Electric. The management felt that PPA would be successfully signed with K-Electric with effect from back date. However, if PPA was not signed with K-Electric with back date effect, accounting of transactions relating to K-Electric would not be done by the Company as its agent and these would be routed through income and expenditure statement.

ii) Government owned distribution companies (DISCOs) and K-Electric do not acknowledge / recognize delayed payment surcharge paid by the company and NTDCL to the power producers related to the periods prior to the transfer of Market Operating Undertaking under the Business Transfer Agreement (BTA) to the company. They do not recognize or accept it as the same was disallowed by NEPRA in its tariff determination. As at June 30, 2019, DISCOs and K-Electric had not recognized delayed payment surcharge amounting to Rupees 110,630 million in their books of account and accordingly DISCOs had not confirmed the same in their balance confirmations.

Due to above highlighted shortcomings the Financial Statements of the Company were not giving fair and true picture.

21.2.4 Comments on Financial Statements

i) Profitability

During the financial year ended 30 June 2019, Company has a surplus of 84.49 million as compared to the financial year ended 30 June 2018 where it had a deficit of Rs.17.95 million. This was due to significant increase in Market Operating Fee and Profit on bank accounts which has an increase of 30.51% and 38.41% respectively. The combined impact is 33.49%. This Market Operating Fee was determined and allowed to the company by NEPRA.

ii) Revenue and Operating expenses

The revenue of the Company was Rs.854.98 million during the year 2018-19 comprising on market operating fee allowed by NEPRA amounting to Rs.520.89 million and profit on bank accounts is Rs.334.09 million and operating expenses of the Company stood at

Rs.709.45 million which was 82.97% of the revenue. It meant that the Company earned sufficient revenue to meet its operating expenses.

iii) Trade Debts and other Receivables

Total receivables of the Company were Rs.1,803,265.71 million as on June 30, 2019. An amount of Rs.1,709,214.29 million was receivable from DISCOs and K-Electric as Principal and Rs.45,785.13 million as mark up, Rs.41,648.94 million as loan from NTDC and Rs.6,617.35 as advances from associated companies. Huge pending receivables were a significant business sustainability risk for the Company and required long term rectification measures. Huge balance of receivables depicted poor recovery efforts of the Company, which needed justification.

iv) Trade and other Payables

Payables of the Company substantially increased from Rs.1,412,232.02 million in the financial year 2017-18 to Rs.1,827,942.5 million in the financial year 2018-19. The major amount of Rs.1,827,896.77 million was payable to power generation companies on account of purchase of electricity which showed unsatisfactory financial management and poor liquidity position of the Company. Immediate short-term measures and prudent long-term action were needed to stop the accumulation of payables and ensure steady reduction of pending payables in the future.

v) Non-recovery of advance from Lakhra Power Generation Company

Rs.5,540.84 million remained un-recovered from Lakhra Power Generation Company during the financial year 2017-2018. Efforts were needed to be made by the Company in order to avoid accumulation of bad debts.

21.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.1,876,226.71 million were raised in this audit. The amount also includes recoverables of Rs.1,798,837.54 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Irregularities	
	A. Procurement related irregularities	71,309.32

	B.	Irregularities pertaining to violation of Regulatory Laws & Regulations	6,079.85
	C.	Recoveries	1,798,837.54

21.4 AUDIT PARAS

21.4.1 Receivable amount from Distribution Companies - Rs.1,709,214 million

As per Section –III of Memorandum of Association of Central Power Purchasing Agency (Guarantee) (CPPA-G) the Company is mandated to implement and administer market mechanism for electric power procurement and sale.

In CPPA-G, an amount of Rs.1,709,214 million was receivable from distribution companies including K-Electric on account of charges against the energy sale . Due to this huge blockage of funds power sector was under stiff financial crunch and payments to power producers were delayed. As a result of delayed payment power producers charged late payment surcharges which ranged from KIBOR +2% to KIBOR + 4%. If, this huge amount was recovered from distribution companies, it would have improved liquidity position of power sector, thereby eliminating the burden of circular debt and huge amount of late payment surcharge.

Non-adherence to Memorandum of Association resulted in financial crunch of huge amount of Rs.1,709,214 million during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that CPPA-G was pursuing constantly for recovery of dues from principals (DISCOs) and letters to DISCOs were being issued with copies to Ministry of Energy in order to assure the enforcement of the Market Rules.

The DAC in its meeting held on December 31, 2019 directed the management to submit the updated figure of receivables and also expedite the efforts for realization of receivable from Distribution Companies.

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

(Proposed Draft Para No. 1144/2019-20)

21.4.2 Recoverable amount from K-Electric on account of price of electricity and delayed payment surcharge - Rs.83,990 million

Under power purchase agreement, invoicing and payment were to be made as per clause 9.3 of the Power Purchase Agreement (PPA), which essentially provided that any invoice was payable within a period of fifteen days from its delivery.

In CPPA-G, an amount of Rs.83,990 million was receivable from K-Electric for the period ended June, 2019. In order to meet electricity shortfall, K-electric was supplied electricity from national grid for which K-electric was required to make payment, which was not done. Resultantly, an amount of Rs.83,990 million (Rs.66,347 million + Rs.17,643 million) was lying outstanding against K-Electric on account of price of electricity and delayed payment surcharge respectively.

Non-adherence to the PPA resulted in non-recovery of Rs.83,990 million from K-Electric on account of price of electricity and delayed payment surcharge during financial year 2018-19**.**

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the said audit observation already existed in the form of audit para No. 10.4.5 (PDP No. 1463/2016-17). CPPA-G has filed a suit in the Court for the recovery of Rs.83,990 million along with mark-up from K-Electric for onward payments to Power Producers and CPPA's legal counsel was perusing the matter vigorously. Audit contended that despite raising prior observation in 2016-17, the matter was still pending.

The DAC in its meeting held on December 31, 2019 directed the management to reconcile the duplication of paras.

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

(Proposed Draft Para No. 1142/2019-20)

21.4.3 Disputed liquidated damages - Rs.69,986.46 million

According to Section 9.4 (c) of Power Purchase Agreement (PPA), the amounts of all the liquidated damages set forth in sections 9.4 (b) (c) shall be adjusted from time to time in accordance with Schedule 6.

In CPPA-G, an amount of Rs.69,986.46 million was charged as liquidated damages on power producers due to non-fulfillment of contractual provision of power purchase agreement. The disputed amount was required to be recovered from power producers along-with late payment surcharge equal to the late payment surcharge applied by IPPs.

Non-adherence to the rules resulted in outstanding disputed liquidated damages worth Rs.69,986.46 million.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the IPPs had disputed the LDs invoice issued under section 9.4 of PPA at different fora on the plea that power purchaser didn't make the payment on time (Power Purchaser's event of default). An amount of Rs.949 million had been recovered from four IPPs, while the cases of disputed LD at different fora were being pursued for early recovery/settlement.

DAC directed the management to get the recovery verified and expedite the pending actions.

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

(Proposed Draft Para No. 1151/2019-20)

21.4.4 Long outstanding receivables from Lakhra Power Generation Company - Rs.5,540 million

As per Section –III of Memorandum of Association of Central Power Purchasing Agency (Guarantee) (CPPA-G) the Company is mandated to implement and administer market mechanism for electric power procurement and sale.

In CPPA-G, an amount of Rs.5,540 million was standing as advance against Lakhra Power Generation Company Limited since long. Power sector was facing a shortfall of liquidity that could be offset through implementation and administration of proper market mechanism for electric power procurement and sale. This huge amount could be used to settle the circular debt. Hence, the said amount was required to be either adjusted against payments or recovered from Lakhra Power Generation Company Limited.

Non-adherence to memorandum of association resulted in long outstanding receivables of Rs.5,540 million from Lakhra Power Generation Company.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that this long outstanding balance has been transferred to CPPA-G from NTDCL under the Business Transfer Agreement (between CPPA-G and NTDCL) in June 2015 and since then due to shut down of the power plant no power procurement settlement invoice had been received from Lakhra Power Generation. The said advance would be adjusted/ recovered/ settled upon the ultimate decision of the Government whether to operate plant or not.

The DAC in its meeting held on December 31, 2019 directed the management to take up the matter with the Government and follow up to get it resolved.

Audit recommends final settlement of outstanding liability besides fixing responsibility.

(Proposed Draft Para No. 1153/2019-20)

21.4.5 Non-acknowledgement of markup of term finance facility - Rs.5,406.79 million

As per ECC of the Cabinet Decision No.ECC-60/14/2017 dated June 07, 2017; Power Holding Private Limited would be responsible for arranging loan amounting to Rs.41 billion. The amount would be utilized for the purposes of funding the repayment liabilities of the distribution companies through arrangement between Power Holding Private Limited and DISCOs apportionment of the financing facility shall be made to the DISCOs according to their respective liability towards power purchasers. Ministry of finance would provide government guarantee for repayment of loan as well as interest for the facility amounting to Rs.41 billion arranged through a consortium of local banks. The servicing of markup, principal repayments and all other amounts becoming due and payable in respect of the said facility shall be the responsibility of the respective DISCOs.

In CPPA-G, an amount of Rs.5,406.79 million was receivable from DISCOs on account of mark-up of term finance facility of Rs.41 billion. This term finance facility was utilized for the purpose of funding the repayment of liabilities of distribution companies. Apportionment of the facility was made on the basis of the liabilities of respective DISCOs. As per decision of ECC, servicing of markup becoming due and payable in respect of the stated facility was the responsibility of the respective DISCO. However, the distribution companies refused to acknowledge the payment of markup of Rs.5,406.79 million against the said term finance facility.

Non-adherence to the decision of ECC dated June 07, 2017 resulted in non-acknowledgement of the amount of markup of term finance facility amounting to Rs.5,406.79 million, thereby putting CPPA-G under a liability of IPPs up to financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the three DISCOs (MEPCO, QESCO & TESCO) had acknowledged and booked the said mark up in their accounts, while the process of acknowledgement and booking by other seven DISCOs in their accounts was in process.

The DAC in its meeting held on December 31, 2019 directed the management to get the stance verified from audit and follow up the matter of acknowledgement of markup with the remaining DISCOs.

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

(Proposed Draft Para No. 1149/2019-20)

21.4.6 Excess payment on account of different mode of reimbursement of Insurance Premium- Rs.673.06 million

NEPRA determined quarterly Indexation /Adjustment of Tariff, inclusive of insurance component for the financial year 2018-19. This adjustment has to be considered for the purpose of notification of adjustment in the approved tariff through the Official Gazette pursuant to Section 31 (7) of the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997.

In CPPA-G, there was discrimination in Indexation /Adjustment of tariff on account of payment of insurance component to wind power generation IPPs. Some were paid on account of Actual Insurance Premium basis, whereas, others were paid on the basis of Rate per KWH, entailing excess payment of Rs.673.06 million. All these projects (IPPs) generated electricity through wind and had similar nature, hence paying them insurance component on two different mode of disbursement with different rates was irrational. As a result of this, CPPA-G had to make an excess payment of Rs.673.06 million, thereby adding further burden on the consumers, which was not justified.

Application of differential rate of indexation for reimbursement of Insurance Premium resulted in excess payment of Rs.673.06 million during financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the prevailing difference in the insurance rates was due to two separate mechanisms determined by NEPRA.

The DAC in its meeting held on December 31, 2019 in view of audit stance directed the management to transfer / shift the matter to NEPRA for clarification/justification regarding disparity of insurance rate under “cost plus” regime and “upfront tariff” regimes for wind projects.

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

(Proposed Draft Para No. 1114/2019-20)

21.4.7 Loss of energy due to poor planning / evaluation of transmission lines - Rs.655.80 million

As per Section-6.2 of Energy Purchase Agreement (EPA) the Purchaser shall design, construct, finance and complete (excluding installation of the metering system, as provided in Section 7.2) and commission the Purchaser Interconnection facilities in accordance with the schedule -3 of the agreement.

In CPPA-G, different wind generation projects were being paid on account of Non-Project Missed Volume (NPMV). These projects generated electricity to be included in national grid, but due to system constraint of NTDC in transmission lines, the generated electricity could not be included in national grid. This was a clear inefficiency and incompetence of the power purchaser and custodian of national grid and transmission lines. Inspite of non-use / inclusion of electricity in national grid, the power sector had to bear extra cost of Rs.655.80 million on account of this payment made by CPPA-G to wind power generating IPPs, as detailed below:

Period	Name of IPP	Verified NPMV (Kwh)	Verified NPMV (Rs)
06/2018 to 09/ 2019	Second Gorges Wind Farm Pakistan Limited	9,129,250	149,935,017
06/2018 to 09/ 2019	Three Gorges Wind Farm Pakistan Limited	9,009,545	147,431,071
04/2017 to 06/ 2019	Hydro China Dawood Power (Private) Limited	20,150,136	358,434,304
	Total	**38,288,931**	**655,800,392**

Non-adherence to the EPA resulted in loss of Rs.655.80 million due to poor planning / evaluation of grid capacity up to June, 2019.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the construction and maintenance of all transmission networks for evacuation of power from any power plant was the sole responsibility of NTDC under the Grid Code.

The DAC in its meeting held on December 31, 2019 directed the management to refer the matter to NTDC and also ask to devolve a mechanism for settlement of such cases.

Audit recommends that the management needs to implement DAC's decision besides fixing responsibility for the loss.

(Proposed Draft Para No. 1143/2019-20)

21.4.8 Undue benefit of reimbursement of deducted amount of capacity payment - Rs.401.76 million

As per Section 5.8 of the Power Purchase Agreement (PPA) "Emergency Set Up and Curtailment Plants", the Company shall cooperate with the Power Purchaser in Developing Emergency Procedures for the Complex, including recovery from a local or widespread electrical blackout and voltage reduction to effect load curtailment, and shall, to the extent consistent with the Technical Limits, comply with such Emergency Procedures. To the extent not fully addressed in the Technical Specifications and Technical Limit, the Company shall make technical references available to the Power Purchaser concerning required times for Start-ups, capabilities, and minimum load carrying ability and any other technical information in respect of the Complex reasonable requested by the Power Purchaser.

In CPPA-G, an amount of Rs.401.76 million was approved for payment against Port Qasim Electric Power Company Ltd (PQEPC)'s Differential CPP Invoice dated: June 20, 2019, against the earlier deducted capacity payment and forced outage allowance. The plea taken by the IPP was that it suffered frequent tripping due to fault / outage of 500 KV Jamshoro-NKI Transmission Line (T/L) since Commercial Operation Date (COD) of the Complex.The reimbursement was made after signing of newly devolved "Emergency Procedures for Recovery from a Local or Widespread Electrical Blackout" on March 11, 2019 among CPPA-G, NPCC and PQEPC pursuant to Section 5.8 of the PPA. Audit was of the opinion that reimbursement of the deducted capacity payment of Rs.401.76 million was irregular on the following grounds:

i) The emergency procedure was approved after the occurrence of event. The procedures should have been developed after signing PPA agreements.

ii) Section 5.8 of the PPA, only specified the obligations of the Company towards the Power Purchaser in developing the Emergency Procedures rather than that of the Power Purchaser to the Company.

iii) Moreover, nothing was mentioned in the said section about modality for reimbursement of deducted capacity payment through signing of the "Emergency Procedures".

Non-adherence to Power Purchase Agreement resulted in reimbursement of capacity payment of Rs.401.76 million to the power company during the financial year 2018-19.

The matter was taken up with the management in November, 2019 and reported to the Ministry in December, 2019. The management replied that the Port Qasim complexes faced frequent tripping on account of environmental constraints. NPCC considered these tripping as forced outages and not verified for making payments. Accordingly, CPPA-G withheld Rs.401.76 million causing dispute between the parties. The matter was taken up to the CPPA-G BOD and Emergency Procedure was approved and accordingly withheld payment of Rs.401.761 million was released upon the verification of related operational data related to NPCC. Audit contended that the withheld amount was released after devolving/signing new emergency procedure ex-post facto just to favour the company.

The DAC in its meeting held on December 31, 2019 directed the management to provide revised reply in consultation with NTDC.

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

(Proposed Draft Para No. 1112/2019-20)

21.4.9 Irregular hiring the services of legal firms / consultants and payment of legal fees - Rs.265.30 million

According to Rule-20 of PPRA Rules 2004 "the procuring agency shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works."

In CPPA-G, various local and foreign legal firms / consultants were hired for legal assistance in arbitration cases with IPPs without inviting tenders and competitive bidding among the National / International Law Firms. Hence, payments of Rs.265.30 million made on account of legal fees / professional charges to the local and foreign firms / consultants were irregular.

Non-adherence to PPRA Rules-2004 resulted in irregular hiring the services of legal firms / consultants and payment of legal fees amounting to Rs.265.30 million up to the financial year 2016-17.

The matter was taken up with the management in May, 2018 and reported to the Ministry in December, 2019. The management replied that procuring legal services through competitive bidding process posed certain specific difficulties. There were limited number of legal practitioners who were conversant or specialized in the area of Energy Law, particularly with reference to common law jurisdictions such as Pakistan – particularly in light of the unique dispute resolution mechanisms provided for in the ECC-approved agreements – which limited the pool of potential candidates eligible to participate in a competitive bidding process.

The DAC in its meeting held on December 31, 2019 directed the management to substantiate the reasons for hiring the services of legal firms/consultants without competitive bidding and get it verified by audit.

Audit recommends that the management needs to develop a list of pre-qualified legal consultants to assist it in national and international court cases.

(Proposed Draft Para No. 1139/2019-20)

21.4.10 Recoverable amount from Jamal Din Wala Group (JDW) Unit – III - Rs.93.54 million

As per Section –III of Memorandum of Association of Central Power Purchasing Agency (Guarantee) (CPPA-G) the Company is mandated to implement and administer market mechanism for electric power procurement and sale.

In CPPA-G, an amount of Rs.2,297.09 million was paid to four (04) IPPs over and above the annual plant factor of 45%. As a result of the motions filed by CPPA-G against the award of upfront tariff, 2013 and submission of participants, NEPRA decided to keep the Annual Plant Capacity Factor (APCF) at the level of 45%. Out of Rs.2,297.09 million, an amount of Rs.2,203.55 million had been recovered on account of APCF leaving a balance of Rs.93.54 million lying outstanding against JDW Unit-III.

Non-adherence to the proper implementation and administration of market mechanism for electric power procurement and sale resulted in non-recovery of Rs.93.54 million from JDW Unit – III.

The matter was taken up with the management on November, 2019 and reported to the Ministry in December, 2019. The management replied that the outstanding amount was not being recovered in compliance with the directions issued by Islamabad High court.

The DAC in its meeting held on December 31, 2019 directed the management to follow up the case vigorously.

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

(Proposed Draft Para No. 1148/2019-20)

CHAPTER-22

POWER HOLDING PRIVATE LIMITED (PHPL)

22. POWER HOLDING PRIVATE LIMITED (PHPL)

22.1 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 for settling 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. The financing facilities are secured against unconditional and irrevocable guarantees of the Government of Pakistan.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue/ Receipts audited FY2018-19 (Rs.in million)
1.	Formation	01	01	12.96	12.60	31.36
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

22.2 Comments on Financial Statements

22.2.1 Financial Overview

As per the audited Financial Statements for the year 2018-19, the income of the company increased from Rs.2.65 million in the financial year 2017-18 to Rs.13.10 million in the financial year 2018-19 registering 394.34% Increase. Moreover, the funds/grant from GOP increased from Rs.45,967.31 million in the financial year 2017-18 to Rs.84,824.17 million in the financial year 2018-19 registering 84.53% increase.

22.2.2 Extracts of the Financial Statements Statement of Financial position as on June 30, 2019

(Rs.in million)

	2018-19	% Inc/Dec	2017-18
Assets			
Non-current assets			
Property, Plant and Equipment	0.55	(22.54)	0.71
Long term deposits	0.16	166.667	0.06
Deferred tax asset	0.05	0	0.05
Finance facilities Principal portion receivable	576,621.16	28.05	450,310.47
	576,621.92	**28.05**	**450,311.29**
Current assets			
Current portion of receivable	341,920.90	78.34	191,729.50
Short term prepayments	0.05	0	0.05
Income tax refundable	7.80	33.79	5.83
Cash and bank balances	1,060.38	33.64	793.45
	342,989.13	**78.15**	**192,528.83**
Total assets	**919,611.04**	**43.05**	**642,840.12**
Capital and Liabilities			
Share capital and reserves			
Share capital			
Authorized capital	15.00	0	15.00
1,500,000 (2018: 1,500,000 Ordinary Shares of Rs.10/- each			
Issued, Subscribed and Paid up capital	15.00	0	15.00
1,500,000 (2017: 1,500,000 Ordinary Shares of Rs.10/- each			
Accumulated profit	49.28	36.21	36.18
	64.28	**25.60**	**51.18**
Non-current liabilities			
Long term financing	**576,621.16**	**28.05**	**450,310.47**
Current liabilities			
Current portion of long term financing	229,165.96	72.08	133,177.94
Markup accrued	54,230.11	65.60	32,747.26
Bridge borrowing from CPPA-G for MOF markup settlement	16,259.54	2075.70	747.32
Other payables	43,264.45	67.66	25,804.60
Short term borrowings	0.19	0	0.19
Provision for taxation	5.34	356.41	1.17
	342,925.59	**78.16**	**192,478.48**
Contingent & Commitments	-		-
Total Capital and Liabilities	**919,611.03**	**43.05**	**642,840.13**

(Source: Audited Financial Statement of PHL Financial Year 2018-19 – RSM Avais Hyder Liaquat Nauman, Chartered Accountant)

Statement of Comprehensive Income
For the year ended June 30, 2019

(Rs.in million)

	2018-19	% Inc/Dec	2017-18
Grant- from power sector, GOP through CPPA-G	71,930.69	83.56	39,186.91
Grant- from finance division, GOP	12,893.48	90.16	6,780.40
	84,824.17	**84.53**	**45,967.31**
Less: Utilized for			
Finance cost	84,723.67	86.31	45,474.42
Other expenses	100.50	(79.61)	492.89
	84,824.17	**84.53**	**45,967.31**
	-		
Other income	31.36	114.94	14.59
Less: Operating cost	12.91	20.54	10.71
Income for the year - before taxation	**18.45**	**375.52**	**3.88**
Provision for taxation	5.35	334.96	1.23
Income for the year - after taxation	**13.10**	394.34	**2.65**
Other comprehensive income for the year	-		-
Total comprehensive income for the year	**13.10**	**394**	**2.65**

(Source: Audited Financial Statement of PHL Financial Year 2018-19 – RSM Avais Hyder Liaquat Nauman, Chartered Accountant)

22.2.3 Comments on Audited Accounts

i) Financing facilities receivables

Total receivables of the Company were Rs.918,542.06 million as on June 30, 2019. An amount of Rs.576,621.16 million was finance facilities principal receivables and amount of Rs.341,920.90 million was current portion of receivables from power sector, through CPPA-G and Finance Division Government of Pakistan. Huge pending receivables were significant business sustainability risk for the Company and required long term rectification measures. Huge balance of receivables depicted poor recovery efforts of the Company, which needed justification.

ii) **Accumulation of Debt liabilities**

Principal portion of long erm financing liabilities and current portion of financing liabilities of the company substantially increased from Rs.642,787.59 million in the financial year 2017-18 to Rs.919,541.22 million in the financial year 2018-19 included in this was an amount of Rs.16,259.54 million on account of bridge borrowing from CPPA-G for Ministry of Finance markup settlement registering 2075.71% increase compared with previous financial year. Borrowing from CPPA-G for Finance Division markup settlement showed unsatisfactory financial management. Debt liabilities of energy sector were accumulating and no policy/ measures regarding retirement of debt liabilities were framed/ implemented which need justification.

iii) **Non-settlement of Liquidated damages charges**

Liquidated damages charges substantially increased from Rs.25,804.30 million in the financial year 2017-18to Rs.43,264.04 million in the financial year 2018-19 against finance Facility amounting to Rs.82.00 billion from OGDCL. Non-settlement of these charges needed justification.

22.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.1,069,081.12 million were raised in this audit. The amount also includes recoverables of Rs.16,259.54 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Irregularities		
	A.	Irregularities pertaining to violation of Regulatory Laws & Regulations	35,806.00
	B.	Recoveries	16,259.54
2.	Others		1,017,015.58

22.4 AUDIT PARAS

22.4.1 Accumulation of debt liabilities - Rs.860,020 million

As per PHPL BoD Decisions item No.2 of 29th BoD meeting held on 08.10.2018, the BoD decided that a third party, preferably a Charted Accountant Firm to be engaged to conduct comprehensively study regarding debt retirement of PHPL Islamabad financing facilities in consultation with DISCOs, PITC and CPPA and further decided that Charted Accountant Firm to be engaged (i) to verify Debt Service Surcharge imposed and recovered by the DISCOs and released to CPPA-G, and (ii) to verify the collection made by CPPA-G from DISCOs and payment by CPPA-G to PHPL.

In PHPL, it was observed that debt liabilities including Principal and markup of Rs.616,235 million was due on July 01, 2018 and fresh financing facilities of STFF and Sukuk amounting to Rs.235,810 million was availed during the financial year 2018-19. Out of which, just Rs.59,290 million was repaid leaving outstanding loans of Rs.860,020 million including markup as on June 30, 2019. The said outstanding balance also included the existing Syndicated Term Finance Facilities amounting to Rs.202,910 million which was rolled over up to August, 2019. The above scenario indicates that debt liabilities of energy sector were enhanced but no policy regarding retirement of debt liabilities was framed as per directions of BoD. Resultantly, the debt liabilities accumulated to Rs.860,020 million.

Non-adherence of BoD Decision resulted in accumulation of debt liabilities Rs.860,020 million up to financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that Ministry of Energy (Power Division) in consultation with Finance Division was working on different modalities and ways of developing stream of cash flows for the purposes of redemption of the PHPL Islamabad financing facilities. The creation of repayment plan of the subject facility including other PHPL facilities was under consideration by the Ministry of Energy (Power Division) and Ministry of Finance.

The DAC in its meeting held on January 01, 2020 directed the management to devise a comprehensive plan for retirement of debt liabilities and follow up in the matter.

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

(Proposed Draft Para No. 1186/2019-20)

22.4.2 Non-clearance/ settlement of overdue principal and mark up payments of OGDCL - Rs.113,731.54 million

As per terms and conditions of Privately Placed Term Finance Certificate (PPTFC), markup to be serviced semi-annually in arrears, First such payment fell due and become payable at the end of 6th month from the disbursement, whereas Principal was to be paid in eight (8) equal semi-annual installments after completion of grace period. First Principal Payment fell due at the end of the 42nd month from the disbursement.

In PHPL, a loan of Rs.82 billion was obtained from OGDCL in 2012 in lieu of PPTFC for the period of seven (7) years inclusive of grace period of thirty-six (36) months and the same was disbursed to CPPA-G for payment to IPP to reduce circular debt in Power Sector. Due to non-payment of principal installment along with mark-up by CPPA-G, an amount of Rs.113,731.54 million against that finance facility was receivable from CPPA-G and payable to OGDCL up to June 30, 2019. Moreover, Debt Service Surcharge was imposed by Government of Pakistan on the consumer bills in 2015 at DISCOs level for repayment of markup obligation of PHPL. But neither such surcharge fulfilled the PHPL obligations nor there was any mechanism for repayment of that financing facility. Resultantly, this added to debt circular accumulation in power sector.

Financial mismanagement resulted in non-clearance/ settlement of overdue principal and mark up payments of OGDCL with CPPA Rs.113,731.54 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that default of payment of markup amounting to Rs.31,731.54 million to OGDCL was due to cross default by CPPA-G in releasing funds rather than any negligence /lack of efforts from PHPL. Despite several reminders, CPPA-G had not released funds due to its liquidity position and non-availability of cash flows. The matter of restructuring of principal installments in respect of Rs.82.00 billion TFC had already been taken with the OGDCL and documentation formalities were expected to be finalized soon.

The DAC in its meeting held on January 01, 2020 directed the management to expedite the matter of restructuring of principal/installments of PPTFC and follow up the matter with CPPA-G for release of funds to PHPL.

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

(Proposed Draft Para No. 1132/2019-20)

22.4.3 Loss on account of liquidated damages due to non-payment of principal installments along with markup - Rs.43,264.04 million

As per terms and condition-18 of TFC investor Agreement made between PHPL and OGDCL and executed on September 5,2012, in case of non-payment of redemption amount on the redemption date by the issuer, the issuer shall be liable to pay liquidated damages @ 20% per annum to the TFC Holder after lapse of fifteen (15 days) from the relevant Redemption Date.

In PHPL, Rs.82 billion was obtained from OGDCL on 10.09.2012 for period of seven (7) years inclusive grace period of thirty-six (36) months with six months KIBOR + 1% on the Guarantee of Ministry of Finance on behalf of President of Pakistan. Due to late/non-payment of principal installments along with mark up, liquidated damages of Rs.43,264.04 million were accrued on the said loan facility, which caused loss to the stated extent.

Financial mismanagement resulted in loss of Rs.43,264.04 million on account of liquidated damages due to non-payment of principal installments along with markup to OGDCL up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that the matter of restructuring of Rs.82.00 billion facility along with matter of waiver off related liquidated damages of Rs.43,264.04 million had already been initiated with OGDCL. On completion of the formalities of restructuring & waiver off of the liquidated damages with OGDCL, the facility would be regularized, and overdue principal/mark-up would be deferred resulting in the reversal of liquidated damages in the financial statements of PHPL.

The DAC in its meeting held on January 01, 2020 directed the management to expedite and follow up the matter.

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

(Proposed Draft Para No. 1131/2019-20)

22.4.4 Non-adjustment of TDS claims against Syndicated Term Finance Facility (STFF) - Rs.35,806 million

The ECC of the Cabinet Decision vide No. ECC-53/11/2018- dated. 24th May, 2018 regarding the Syndicated Term Finance Facility of Rs.50.00 billion (reduced to 35.806 billion) through Power Holding (Private) Limited for Power Sector Liquidity and approved the proposal contained in para 5 of the summary with the stipulation that the Finance Division will make adjustment against TDS claims after six months. Moreover, as per decision of ECC dated 22.5.2018, servicing of said facility as well as the principal amount will be done through imposition of surcharge @ Rs.0.55/kwh after approval of NEPRA for the interim(6months) or tariff determination whichever is earlier, the markup servicing will require GoP support and the same will be treated as GoP equity in DISCOs.

In PHPL, STFF amounting to Rs.35,806 million under Government Guarantee (Ministry of Finance) was raised and disbursed on dated November 20, 2018 for repayment of the liabilities of the Distribution Companies towards Central Power Purchasing Agency (Guarantee) Limited. An amount of Rs.3,132.41 million was paid against 1st to 3rd markup payment due on August 20, 2019 but decision of ECC was not implemented in true spirit. Neither TDS claims were adjusted nor the GoP Equity was raised in DISCOs in lieu of mark up and principal payment made by GoP before approval of NEPRA for imposition of surcharge.

Non-adherence of ECC Decision resulted in non-adjustment of TDS Claims against syndicated term finance facility Rs.35,806 million up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that ECC of the Cabinet had approved the proposal contained in the summary with stipulation that Finance Division would make adjustments against TDS claims after six months. The matter had been referred to the Ministry of Energy (Power Division) for implementation of ECC decision regarding adjustments of servicing cost against TDS claims by the Finance Division.

The DAC in its meeting held on January 01, 2020 directed the management to follow up in the matter.

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

(Proposed Draft Para No. 1225/2019-20)

22.4.5 Non-recovery/adjustment of bridge financing loan from finance division - Rs.16,259.54 million

As per ECC decision, Syndicated Term Finance Facility Rs.7.469 billion, Rs.25 billion, Rs.25.00 billion (Fresh) Rs.30.00 billion, Rs.80.00 billion, Rs.50.00 billion(A), Rs.50.00 billion (B) and Rs.35.806 billion, the servicing of markup, principal amount and all other amount in respect of subject facilities shall be responsibility of Finance Division (Government of Pakistan).

In PHPL, a loan of Rs.16,259.54 million was obtained from CPPA-G for repayment of accrued markup of financing facilities under guaranteed Finance Division (Government of Pakistan). Resultantly, enhancement of accumulation of circular debt of PHPL caused due to non-recovery/adjustment of repayments of financing facilities from Finance Division.

Non-adherence to the ECC decision resulted in non-recovery/adjustment of bridge financing loan from Finance Division Rs.16,259.54 million up to financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that the process of release of Rs.16,259.54 million from Finance Division had been initiated and in this regard Ministry of Energy (Power Division) had also been requested to take up the matter with the Finance Division for expeditious recovery of the funds. Any further update regarding the release of the funds would be communicated to audit as and when the recovery was made from the Finance Division.

The DAC in its meeting held on January 01, 2020 directed the management to expedite and follow up the matter.

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

(Proposed Draft Para No. 1183/2019-20)

CHAPTER-23

PRIVATE POWER AND INFRASTRUCTURE BOARD (PPIB)

23. PRIVATE POWER AND INFRASTRUCTURE BOARD (PPIB)

23.1 Introduction

The Private Power and Infrastructure Board (PPIB) was created on August 2, 1994 under Ministry of Water and Power, Islamabad as "One Window Facilitator" to promote private sector participation in the power sector of Pakistan. PPIB facilitates investors in establishing private power projects and related infrastructure, executes Implementation Agreement (IA) with Project Sponsors and issues sovereign guarantees on behalf of Government of Pakistan.

Main functions of PPIB are to implement the power policies, award projects to sponsors or private power companies, prepare all necessary or appropriate documentation, execute any of such documentation with private power companies, their sponsors, lenders and, whenever necessary or appropriate.

PPIB comprises of the following members:

1.	Federal Minister for Water & Power		Chairman
2.	Secretary, Water & Power/Chairman PEPCO		Member
3.	Secretary, Ministry of Finance		Member
4.	Secretary, Ministry of Petroleum & Natural Resources		Member
5.	Chairman, Federal Board of Revenue		Member
6.	Secretary, Planning Commission		Member
7.	Chairman, WAPDA		Member
8.	Managing Director, PPIB		Member/Secretary
9.	Mr. Zahid Rafique,	(Private Member)	Member
10.	Mr. Amir Naseem	(Private Member)	Member

In addition to above Provincial Chief Secretaries and other departmental heads are included as Board Members (as and when required) for such meetings where items/projects pertinent to the particular Province/AJ&K form part of the agenda for board meetings.

Fourteen (14) thermal power projects having 2,898 MW capacities were launched by Independent Power Producers (IPPs) under Power Policy-1994 and twelve (12) IPPs having capacity of 2,409 MW were inducted under Power Policy-2002 by the PPIB.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	01	01	1,308.79	1,209.04	-
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

23.2 Classified Summary of Audit Observations

Audit observations amounting to Rs.4,014.21 million were raised in this audit. Summary of the audit observation classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Irregularities		
	A.	Procurement related irregularities	7.81
	B.	Irregularities pertaining to violation of Regulatory Laws & Regulations	4,006.40

23.3 AUDIT PARAS

23.3.1 Undue favour to IPPs through extension granted without doubling of Performance Guarantee - Rs.3,998.24 million

According to power policy 2015 clause 8.4 ii. B, if any extension in the validity of LOI or LOS, as the case may be, is necessitated, sponsors will be required to submit a bank guarantee in double the original amount and valid beyond three months of the extended LOI period or beyond three months of the extended LOS period to qualify for extension in validity of the LOI or LOS. The extension should be subject to the concurrence of the province where projects are recommended or initiated by Provinces and processed under the Tri-partite LOS regime:

In PPIB, various IPPs were launched during the financial years 2017-18 & 2018-19, it was noticed that many times extension was granted to the various

IPPs by the management at different stages i.e LOI, LOS and Financial Closing (FC) dates, without doubling Performance Guarantee Rs.49.979 million US$ equivalent to Pak Rs.7,996.64 million (49.979X160). Hence, an amount Rs.3,998.4 million (7,996.64 – 3,998.24) was less recovered on account of Performance Guarantee.

The violation of the provision of Power Policy 2015 resulted in less receipt of amount of Rs.3,998.4 million on account of performance guarantee up to the financial year 2017-18 &2018-19.

The matter was taken up with the management in July, 2019 and reported to the Ministry in October, 2019. The management replied that the project was not reached at such stage where PGs were required to be encashed. Moreover, extensions were granted by the Board (PPIB), keeping in view the factor of delay being beyond reasonable control of the sponsors.

The DAC in its meeting held on January 02, 2020 directed the management to get all the Board's decisions/minutes verified from Audit.

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

(Proposed Draft Para No. 282/2019-20)

23.3.2 Irregular procurement of vehicles - Rs.8.16 million

Further Finance Division (Expenditure Wing) vide office memorandum No. 1(1) Exp-IV/2013 dated 1st July, 2013, regarding austerity measures during financial year 2013-14, restricted purchase of vehicle except operational vehicles of law enforcement agencies and critical development projects.

In PPIB, six (06) vehicles valuing Rs.8.16 million were procured for officers as part of perks and privileges of their pay & allowances in defiance of Finance Division (Expenditure Wing) office memorandum dated 1st July, 2013. Hence, the procurement of said vehicles could not be termed as regular.

Non-adhernece to Finance Division's instructions resulted in irregular procurement of vehicle valuing Rs.8.16 million during the financial year 2018-19.

The matter was taken up with the Management in July, 2019 and reported to the Ministry in December, 2019. The management replied that the procurments were made after due approval of the Board of PPIB, which was competent under the PPIB Act 2012.The replacement was of old vehicles and in line with the austerity measures to reduce the operational costs of vehicles.

The DAC in its meeting held on January 02, 2020 directed the management to provide the finance division clarification regarding austerity measures and get the stance verified by audit.

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

(Proposed Draft Para No. 916/2019-20)

23.3.3 Irregular payment on account hiring of Legal / professional consultants in violation of PPRA Rules - Rs.7.81 million

As per Rule-20 of Public Procurement Regulatory Authority Rules (PPR's – 2004) principal method of procurement "save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works".

In PPIB, ten (10) Legal Counsels were hired for legal services against fifteen (15) court cases at professional fee of Rs.6.795 million. Likewise, three (3) professional Consultants were nominated as Convener/Members Joint Advisory Committee (JAC) from private sector to review existing Power Policy at a professional fee of Rs.1.015 million. The services of all the said legal /professional consultants were hired without advertisement and open competitive bidding in defiance of the PPRA Rules. Hence, the payment of Rs.7.81 million (Rs.6.795 million + Rs.1.015 million) was irregular.

Violation of PPRA rules resulted in irregular payment of Rs.7.81 million to legal / Professionals consultants during the financial year 2017-18 & 2018-19.

The matter was taken up with the Management in July, 2019 and reported to the Ministry in October, 2019. The management replied that the engagement of legal counsels was made in accordance with applicable PPRA Rules 42 (d) and in exercise of statutory powers conferred vide PPIB Regulations 2013.Audit opined that any exigency in the matter was not substantiated with documentary evidence.

The DAC in its meeting held on January 02, 2020 directed the management to revise the policy of hiring of legal counsel within the ambit of rules.

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

(Proposed Draft Para No. 394/2019-20)

CHAPTER-24

NATIONAL POWER PARKS MANAGEMENT COMPANY LIMITED (NPPMCL)

24. NATIONAL POWER PARKS MANAGEMENT COMPANY LIMITED (NPPMCL)

24.1 Introduction

National Power Parks Management Company Limited (NPPMCL) was incorporated as private limited company under the Company Ordinance 1984 (now Companies Act, 2017) on March 02, 2015. It is a public sector Company owned and controlled by the Government of Pakistan through Pakistan Development Fund Limited (PDFL). The principal activity of the Company is to carry on business of generation of electricity through fossil fuels and bio fuels, including but not limited to oil (residual fuel oil, high speed diesel), gas, coal, hydro or alternative energy resources including but limited to wind, solar and hydel or any other fuel mix used for generation of electricity in Pakistan and or outside Pakistan and to provide/sell the electricity produced to buyers in accordance with applicable laws. For this purpose, the Company is operating two Regasified Liquified Natural Gas (RLNG) based combine cycle power plants i.e. 1223 MW and 1230 MW at Balloki, District Kasur and Haveli Bahadur Shah (HBS), District Jhang respectively.

The detail of formation and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue/ Receipts audited FY2018-19 (Rs.in million)
1.	Formations	01	01	1,308.79	1,209.04	201,889.00
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities/ Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

24.2 Comments on Financial Statements

24.2.1 Financial Overview

As per the audited Financial Statements for the year 2018-19, the Company earned a profit of Rs.18,991 million after tax at the year ended dated 30th June, 2019.

Moreover, the profit increased from 3,431.03 million in the financial year 2017-18 to Rs.18,991 million in the financial year 2018-19 registering 453.51% increase. Sales increased from Rs.30,320.51 million in the financial year 2017-18 to Rs.145,611.54 million in the financial year 2018-19 registering 380.24 % increase.

24.2.2 Extracts of the Financial Statements Balance Sheet

(Rs.in million)

Equity and Liabilities	2019	%Inc/ (dec)	2018	%Inc/ (dec)	2017
Share capital and reserves					
Issued, subscribed and paid-up capital	53,000.10	-	-	-	-
Deposits for the issuance of shares	63,499.90	(45.49)	116,500	-	116,500.00
Accumulated profit/ (Loss)	22,266.19	579.78	3,275.52	(2188.58)	-156.83
Total Equity	**138,766.00**	**15.86**	**119,775.00**	**2.95**	**116,343.00**
Non-current liabilities					
Long term Financing	0	(100.00)	32,738.00		0
Deffered liability	51.93	43.10	36.29	68.71	21.51
Total Non-Current Liabilities	**51.93**	**-99.84**	**32,774.00**	**152267.34**	**21.51**
Current liabilities					
Trade and other Payables	30,190.26	80.02	16,770.60	45.23	11,547.30
Retention Money	6,355.37	(6.16)	6,772.67	34.88	5,021.12
Accured Markup	6,160.42	90.14	3,239.91	169.26	1,203.28
Short-term borrowing secured	37,133.87	13.86	32,613.90	1901.53	1,629.45
Short-term loan unsecured	32,738.00		0		0
Provision for taxation	462.16		0	(100.00)	16.54
Total Cuurent Liabilities	**113,040.00**	**90.31**	**59,397.00**	**205.89**	**19,418.00**
TOTAL EQUITY AND LIABILITIES	**251,858.00**	**18.83**	**211,947.00**	**56.09**	**135,782.00**
Assets					
Non-current assets					
Operating fixed assets	149,469.40	98.62	75,254.30	9752.62	763.80
Capital work in progress	181.70	(99.72)	64,724.60	(34.76)	99,213.60
Intangible assets	0.66	(57.42)	1.55	(26.19)	2.10
Long term deposits and prepayments	12,001.68	(2.37)	12,293.60	5.42	11,661.80
Total Non-Current Assets	**161,653**	**6.16**	**152,274.00**	**36.40**	**111,641.00**
Current assets					
Stock-in-trade	2,979.47	58.63	1,878.21		0
Stores, spares and loose tools	101.85		0	(100.00)	0.1
Trade debts	65,344.99	125.41	28,988.80		

Advances, prepayments and other receivables	13,409.95	16.26	11,534.20	560.91	1,745.20
Tax recoverable from Govt.	5,660.82	38.16	4,097.39	67.02	2,453.20
Cash and bank balances	2,707.63	(79.45)	13,174.20	(33.94)	19,942.70
Total Current Assets	90,204.71	51.17	59,672.80	147.18	24,141.20
Total Assets	**251,858.00**	**18.83**	**211,947.00**	**56.09**	**135,783.00**

(Source: Annual Financial Statement of NPPMCL as at 30 June 2019 – A.F. Ferguson & Co. Chartered Accountant)

Statement of Profit & Loss Account
For the year ended June 30, 2019

(Rs.in million)

	2019	**%Inc/(dec)**	**2018**	**%Inc/(dec)**	**2017**
Sale	145,611.54	380.24	30,320.51	-	-
Cost of Sales	122,997.45	351.91	27,217.45	-	-
Gross Profit/(Loss)	**22,614.09**	**628.77**	**3,103.06**	**-**	**-**
Administrative Expenses	218.46	5.64	206.8	27.32	162.42
Other operating expenses	344.44	966.38	32.3	1329.20	2.26
Other Income	3,493.52	164.16	1,322.49	2378.89	53.35
profit before interest and tax	**25,544.71**	**510.16**	**4,186.56**	**-3860.50**	**-111.33**
Financial Cost	6,553.71	767.43	755.53	-	0
(Loss)/Profit before Taxation	18,991.00	453.51	3,431.03	-3181.86	-111.33
Taxation	-	-	-	-	-56.04
(Loss)/Profit before Taxation	**18,991.00**	**453.51**	**3,431.03**	**2146.91**	**-167.62**

(Source: Annual Financial Statement of NPPMCL as at 30 June 2019 – A.F. Ferguson & Co. Chartered Accountant)

22.2.3 Comments on Audited Accounts

i) Profitability

The company earned net profit of Rs.18,991 million during the financial year 2018-19. Total accumulated profit has reached to the tune of Rs.22,266.19 million.

ii) Sales and cost of sales

Sales of the company increased from Rs.30,320.51 million in the financial year 2017-18 to Rs.145,611.54 million in the financial year 2018-19 registering 380.24 % increase, however, cost of sales increased from Rs.27,217.45 million in the financial year 2017-18 to Rs.122,997.45 million in the financial year 2018-19 registering 351.91% increase.

iii) Trade debts and receivables

Total receivables of the company were Rs.84,415.76 million including the trade debts Rs.65,344.99 million, Rs.13,409.95 million of advances, prepayments and other receivables and Rs.5,660.82 million of tax recoverable from Govt. Huge pending receivables were a significant business sustainability risk for the company and required long term rectification measures. Huge balance of receivables depicted poor recovery efforts of the company, which needs justification.

iv) Trade and other payables

Payables of the company substantially increased from Rs.16,770.6 million in the financial year 2017-18 to Rs.30,190.26 million in the financial year 2018-19 registering 80.02 % increase which showed unsatisfactory financial management and poor liquidity position of the company. Immediate short-term measures and prudent long-term action were needed to stop the accumulation of payables and ensure steady reduction of pending payables in the future.

v) Non-disclosure of disputed amount L.D charges

As mentioned in the notes to the financial statements (18.2) L.D amounting to Rs.8,953 million and Rs.8,535 million was withheld from the contractors of Haveili Bahadur Shah Project and Balloki Project respectively on account of delay in completion the work of GT1 & GT2 at both the projects. The contractors expressed their disagreement over the LD charged claiming that the delays were attributed to the Company. Due to the uncertaintly attached with the realization of such LDs, the aforesaid amounts of LD had not been recorded in the financial statements. Due to above highlighted shortcomings the Financial Statements of the Company were not giving fair and true picture.

vi) Operating expenses

The operating expenses of the company substantially increased from Rs.32.30 million in the financial year 2017-18 to Rs.344.44 million in the financial year 2018-19 registering an increase of Rs.312.14 million which needed justification.

vii) Financial charges

The financial charges of the company substantially increased from Rs.755.53 million in the financial year 2017-18 to Rs.6553.71 million in the financial year 2018-19 registering an increase of Rs.5798.18 million which needed justification.

24.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.17,143.87 million were raised in this audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	An amount (Rs.in million)
1.	Irregularities	
	A. Procurement related irregularities	12,783.03
2.	Others	4,360.84

24.4 AUDIT PARAS

24.4.1 Loss to the Company due to non-utilization of RLNG - Rs.11,600 million

According to the clause 3.6 of Gas Sales Agreement (GSA) made between National Power Parks Management Company Limited (NPPMCL) and Sui Northern Gas Pipelines Limited (SNGPL) that: a) From and after the Commercial Operations Date of Gass Turbine (GT-l) and during a Month in the Delivery Period, the Buyer shall take and if not taken pay for the portion of the Firm Gas Allocation pertaining to that Month (b) In case Monthly Take-or-Pay Quantity is not fully utilized by the Buyer in the Complex, the Buyer may request the Seller to divert any unutilized Monthly Take-or-Pay Quantity to any other power plants (after seeking their consent) and the Seller shall arrange for such diversion at the cost and risk of Buyer subject to available capacity in its pipelines. Any amounts received by the Seller from the other power plants in consideration of supply of the diverted gas shall, after making deduction of any additional charges incurred by the Seller in arranging the sale, be paid by the Seller to the Buyer within three (03) Business Days of receipt of such amounts. If other power plants refuse or the Seller due to technical constraints or any other reasons is unable to supply the diverted gas to the other power plants, the Seller shall have the right to supply such gas to any of its consumers and the amounts recovered from those consumers shall, after making deduction of any additional charges incurred by the Seller in arranging the sale, be paid by the Seller to the Buyer within 3 Business Days of receipt of such amounts.

In NPPMCL, an invoice of Rs.11,600 million on account of gas charges was received from SNGPL under Take or Pay (ToP) GSA. Due to default in payment of said amount, SNGPL encashed the Standby Letter of Credit (SBLC) of Rs.10,384 million of NPPMCL. Hence, Company had not only lost its SBLC of Rs.10,384 million but also got established the claim of remaining amount of Rs.1216 million. Neither the RLNG was utilized nor asked the SNGPL for diverting unutilized quota to any other buyer and Company was put to a loss of Rs.11,600 million.

Imprudent operational & financial management resulted in loss of Rs.11,600 million to the Company due to non-utilization of RLNG up to the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management accepted Audit point of view and replied that encashment of SBLCs by SNGPL was contrary to the provision of GSA, hence the Company challenged the same in accordance with the dispute resolution mechanism provided in the GSA. The matter was pending before London Court of International Arbitration.

The DAC in its meeting held on December 31, 2019 directed the management to follow up the matter at appropriate forum.

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

(Proposed Draft Para No. 710/2019-20)

24.4.2 Non-payment of interest on loan to Pakistan Development Funds - Rs.4,022 million

As per Project Files of Balloki and 1230 MW CCPP, Haveli Bahadur Shah, amount of the interest was due to be paid on June 30, 2019. Further, According to Rule 2A (a) of Public Sector Companies Corporate Governance Rule regarding Sound and Prudent Management, "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".

In NPPMCL, an amount of Rs.4,022 million was payables to Pakistan Development Fund Limited on account of interest as on June 30, 2019 against HBS and Balloki project. The same was not paid to the Donor Agency up till June, 2019. This state of affair showed negligence and financial indiscipline on the part of management, thereby putting additional financial burden on the Company in the shape of mark up.

Non-adherence to rules resulted in non-payment of interest on loan to the Pakistan Development funds Rs.4,022 million during the financial year 2018-19.

The matter was taken up with the management in August, 2019 and reported to the Ministry in December, 2019. The management replied that loan of Rs.32.738 billion was provided by PDFL for the projects with tenure of twenty four months. Being included in the active list of privatizations, it was proposed by the Privatization Commission that the said loan be converted to long term loan for term of ten (10) years. The repayments of project loans were made from Capacity payments which start from the commencement of Commercial Operation Date (CoD). Long Term Facility Agreements would be executed between company and PDFL upon clearance of drafts by PDFL. Accordingly, the said loan would be repaid to PDFL as per repayment schedule.

The DAC in its meeting held on December 31, 2019 directed the management to reconcile and produced record for verification.

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

(Proposed Draft Para No. 995/2019-20)

24.4.3 Non- recovery of cost relating to failure of Complex Reliability Run Test of power plant - Rs.1,071.51 million

According to clause 4.19 of the contract agreement "The employer shall pay for gas and high speed diesel for each successful Tests on Completion (but only if such test is successfully passed by the contractor, failing which the contractor shall be solely responsible for the gas and high speed diesel consumed during such test on completion".

In NPPMCL, complex Reliability Run Test of Balloki project did not prove successful in the first instance and allowed to be repeated again. Accordingly notice for retest of Reliability Run Test was served to the contractor.

However, cost for the gas and high-speed diesel and other costs amountin to Rs.1,071.51 million were not recovered up till now.

Non-adherence to the clause of the contract agreement resulted in non-recovery of cost of complex reliability run test amounting to Rs.1,071.51 million during the financial year 2018-19.

The matter was taken up with the management in September, 2019 and reported to the Ministry in November, 2019. The management replied that matter was being pursued with EPC contractor for payment of said amount.

The DAC in its meeting held on December 31, 2019 directed the management to follow-up the matter and expedite recovery from contractor.

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

(Proposed Draft Para No. 699/ 2019-20)

24.4.4 Non-submission of adjustment amount of Rs.318.61 million and non-return of unspent balance of Rs.20.23 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 NPPMCL, funds amounting to Rs.338.84 million were placed at the disposal of SNGPL for execution of pipeline (allied pipe) and valves fitting at Haveli Bahadur Shah Project. Against these works, M/s SNGPL placed purchase orders to the tune of Rs.318.61 million. After execution of these works, neither unspent balance of Rs.20.23 million was returned nor adjustment accounts of Rs.318.61 million was produced for audit scrutiny. In the absence of adjustment accounts, authenticity and genuineness of expenditure could not be ascertained. Therefore, the same could not termed as regular expenditure.

Non-adherence to the rules resulted in non-adjustment of Rs.318.61 million and non-return of unspent balance of Rs.20.23 million during the financial year 2018-19.

The matter was taken up with the Management in August, 2019 and reported to the Ministry in December, 2019. The management replied that the matter of return of unspent balance was taken up with SNGPL at various levels and regularly followed up. SNGPL informed that third party audit for determination of the actual cost incurred for execution of said works was under progress. Once finalized, the actual cost along with auditor's certificate would be shared and balance amount would be adjusted/refunded accordingly.

The DAC in its meeting held on December 31, 2019 directed the management to follow up the matter and provide adjustment accounts/return of unspent balance and get it verified from Audit.

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

(Proposed Draft Para No. 887/2019-20)

24.4.5 Un-justified exclusion of insurance component from Capacity Purchase Price invoices – Rs.111.52 million

According to the clause 9.1 of the Power Purchase Agreement (PPA) stated that; a) Subject to Section 2.2(b) and Section 9.6(c), from and after the Commercial Operation Date, the Power Purchaser shall pay the Company the capacity payments, in accordance with the procedures specified in Section 9.6 (payment), for the Available Capacity for each Month (or part-Month), such payments being calculated in accordance with this Section 9.1 and the provisions of Schedule I (Tariff, Indexation and Adjustment).

In NPPMCL, invoices of Rs.2,825.54 million were submitted to CPPA-G on account of Capacity Purchase Price (CPP) for the month of May, July and September, 2018. CPPA-G excluded insurance component of Rs.111.52 million claimed in those invoices due to non-determination by NEPRA. Audit was of the view that NEPRA had already determined insurance component on combined cycle tariff which was Rs.0.0606/Kwh (reference tariff table RLNG-annexure-I)

Non-adherence to Power Purchase agreement provisions resulted in un-justified exclusion of insurance component from Capacity Purchase Price invoices amounting to Rs.111.52 million during the financial year 2018-19.

The matter was taken up with the Management in August, 2019 and reported to the Ministry in December, 2019. The management replied that NEPRA allowed that insurance cost component be adjusted annually on actual through Tariff dated 9.08.2016, subject to maximum of 1% of EPC Cost. Since the actualization/ one-time adjustment of EPC cost of the projects was yet to be finalized by NEPRA, therefore, CPPA-G withheld insurance component from the capacity invoices of the Company till true-up of the same by NEPRA. The Company had already filed its petition for one-time adjustment of its generation tariff. Once the costs were verified by NEPRA, insurance component due would be paid to the Company by the Power Purchaser in accordance with the tariff so finalized.

The DAC in its meeting held on December 31, 2019 directed the management to follow up the matter and finalize it.

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

(Proposed Draft Para No. 1136/2019-20)

CHAPTER-25

NATIONAL ENERGY EFFICIENCY & CONSERVATION AUTHORITY (NEECA)

25. NATIONAL ENERGY EFFICIENCY & CONSERVATION AUTHORITY (NEECA)

25.1 Introduction

The National Energy Efficiency & Conservation Authority (NEECA) is an attached Department of the Ministry of Water & Power and serves as a Federal Focal Agency mandated for initiating, catalyzing and coordinating all Energy Conservation activities in different sectors of economy. NEECA has been charged with a wide range of responsibilities including:-

- Formulating energy conservation programmes in all the main energy. consuming sectors.
- Planning and initiating energy conservation actions nation-wide.
- Outlining policy guidelines to support energy conservation initiatives.
- Developing a comprehensive data base on opportunities for energy conservation.
- Supporting training activities on energy conservation application.
- Undertaking field research and pilot demonstration activities on specific energy conservation options and technologies; and
- Monitoring the implementation of conservation programs by other public and/or private sector entities.

Vision

"To Steer Pakistan towards an Energy Efficient and Environment Friendly Tomorrow".

Mission

"Cultivating a new energy culture focusing on achieving sustainable development through conservation and efficient use of energy resources".

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1	Formations	01	01	50.40	44.06	-
2.	Assignment Accounts	Nil	Nil	Nil	Nil	Nil

	(excluding FAP)					
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

25.2 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 NEECA, financial statements of the company for the financial year 2018-19 could not be finalized by the management up till December 31, 2019.

25.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.313.40 million were raised in this audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Irregularities	
	A. Procurement related irregularities	2.40
2.	Others	311

25.4 AUDIT PARAS

25.4.1 Non-transfer of funds – Rs.311 million

PM Secretariat accorded approval on June 24, 2017 for transfer of Rs.311 million of ECF to NEECA as seed money to initiate and perform its functions.

In NEECA, NECCA had been transformed from erstwhile National Energy Conservation Center (ENERCON). Prime Minister office ordered on June 24, 2017 for transfer of funds amounting to Rs.311 million available in the Energy Conservation Fund of the dissolved ENERCON to NEECA as seed money to initiate and perform its function. The funds were not transferred even after lapse of a period of two years.

Non-transfer of fund by Energy Conservation Fund (ECF) resulted in delay in implementation of technical activities of NEECA as per NEECA Act, 2016 for achieving envisaged goals and benefits.

The matter was taken up with the management in July, 2019 and reported to the Ministry in October, 2019. The management replied that the matter was under deliberation with the BOD of Energy Conservation Fund (ECF) who agreed in principle for the transition of funds.

The DAC in its meeting held on January 01, 2020 directed the management to provide revised reply and expedite the transition of funds.

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

(Proposed Draft Para No. 507/2019-20)

25.4.2 Irregular award of contract to individual consultant in violation of PPRA Rules - Rs.2.40 million

According to SRO 1077 (1) 2018 of PPRA regulation of Procurement of Consultancy Services Regulation dated 26-11-2010 "the method for selection of consultants system shall be determined by the procuring agency prior to issuance of the request for proposals from prospective consultants. A procuring agency may utilize one of the following methods for selection of consultants/firms.

1. Regulation 3 (A)" Quality based selection"-
2. Regulation 3 (b) Quality and cost based selection:-
3. Regulation 3 (c) Least cost (selection):-
4. Regulation 3 (E) Fixed budget (Selection)

In NEECA, an expenditure of Rs.2.40 million was incurred after the approval of MD NEECA/ECF for hiring of individual consultant. The selection of consultant service was not made as per the method for selection of consultants given in above mentioned SRO. Moreover, hiring of consultant was not advertised on PPRA websites which was a violation of PPRA rules. Moreover, Rs.2.40 million was paid from the fund of Energy Conservative Fund (ECF) which was a separate legal entity incorporated under the companies ordinance, 1984.

Non-adherence to above instructions resulted in irregular award of consultancy services to individual consultant.

The matter was taken up with the management in July, 2019 and reported to the Ministry in October, 2019. The management replied that Procurement Of Consultancy Services Regulation 2010 was followed in all respect for award of contract. However; advertisement was not placed on PPRA website inadvertently.

The DAC in its meeting held on January 01, 2020 directed the management to get the record regarding open competitive bidding verified within fifteen days.

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

(Proposed Draft Para No. 395/2019-20)

CHAPTER-26

NATIONAL ELECTRIC POWER REGULATORY AUTHORITY (NEPRA)

26. NATIONAL ELECTRICT POWER REGULATORY AUTHORITY (NEPRA)

26.1 Introduction

National Electric Power Regulatory Authority was established as a body corporate under Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 for the regulation of power sector in the Country. NEPRA is a regulator of the power sector of Pakistan, though it is not involved in the execution of commercial transactions, but it provides the basis for sale and purchase of electricity i.e. determination of tariffs. It is responsible to safeguard the interests of power generation companies, distribution companies and consumers of electricity, so that the flow of electricity may be continued without any shortfall / circular debt. Furthermore, being a monitory body its role is also to take necessary actions to improve the efficiency of distribution companies in addition to the timely determination of electricity tariffs, thereby containing the accumulation of circular debt. The Authority operates through Head Office located in NEPRA Tower, Attaturk Avenue (East), Sector G-5/1, Islamabad and three regional offices across Pakistan.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2018-19 (Rs.in million)	Expenditure audited FY 2018-19 (Rs.in million)	Revenue / Receipts audited FY2018-19 (Rs.in million)
1.	Formations	01	01	3,724.83	3,282.36	1,305.05
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

26.2 Comments on Financial Statements

26.2.1 Financial Overview

As per the audited Financial Statements for the year 2018-19, the Authority remained in surplus at the year ended dated 30thJune, 2019. However, the surplus increased from Rs.127.55 million in the financial year 2017-18 to Rs.168.54 million in the financial year 2018-19 registering 32.14% increase. Moreover, the total income increased from Rs.1,198.23 million in the financial year 2017-18 to Rs.1,333.77 million in the financial year 2018-19 registering 11.31% increase.

26.2.2 Extracts of the Financial Statements
Statement of Financial Position as on June 30, 2019

(Rs.in million)

Equity and Liabilities	2018-19	%Inc/ (dec)	2017-18	%Inc/ (dec)	2016-17
Share capital and reserves					
Capital contribution by GoP	131.29	-	131.29	-	131.29
Building reserve fund	1,000.00		1,000.00		1,000.00
Total Equity	**1,131.29**				**1,131.29**
Non-current liabilities					
Long term Financing	25.52	(5.55)	27.02	2.85	26.27
Deferredn liability	23.73	(48.73)	46.28	20.96	38.26
Total Non-Current Liabilities	**49.25**	(32.81)	**73.30**	13.59	**64.53**
Current liabilities					
Accrued & other liabilities	465.36	47.54	315.42	(7.14)	339.66
Provision for taxation	154.54	258.06	43.16	(27.95)	59.90
Current portion of long term loans	0.75	-	0.75	-	0.75
Total Current Liabilities	**620.65**	72.72	**359.33**	(10.24)	**400.31**
TOTAL EQUITY AND LIABILITIES	**1,801.18**	316.33	**432.63**	(72.89)	**1,596.12**
Assets					
Non-current assets					
Property, plant & fixed assets	578.51	(9.34)	638.12	(9.09)	701.92
Intangible assets	0.00		0.00	(100.00)	4.76
Loan to employee	63.06	116.03	29.19	34.39	21.72
Total Non-Current Assets	**641.57**	(3.86)	**667.31**	(8.39)	**728.40**
Current assets					
Current portion of loan to employee	42.04	118.39	19.25	24.27	15.49
Fee receivable	139.01	12.49	123.57	20.34	102.34
Advances, prepayments and other receivables	42.48	34.13	31.67	32.84	23.84
Tax recoverable from Govt.	519.39	11.80	464.58	2.32	454.05
Advance paid to federal consolidated fund	8.35	(49.15)	16.42	(72.95)	60.71
Cash and bank balances	408.34	49.41	273.31	52.62	179.08
Total Current Assets	1,159.62	24.85	928.81	11.17	835.51
Total Assets	**1,801.18**	12.85	**1,596.12**	2.06	**1,563.91**

(Source: Audited Financial Statement of NEPRA Financial Year 2018-19 – Ilyas Saeed & Co., Chartered Accountant)

Statement of Profit & Loss Account
For the year ended June 30, 2019

(Rs.in million)

	2018-19	%Inc/ (dec)	2017-18	%Inc/ (dec)	2016-17
Fee income	1,263.97	8.64	1,163.43	13.57	1,024.42
Other income	69.8	100.57	34.8	18.53	29.36
Total income	**1,333.77**	**11.31**	**1,198.23**	**13.71**	**1,053.78**
Administrative expenses	-1,047.12	3.32	-1,013.51	8.32	-935.62
Finance cost	-3.88	(1.77)	-3.95	(1.74)	-4.02
Total expenditures	-1,051.0	**3.30**	-1,017.47	**8.28**	-939.64
surplus for the year before tax	**282.77**	**56.43**	**180.76**	**58.37**	**114.14**
Taxation	-114.23	114.64	-53.22	21.53	-43.79
Surplus for the year after tax	**168.54**	**32.14**	**127.55**	**81.28**	**70.36**

(Source: Audited Financial Statement of NEPRA Financial Year 2018-19 – Ilyas Saeed & Co., Chartered Accountant)

26.2.3 Qualified Opinion given by the External Auditors on the Financial Statements of NEPRA Financial Year 2018-19

It was observed that External Auditors had qualified the accounts of NEPRA for the financial year 2018-19 on the following basis:

a) Provision had not been made against long outstanding fee receivables of Rs.117.46 million during the financial year 2018-19. Had the full amount of provision been made against this balance, the outstanding balance of fee receivable at the year-end would have decreased by Rs.117.46 million with corresponding decrease in profit with the same amount.

b) No provision had been made in the financial statements for tax amounting to Rs.290 million relating to Tax Years 2003 to 2007. Had the tax provision of Rs.290 million been recognized in the financial statements, the balance of payable to / receivable from Federal Consolidation Fund would have been increased / decreased by Rs.290 million with a corresponding increase in provision for taxation.

c) The current tax expense had been overstated by an amount of Rs.6.93 million. Had that expense been adjusted in these financial statements, profit after tax and balance of payable to Federal Consolidation Fund would have been increased by Rs.6.93 million with a corresponding decrease in provision for taxation.

Due to above highlighted shortcomings the Financial Statements of the Authority were not giving fair and true picture.

26.2.4 Comments on Audited Accounts

i) Surplus

The Authority remained in surplus of Rs.168.54 million during the financial year 2018-19. As on June 30, 2019 the Authority's current assets exceeded its current liabilities by Rs.435.202 million.

ii) License fee income and administrative expenses

Total income of the Authority was Rs.1,333.77 million during the year 2018-19. Administrative expenses of Authority stood at Rs.1,047.12 million which was 78.51% of the total income. This meant that the Authority was financing its administrative expenses from its operations.

iii) Trade and other Receivables

Total receivables of the Authority were Rs.700.89 million as on June 30, 2019. An amount of Rs.519.39 million was receivable from Government of Pakistan against tax, Rs.42.48 million on account of prepayments, advances and other receivables. Moreover, Rs.139.01 million was receivable from licensee which was outstanding for a significant period of time.

iv) Trade and other payables

Payables of the Authority substantially increased from Rs.315.42 million in the financial year 2017-18 to Rs.465.36 million in the financial year 2018-19. The major amount of Rs.246.95 million was payable on account of accrued expenses which showed unsatisfactory financial management position of the Authority. Immediate short-term measures and prudent long-term action were needed to stop the accumulation of payables and ensure steady reduction of pending payables in the future.

v) Administrative expenses

The Administrative expenses of the Authority increased from Rs.1,013.51 million during the financial year 2017-18 to Rs.1,047.12 million during the financial year 2018-19 registering an increase of Rs.33.61 million.

26.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.429.74 million were raised in this audit. The amount also includes recoverables of Rs.139.76 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification		Amount (Rs.in million)
1.	Non-production of record		0
2.	Irregularities		
	A.	HR/Employees related irregularities	39.07
	B.	Procurement related irregularities	9.98
	C.	Irregularities pertaining to violation of Regulatory Laws & Regulations	240.93
	D.	Recoveries	139.76

26.4 AUDIT PARAS

26.4.1 Non-payment of statutory charges to Competitive Commission of Pakistan - Rs.240.93 million

Under section 20 (2)(f) of the Competitive Act-2010 read with S.R.O 1292 (1)/2008 23.12.2008, a statutory charge of 3% of fee and charges collected by the Security and Exchange Commission of Pakistan, National Electric Power Regulatory Authority, Oil and Gas Regulatory Authority, Pakistan Telecommunication Authority and the Pakistan Electric Media Regulatory Authority is payable to the Commission.

In NEPRA, the authority had not paid statutory charges of Rs.240.93 million to the Competitive Commission of Pakistan (CCP) in line with the Competitive Commission Act-2010. Although, Regulatory Authority created a provision of such payment but not remitted to the CCP. Non-payment of such statutory charge to the CCP was clear violation of CCP Act-2010.

Non-adherence to CCP Act-2010 resulted in non-payment of statutory charge of Rs.240.93 million during the year 2016-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that NEPRA would pay the amount on finalization of the rules by the Ministry of Finance.

The DAC in its meeting held on January 13, 2020 did not take any decision as Chairman NEPRA was not present in the meeting. However, DAC directed the management of NEPRA that Para would be discussed in the presence of Chairman NEPRA in next DAC meeting as and when held.

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

(Proposed Draft Para No. 1049/2019-20)

26.4.2 Non-recovery of long pending License Fee - Rs.139.76 million

According to section 3 of NEPRA Fee Rules-2002: (1) A licensee or any person other than the licensee, as the case may be, shall pay to the Authority the fees calculated in the amount, manner and at the time specified in the Schedule or an applicable document. (2) A licensee shall also pay such fees to the Authority as may be specified in an applicable document issued subsequent to the date of grant of a license. (3) The fees payable by the licensee or any person other than the licensee, as the case may be, shall be paid in one or more accounts of the Authority designated for the purpose. (4) Any fee shall be considered paid to the Authority only when the amount is credited to the account of the Authority. (5) Where a fee is not paid to the Authority by the due date therefore then, without prejudice to any other action or penalty, the Authority may impose under any applicable document for the failure to pay a fee in a timely manner and the licensee or the person other than the licensee, as the case may be, shall be liable to pay late payment charges calculated at the base rate plus two percent per annum prorated for the period of delay.

In NEPRA, an amount of Rs.139.76 million was receivable from Licensee over the last six years. No strenuous efforts were made to effect recovery from Licensee nor late payment surcharge was imposed on these defaulting firms in according with NEPRA Fee Rules-2002.

Non-adherence to NEPRA Fee Rules-2002 resulted in non-recovery of license fee amounting to Rs.139.76 million during the financial year 2016-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that efforts are being made to recover the amount from the Licensees and audit would be informed accordingly.

The DAC in its meeting held on January 13, 2020 did not take any decision as Chairman NEPRA was not present in the meeting. However, DAC directed the management of NEPRA that Para would be discussed in the presence of Chairman NEPRA in next DAC meeting as and when held.

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

(Proposed Draft Para No. 1051/2019-20)

26.4.3 Irregular re-employment of employee as senior advisor technical – Rs.39.07 million

According to the Supreme Court Order of Suo Motu Case No.24 of 2010, decided on March 01, 2011 that a committee has already been constituted to look into the cases of persons who were appointed on contract basis are not allowed to be continued in terms of Section-14 of the Civil Servants Act-1973 and the policy unless the conditions specified therein are satisfied. As per Guidelines of Establishment Division issued on January 25, 2002 and dated June, 21, 2005, "the consultancies granted after the age of superannuation will be treated as re-employment and will be subject to the same rules as are applicable to re-employment after superannuation and requires approval of the Prime Minister as per Section-14 of Civil Servant Act-1973 and Employment after Retirement Policy and procedure spelt out in Establishment Secretary's D.O dated January 28, 1989".

In NEPRA, the authority had decided to advertise the post of D.G (Tech) as Senior Advisor (Tech) on February 27, 2014 in order to cover up the overlapping period of Mr. Hasnain Zaigham working against the said post up to the date of his retirement i.e. May 04, 2014. Accordingly, the advertisement was published on April 12, 2014 and the said retired officer was reemployed as advisor on May 23, 2014. All this arrangement was made in the pretext to re-employee the serving D.G after retirement. Later on, the three successive extensions were also granted up to May 22, 2021 in contract period. The reemployment and further extensions was irregular together with payment of remuneration thereof.

Non-adherence to re-employment policy resulted in irregular reemployment of employee as senior advisor technical and payment of remuneration of Rs.39.07 million thereof up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that NEPRA having unique mandate of regulation of power sector required the services of power & legal sector experts from time to time, therefore, these experts were appointed by the NEPRA.

The DAC in its meeting held on January 13, 2020 did not take any decision as Chairman NEPRA was not present in the meeting. However, DAC directed the management of NEPRA that Para would be discussed in the presence of Chairman NEPRA in next DAC meeting as and when held.

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

(Proposed Draft Para No. 1048/2019-20)

26.4.4 Irregular payment due to Ad-hoc Relief to the consultant Tariff - Rs.9.98 million

According to the service agreement signed between Consultants/advisors were given fixed salary packages (all inclusive) and qualification allowance.

In NEPRA, four (04) consultancy service agreements were signed with fixed lump-sum salary packages. Later on Ad-hoc relief 2016 and Ad-hoc relief 2017 were also allowed and paid to the consultants in their salary package. Both Ad-hoc reliefs were not admissible as they were appointed on lump sum salary packages. Adhoc relief allowances were admissible to the Federal Civil Servants, not to the consultants/advisors.

Non-adherence to provision of service agreement resulted in irregular payments of Ad-hoc relief allowance Rs.9.98 million during the financial year 2016-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that NEPRA having unique mandate of regulation of power sector required the services of power & legal sector experts from time to time. Therefore, these experts were appointed by the NEPRA.

The DAC in its meeting held on January 13, 2020 did not take any decision as Chairman NEPRA was not present in the meeting. However, DAC directed the management of NEPRA that Para would be discussed in the presence of Chairman NEPRA in next DAC meeting as and when held.

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

(Proposed Draft Para No. 1047 & 1111/2019-20)

26.4.5 Non-production of record by NEPRA

According to the directives of the Public Accounts Committee issued on June 03, 2004, ‘make available all information/record to audit as and when required by them. Otherwise disciplinary action will be initiated against persons responsible for the delay under Section 14- C (2) & (3) of the Auditor General’s (Functions, Power s and Terms and conditions of Service) Ordinance 2001 it is obligatory for all the Government entities to provide record to Audit on demand.

In NEPRA, requisition of record / documents relating to the following core functions of NEPRA was made on 04.10.2019:-

i. determine tariffs for generation, transmission and distribution of electric power
ii. methods, procedures & allied SOPs made with regard to issuance of generation, distribution and transmission licenses
iii. establish & enforce standards to ensure quality and safty of operation and supply of electric power to consumers
iv. approve investment and Power Acquisition Programs (PAP) of the utility companies

The purpose was to assess and review the accuracy, completeness and transparency in execution of its core functions as per defined ambit. However, no record was provided to Audit.

Non-adherence to PAC directive resulted in non-production of record by NEPRA up to the financial year 2018-19.

The matter was taken up with the management in October, 2019 and reported to the Ministry in December, 2019. The management replied that AGP derives its authority from Article 170(2) of the Constitution of Islamic Republic of Pakistan which specifically states that Auditor General of Pakistan shall conduct the audit of accounts, but regulatory functions of the Regulatory Authorities do not fall within the ambit of AGP. Audit contended that the management response was based on misinterpretation of the provisions of AGP office working as well as lack of clarity on the nature of subject audit exercise. The Audit office was not interfering in anyway with the assigned obligations of NEPRA. Rather, through the subject review the office was only trying to present before the National Assembly a review of the working of the subject organization and using its own functional paramaters as a barometer to assess its functioning.

The DAC in its meeting held on January 13, 2020 did not take any decision as Chairman NEPRA was not present in the meeting. However, DAC directed the management of NEPRA that Para would be discussed in the presence of Chairman NEPRA in next DAC meeting as and when held.

Audit recommends that provision of relevant record for review.

(Proposed Draft Para No. 1050/2019-20)

ANNEXURES

Annexure-I

MFDAC PARAS

Sr. No.	PDP No.	Company	Subject	Amount (Rs. in million)
1	888	PEPCO	Irregular drawal of conveyance allowance	3.61
2	889	PEPCO	Non-deduction of Income Tax	2.06
3	890	PEPCO	Non-implementation of actions suggested / recommended in inquiry reports	-
4	1026	PEPCO	Non-distribution of CFLs	26.54
5	1226	PEPCO	Non-utilization of ADB loans	14,555.14
6	285	GENCO-I	Non-renewal / non-provision of performance guarantee	0.71
7	287	GENCO-I	Loss due to non-recovery of standard rent from residents of the colony	2.11
8	391	GENCO-I	Non-clearance of advances given to local suppliers	4.63
9	1019	GENCO-I	Loss to government exchequer due to irregular refund of General Sales Tax	3.57
10	1020	GENCO-I	Loss due to levy of commitment charges for non-utilization of loan	233.03
11	226	GENCO-II	Loss due to excess auxiliary consumption more than allowed by NEPRA	637.53
12	228	GENCO-II	Loss due to procurement of material against closed units of the power house	1.59
13	233	GENCO-II	Loss due to purchase of substandard material	16.72
14	260	GENCO-II	Loss due to less recovery of standard rent from officers / officials residing in bachelor hostel	2.56
15	343	GENCO-II	Unsatisfactory performance of the supplier	3.7
16	417	GENCO-II	Non-blacklisting of the supplier on account of failure in supply of material	10.11
17	129	NTDC	Unjustified payment on account of advance for crops compensation	15.38
18	191	NTDC	Irregular payment on account of price adjustment / escalation to the contractor	140.33
19	196	NTDC	Non-recovery of liquidated damages from contractor	347.14
20	230	NTDC	Unjustified payment on account of advance for crops compensation	130.84
21	235	NTDC	Non-deduction of liquidated damages	9.69
22	237	NTDC	Non-handing over / capitalization of completed works	1,690.28

23	271	NTDC	Loss due to non-disposal of towers and allied material	6.33
24	284	NTDC	Loss due to non-submission of NIC insurance cover	51.34
25	294	NTDC	Non-return of dismantled material to store	23.18
26	295	NTDC	Non-recovery on account of GST from FBR	268.82
27	393	NTDC	Non-handing over / capitalization of completed works	113.63
28	670	NTDC	Non-reconciliation of inter office transactions	16,484.78
29	892	NTDC	Loss due to non-recovery of cost of stolen electrical equipment from contractor	1.91
30	893	NTDC	Non-return of surplus material by the contractor	6.16
31	894	NTDC	Non-replacement of substandard battery banks	10.77
32	966	NTDC	Recoverable amount on account of Income Tax	1.63
33	988	NTDC	Doubtful centralized payment for expenditure on POL	15.65
34	996	NTDC	Undue favour to the contractors due to non-renewal of performance bank guarantees	687.01
35	998	NTDC	Non-return of vehicles by consultants	8.9
36	999	NTDC	Non-deduction of liquidated damages	163.64
37	1000	NTDC	Non-disposal of unserviceable vehicles	5.25
38	1001	NTDC	Undue financial benefit to contractors by not obtaining insurance cover	0
39	1037	NTDC	Non-provision of spare parts by the contractor	65.89
40	1038	NTDC	Non-adjustment of advances paid on account of land acquisition	28.34
41	1039	NTDC	Loss due to non-compliance of Economic Dispatch Order	13.25
42	1042	NTDC	Non-handling over and non-capitalization of completed works	6,152.73
43	1043	NTDC	Non-renewal of performance bank guarantees	52.9
44	1110	NTDC	Undue favour to contractor due to non-obtaining of performance securities	146.73
45	1119	NTDC	Loss due to non-award of contract to the 1st lowest bidder	8.64
46	1130	NTDC	Non-submission of adjustment accounts	46.77
47	1161	NTDC	Loss due to non-recovery of payment made to the contractor against undelivered material along with interest	144.78
48	1163	NTDC	Unjustified payment to the contractor on account of steel tower erection	6.32
49	1166	NTDC	Non-replacement of defective material	291
50	1167	NTDC	Loss due to splitting of work awards	1.02

51	1172	NTDC	Extra contractual benefit extended to the contractor due to non-forfeiture of performance security	278.49
52	1173	NTDC	Irregular expenditure on account of consultancy	3.09
53	1175	NTDC	Non-verification of actual quantities of material of transmission line project by owner's engineer	72.27
54	1176	NTDC	Non-compliance regarding quality assurance and quality control of 660 KV transmission line project during implementation phase	205.67
55	58	FESCO	Irregular adjustment / correction of wrong billing without units	64.58
56	59	FESCO	Imprudent service cost estimates resulting into unjustified surplus capital receipts from consumers	161.18
57	62	FESCO	Concealment of line losses due to non-affording of credit of units to consumers	87.78
58	135	FESCO	Non-recovery of liquidated damages from contractors	4.95
59	147	FESCO	Less recovery of cost of deposit work from sponsoring agency	637.3
60	148	FESCO	Non-return of dismantled electrical material to store	6.25
61	149	FESCO	Irregular award of contracts	9.11
62	150	FESCO	Irregular award of contracts	159.4
63	151	FESCO	Irregular award of work orders at rates reduced after opening of bids	6.88
64	152	FESCO	Irregular award of work orders at the rates reduced after opening of bids	61.05
65	201	FESCO	Concealment of line losses due to non-affording of credit of units to consumers	83.21
66	208	FESCO	Imprudent service cost estimates resulting into unjustified surplus capital receipts from consumers	239.80
67	213	FESCO	Non-return of dismantled electrical material to store	3.63
68	223	FESCO	Non-registering of FIRs against energy stealers and non-recovery of cost of replaced energy meters from consumers	0.45
69	258	FESCO	Non-accountal / non-consumption of electrical material	29.17
70	276	FESCO	Unjustified expenditure incurred without approval of project from Punjab Environmental Protection Agency	39.26
71	325	FESCO	Non-recovery of liquidated damages from suppliers	57.93
72	326	FESCO	Loss due to placement of purchase order at higher rates	2.06
73	539	FESCO	Irregular village electrification from overloaded feeders	293.28

74	540	FESCO	Irregular village electrification due to provision of higher / lower capacity transformers	163.06
75	543	FESCO	Non-return of surplus electrical equipment to store	2.51
76	545	FESCO	Irregular approval for shifting of HT / LT line at Company's expense	5.22
77	668	FESCO	Non-supply of spare material of new grid station to warehouse	28.91
78	703	FESCO	Irregular capitalization of electrification / rehabilitation works due to non-obtaining of revised administrative approval and technical sanction	1,294.21
79	767	FESCO	Non-recovery of liquidated damages from suppliers / contractors	11.12
80	768	FESCO	Irregular award of contracts	101.11
81	814	FESCO	Loss of revenue due non-billing of electricity on sick feeders	537.16
82	822	FESCO	Non-recovery of liquidated damages from contractors	0.98
83	824	FESCO	Loss due to award of tender on higher wastage deduction for recycling of scrap copper	2.06
84	825	FESCO	Irregular payment of salary to staff working in excess of sanctioned strength	1.37
85	826	FESCO	External electrification of housing schemes / plazas without considering overloading position of power transformers	29.09
86	829	FESCO	Non-payment of electrical material allocated from GEPCO on cash basis	35.03
87	832	FESCO	Supply of electrical material without inspection certificate	273.78
88	984	FESCO	Non-receipt of reconciled General Sales Tax and arrears from Provincial Government	1,310.66
89	51	GEPCO	Non-return of dismantled electrical material to store	1.9
90	69	GEPCO	Non-return of dismantled / serviceable electrical material to store	13.9
91	82	GEPCO	Non-recovery of energy charges from AJ&K Government	2,988.80
92	91	GEPCO	Non-return of distribution transformers to store	10.99
93	93	GEPCO	Non-return of dismantled / useable material to store	3.47
94	132	GEPCO	Loss due to non-recovery of late payment surcharges from the consumers	6.25
95	134	GEPCO	Non-conducting of inquiry regarding installation of bogus energy meters	-
96	138	GEPCO	Non-return of dismantled healthy material to store	3.88
97	190	GEPCO	Illegitimate possession of assets by an employee	-

98	279	GEPCO	Non-deduction of liquidated damages.	1.70
99	323	GEPCO	Loss due to breakdown of 132 KV grid station	58.30
100	324	GEPCO	Non-return of dismantled material of transmission lines	22.08
101	347	GEPCO	Doubtful expenditure on account of payment to consultant	1.22
102	356	GEPCO	Irregular capitalization of works	671.23
103	357	GEPCO	Irregular payment of crop compensation to land owners / tenants	1.39
104	586	GEPCO	Less recovery on account of deposit work	1.33
105	622	GEPCO	Non-recovery of liquidated damages from suppliers	34.72
106	626	GEPCO	Non-finalization of pending inquiries / disciplinary cases	-
107	627	GEPCO	Illegal provision of electricity connections to the land encroachers / illegal occupants	-
108	628	GEPCO	Non-return of dismantled electrical equipment	1.28
109	629	GEPCO	Loss due to illegal shifting of LT line without approval of competent authority	-
110	681	GEPCO	Irregular posting of GEPCO employee to a private organization	3.40
111	682	GEPCO	Loss due to irregular grant of financial privileges under transportation policy during leave	2.54
112	751	GEPCO	Irregular writing off loss with overstated value	9.39
113	913	GEPCO	Loss due to award of contract at higher rate	4.58
114	1210	GEPCO	Non-installation of AMR/ AMI meters on 11 KV feeders	-
115	1221	GEPCO	Abnormal electricity interruption / tripping in GEPCO	-
116	13	HESCO	Lapses in implementation of detection policy leading to non- recovery of detection charges	2.81
117	14	HESCO	Unjustified revision of detection bills	7.85
118	15	HESCO	Non-return of dismantled / healthy material to store	5.81
119	16	HESCO	Illegitimate retention of electrical equipment in the private workshop	2.47
120	22	HESCO	Modest recovery management resulting in revenue shortfall	3,800.22
121	99	HESCO	Non-return of transformers against augmentation	1.17
122	112	HESCO	Unjustified revision of detection bills	5.86
123	114	HESCO	Non-recovery of GST from FBR against credit adjustments	55.37
124	115	HESCO	Modest recovery management resulting in revenue shortfall	2,889.28

125	249	HESCO	Pending construction of grid stations despite allocation of power transformers	914.34
126	250	HESCO	Loss due to breakdown at 132 KV transmission line	19.41
127	251	HESCO	Irregular award of contracts through quotations instead of open competitive bidding	1.17
128	252	HESCO	Non-mutation of land acquired for construction of grid stations	3.53
129	361	HESCO	Non-return of dismantled / retired material	8.93
130	364	HESCO	Misappropriation of dismantled material through revision of estimates	1.11
131	385	HESCO	Unauthentic payment on account of crops compensation	13.93
132	488	HESCO	Non-recovery of liquidated damages from contractor	30.08
133	489	HESCO	Non-recovery of advance payment from consultant	2.40
134	511	HESCO	Non-return of dismantled / healthy material to store	1.35
135	518	HESCO	Non-obtaining of power transformer from SEPCO given on loan basis	60.00
136	519	HESCO	Non-return of equipment issued from ADB stock to other formations	22.96
137	522	HESCO	Non-capitalization of completed grid stations / transmission lines	3,754.38
138	593	HESCO	Imposition of penalty by NEPRA on account of inefficiency	5.60
139	606	HESCO	Variation in detection amount billed and recovered	1,947.28
140	609	HESCO	Irregular credit balance appearing against consumers	468.00
141	610	HESCO	Non-renewal of expired bank guarantees of industrial consumers	35.61
142	614	HESCO	Non-implementation of disciplinary action for bogus payment	0.69
143	672	HESCO	Non-finalization of inquiry regarding illegal electrification of housing colonies	160.00
144	733	HESCO	Loss of precious human lives due to non-observing of safety standards	16.50
145	736	HESCO	Loss due to non-placement of TDRs at higher rates	45.96
146	737	HESCO	Non-verification of subsidy claims	9,376.55
147	896	HESCO	Loss due to non-repair of vehicle	8.00
148	897	HESCO	Non-adjustment of temporary advances	3.99
149	925	HESCO	Irregular reconnection and non-recovery of capital cost	20.00
150	931	HESCO	Unjustified retention of distribution margin more than provisional permissible limit	3,038.82

151	1016	HESCO	Uncovered default risk due to non-rationalization of security deposit to offset the defaulted amount	19,534.84
152	42	IESCO	Huge energy receivables against permanently disconnected private connections	2.31
153	154	IESCO	Non-return of dismantled electrical material to store	6.57
154	163	IESCO	Non-return of excess material to store	1.40
155	387	IESCO	Non-recovery of cost of transformer from AJK Government	3.02
156	388	IESCO	Unjustified expenditure incurred without approval of PC-I	52.56
157	411	IESCO	Non-return of surplus material to store	134.85
158	448	IESCO	Accumulation of arrears due to non-recovery of electricity dues	17.71
159	449	IESCO	Undue favour to the consumers due to revision of detection bills	5.34
160	450	IESCO	Non-return of dismantled electrical material to store	2.26
161	452	IESCO	Non-adjustment of advances given to employees	6.47
162	500	IESCO	Blockage of revenue on account of electricity charges	118.21
163	503	IESCO	Unjustified billing and non-recovery of arrears	36.26
164	504	IESCO	Non-finalization of disciplinary proceedings against the employee involved in bogus installation of meters	-
165	546	IESCO	Non-depositing of disputed amount in favour of IESCO	107.57
166	547	IESCO	Non-recovery of arrears of electricity charges from running consumers	101.32
167	555	IESCO	Irregular repair of transformers from private workshop	8.16
168	579	IESCO	Irregular expenditure incurred on works over and above the estimated cost	0.73
169	653	IESCO	Non-return of dismantled / damaged electrical material to store	1.54
170	654	IESCO	Non-accountal / non-consumption of electrical material	2.73
171	655	IESCO	Non-adjustment of TA / DA advance given to employees	1.39
172	676	IESCO	Non-recovery of GST / Income Tax claims from FBR	23,477.90
173	726	IESCO	Non-implementation of ECC decision on account of subsidy claims regarding tariff differential amount of Government of AJ&K	85,491.62
174	727	IESCO	Non-adjustment of excess billing of power purchase price by CPPA-G	5,463.00

175	728	IESCO	Irregular auction and issuance of release orders of dismantled material	73.31
176	730	IESCO	Non-return of dismantled material of completed works	3.26
177	772	IESCO	Unjustified payment made on accounts of CDA charges	18.92
178	776	IESCO	Irregular posting of Chief Engineer against the post of Manager Material Management	8.48
179	1181	IESCO	Irregular award of purchase order without open competition	2.43
180	7	LESCO	Unjustified credit given to consumers	25.78
181	23	LESCO	Loss to Authority due to extension in dates of bills of industrial consumers	1,168.29
182	27	LESCO	Non-return of dismantled electrical material to store	55.40
183	31	LESCO	Huge recoverable amount from WAPDA and other entities of PEPCO / Power Sector	13,001.00
184	32	LESCO	Non-deduction of income tax on account of salary income	21.86
185	33	LESCO	Non-return / adjustment of dismantled electrical material	8.59
186	39	LESCO	Illegitimate appointments of consultants on regular posts through a private firm	30.27
187	44	LESCO	Huge energy receivables against permanently disconnected private connections	156.24
188	63	LESCO	Non-return of surplus material to store	17.20
189	65	LESCO	Non-return of dismantled electrical material to store	19.82
190	346	LESCO	Non-return of dismantled material due to shifting of HT / LT line and transformers	3.88
191	469	LESCO	Non-return of dismantled electrical material to store	5.83
192	492	LESCO	Non-recovery from permanently disconnected private consumers	21.10
193	640	LESCO	Non-return of dismantled / healthy electrical material to store	18.93
194	646	LESCO	Loss of revenue due to abnormal line losses beyond NEPRA's targets	1,658.25
195	648	LESCO	Loss of revenue due to 100% line losses on feeders	30.65
196	660	LESCO	Non-reconciliation of negative collection & remittance balances of banks	14.82
197	663	LESCO	Non-deposit of disputed amount in favour of company	608.50
198	759	LESCO	Non-return of dismantled/healthy electrical material to store	13.32

199	811	LESCO	Loss of revenue due to abnormal line losses beyond NEPRA's targets	1,640.94
200	856	LESCO	Non-return of dismantled / healthy electrical material to store	9.37
201	859	LESCO	Non-recovery of arrears from industrial & commercial consumers	18.96
202	860	LESCO	Irregular approval of deceitful foreign deputation in private firm	10.00
203	861	LESCO	Revenue loss due to abnormally high line losses on 11 KV feeders	780.14
204	866	LESCO	Irregular sanction of consumer's connection without environment clearance certificate	17.59
205	867	LESCO	Non-return of healthy transformers removed against LT proposals	14.56
206	868	LESCO	Non-return of damaged transformers to store	2.33
207	869	LESCO	Double charging / capitalization of overhead charges to the works	397.40
208	870	LESCO	Poor performance of consultants due to non-preparation of completion reports of completed works	892.91
209	871	LESCO	Non-return of surplus electrical material on completion of works	38.66
210	874	LESCO	Non-return of dismantled material to store	15.58
211	875	LESCO	Non-recovery of shortage of electrical material	8.79
212	876	LESCO	Irregular excess expenditure incurred on HT / LT works	38.64
213	906	LESCO	Non-depositing of disputed amount in favour of LESCO	449.72
214	959	LESCO	Non-return of dismantled transformers to store	10.28
215	970	LESCO	Non-installation of material drawn for new connections	3.22
216	1007	LESCO	Non-utilization of ADB loan 2727-PAK	2,216.72
217	1032	LESCO	Non-recovery of liquidated damages from contractors	142.14
218	1061	LESCO	Loss due to non-billing of electric supply	21.83
219	1065	LESCO	Huge refund to consumers against wrong reading / detection revised	69.13
220	1066	LESCO	Non-return of dismantled / healthy electrical material to store	19.15
221	1070	LESCO	Loss of revenue due to abnormal line losses beyond NEPRA's targets	2,696.75
222	1072	LESCO	Loss due to extension of date of bill to industrial consumers	1,301.31
223	1073	LESCO	Loss due to non-return of healthy electrical material	5.94

			to store	
224	1074	LESCO	Non-return of removed / dismantled material	13.09
225	1079	LESCO	Non-return of dismantled material to store	7.05
226	1083	LESCO	Non-recovery of testing fee from AFCO steel	1.45
227	1084	LESCO	Non-recovery from LDA	3.21
228	1085	LESCO	Discrepancies in construction of grid station and transmission lines	16.55
229	1086	LESCO	Non-return of unused outgoing panels to store	6.55
230	1088	LESCO	Non-mutation of land	30.00
231	1090	LESCO	Non-return of surplus electrical material to store	12.52
232	1105	LESCO	Loss of revenue due to abnormal line losses beyond NEPRA's targets	668.44
233	1107	LESCO	Non-return of dismantled electrical equipment to store	13.94
234	1123	LESCO	Loss due to 100% line losses on feeders	57.45
235	1124	LESCO	Loss of revenue due to non-billing of units received to the consumers	953.70
236	1140	LESCO	Irregular retention of company's funds with the bank	1.65
237	1159	LESCO	Non-depositing of disputed amount in favour of LESCO	362.15
238	1199	LESCO	Unjustified credit of electricity units against detection bills	31.91
239	1212	LESCO	Poor Performance of Image Meter Reading	-
240	1213	LESCO	Overbilling of energy units to consumer	-
241	1214	LESCO	Non-replacement of defective meter	-
242	1	MEPCO	Wasteful expenditure on renovation of distribution feeders	45.77
243	2	MEPCO	Loss to the authority due to less collection from consumers	2.35
244	3	MEPCO	Non-reaping of envisaged benefits due to delay in execution of works	24.14
245	4	MEPCO	Non-reaping of envisaged benefits due to delay in execution of works	81.41
246	6	MEPCO	Irregular award of bill distribution contract without open bidding	20.56
247	89	MEPCO	Unjustified expenditure due to illegal electrification of housing schemes	16.87
248	102	MEPCO	Non-finalization of pending inquiries / disciplinary cases	-
249	125	MEPCO	Non-return of dismantled material to store	2.07
250	126	MEPCO	Irregular payment to the contractor on account of bill distribution services	1.37

251	179	MEPCO	Non-completion of village electrification schemes under Prime Minister's SDGs achievement programme	2,184.18
252	181	MEPCO	Irregular cancellation / deletion and substitution of Pak MDGs schemes	5.05
253	182	MEPCO	Non-return of surplus / excess drawl of material	9.22
254	184	MEPCO	Non-completion of deposit works despite laps of more than ten years	82.64
255	185	MEPCO	Loss due to non-recovery of excess expenditure from sponsor of the deposit works	5.13
256	186	MEPCO	Blockage of funds due to non-completion of Peoples Works Program-II	5.18
257	188	MEPCO	Unjustified expenditure due to illegal electrification of housing scheme	8.11
258	189	MEPCO	Inordinate delay in installation of government connection despite receiving departmental charges	2.24
259	262	MEPCO	Unjustified expenditure due to illegal electrification of colonies	10.90
260	301	MEPCO	Loss due to fire incident occurred at 132 KV warehouse	85.16
261	302	MEPCO	Blockage of funds due to unnecessary purchase of stores / electrical material	3.49
262	303	MEPCO	Installation of substandard DISC insulators	4.52
263	329	MEPCO	Non-return of surplus material by the contractor	6.35
264	332	MEPCO	Loss due to non-recovery of liquidated damages from suppliers	6.83
265	335	MEPCO	Refund to consumers due to revision of reading and detection charges	4.35
266	337	MEPCO	Non-return of dismantled electrical material to store	3.10
267	342	MEPCO	Irregular / un-justified payment to the contractor	18.36
268	431	MEPCO	Non-return of dismantled transformers to store	41.49
269	458	MEPCO	Non-recovery on account of wrong credit adjustment / wrong application of tariff from consumers	3.73
270	463	MEPCO	Non-return of healthy transformers to store	1.69
271	465	MEPCO	Non-recovery from industrial consumers	35.49
272	467	MEPCO	Non-return of dismantled transformers to store	4.68
273	473	MEPCO	Non-return of dismantled electrical material to store	1.81
274	475	MEPCO	Irregular sanction of service connection order without NOC from FBR	7.86
275	497	MEPCO	Non-clearance of deferred amount	86.57
276	536	MEPCO	Non-depositing of disputed amount in favour of MEPCO	138.08

277	711	MEPCO	Irregular electrification of illegal housing schemes	25.00
278	713	MEPCO	Non-recovery of standard rent from WAPDA on account of WAPDA Hospital employees residing in MEPCO colony	2.13
279	714	MEPCO	Loss due to non-recovery of penalty on account of misappropriation of transformer oil	0.84
280	715	MEPCO	Non-charging of Sales Tax on services	30.39
281	717	MEPCO	Non-recovery of tariff differential & industrial support package subsidy from Federal Government	42,911.03
282	718	MEPCO	Non-recovery of liquidated damages from supplier	2.92
283	722	MEPCO	Non-recovery of supervision charges from DHA and Askari-III housing schemes	3.10
284	910	MEPCO	Non-adjustment against credit of units	2.44
285	934	MEPCO	Irregular / over payment due to abnormal excess execution of BOQ items	107.84
286	939	MEPCO	Non-installation of Automatic Meter Reading system	25.40
287	940	MEPCO	Non-replacement of defective MDI meters within the time limit of SOPs	2.71
288	978	MEPCO	Non-initiation of action against Meter Reader and Meter Inspector due to wrong allotment of defective code	-
289	979	MEPCO	Inordinate delay in installation of government connections	2.75
290	981	MEPCO	Non-renewal of expired bank guarantees of industrial consumers	17.64
291	1018	MEPCO	Un justified charging of detection in violation of consumer service manual	25.75
292	1195	MEPCO	Suspicious multiple MCOs of electric meters within a year	-
293	1200	MEPCO	Non-finalization of disciplinary action against delinquents on account of over-charging to scarp connection	12.53
294	1202	MEPCO	Non-replacement of defective meter within the time limit of SOP	-
295	1204	MEPCO	Missing CNICs of consumers in MIS data bank	-
296	1215	MEPCO	Non-rotation of meter readers as per Commercial Procedure	-
297	1216	MEPCO	Non-printing of bills with snap shots of meter reading	-
298	1217	MEPCO	Non-installation of Automatic Meter Reading & Automatic Metering Infrastructure	-
299	1218	MEPCO	Non-installation of auxiliary meters at grid station	-

300	1219	MEPCO	Non-adjustment against credit of units	-
301	1220	MEPCO	Non-timely allotment of feeder code and billing on newly energized feeder	-
302	75	PESCO	Non-recovery of loss from the delinquent employees	3.15
303	76	PESCO	Loss due to non-issuance of repeat order.	1.34
304	105	PESCO	Non-recovery of liquidated damages from contractor	2.21
305	106	PESCO	Loss due to less installation of material on ELR/ DOP schemes	1.69
306	118	PESCO	Non-recovery of liquidated damages from contractors	8.95
307	121	PESCO	Non-return of dismantled electrical material to store	12.05
308	176	PESCO	Non-return of dismantled material to store	10.86
309	177	PESCO	Non-return of dismantled electrical material to store	492.61
310	178	PESCO	Loss due to un authorized / illegal utilization of energy as auxiliary consumption	77.80
311	246	PESCO	Non-dismantlement of the redundant transmission lines	4.08
312	247	PESCO	Loss due to non-regularization of issuance of transformers	13.30
313	320	PESCO	Undue generation of revenue through over billing to consumers	241.09
314	321	PESCO	Non-reconciliation of electricity revenue collection	18.21
315	322	PESCO	Loss due to non-finalization of insurance claim of damaged Power transformers	346.23
316	338	PESCO	Non-return of spare transformers to store	1.26
317	351	PESCO	Loss due to charging of less per unit rate to Govt. of AJK	25,761.39
318	415	PESCO	Loss of revenue due to abnormal line losses beyond NEPRA's targets	752.00
319	634	PESCO	Non-deposit of disputed amount in favour of company	20.63
320	665	PESCO	Irregular provision of new connections to the defaulted consumers	1.21
321	666	PESCO	Undue generation of revenue through over billing	100.44
322	667	PESCO	Non-recovery of excess expenditure incurred on deposit works from sponsors	2.92
323	678	PESCO	Loss of revenue due to abnormal line losses beyond NEPRA's target	337.88
324	785	PESCO	Non-return of uninstalled / spared electrical equipment to store	3.23
325	787	PESCO	Undue generation of revenue through overbilling	309.42
326	790	PESCO	Non-recovery of Sales Tax due to wrong application of classification code	1.61

327	791	PESCO	Loss of revenue due to abnormal T&D losses beyond NEPRA's target	4,932.44
328	792	PESCO	Irregular repair of damaged transformers from private workshop	2.69
329	801	PESCO	Less recovery of liquidated damages	37.00
330	806	PESCO	Less recovery of GST from Supplier	0.88
331	809	PESCO	Non-recovery of liquidated damages from suppliers	9.01
332	818	PESCO	Illegitimate award of Reclamation Workshops' Work Orders	-
333	852	PESCO	Illegal and unlawful expenditure from the amount of security deposits	15.79
334	883	PESCO	Loss due to excess charging of units by CPPA-G	4,918.80
335	922	PESCO	Irregular payment through CFC (cash for chest)	3.01
336	976	PESCO	Loss due to non-recovery of standard rent from employees	5.74
337	1012	PESCO	Non-execution of works received from operation circles	77.91
338	1207	PESCO	Non-recovery of liquidated damages from supplier	72.38
339	238	QESCO	Non-completion of village electrification works sponsored by Government of Balochistan	14.95
340	239	QESCO	Irregular installation of commercial / industrial connections without obtaining NOC from FBR	25.77
341	240	QESCO	Non-reaping of the envisaged benefits due to non-completion/capitalization of Prime Minister's Global SDGs electrification works	157.44
342	253	QESCO	Likely misappropriation of electrical material drawn but not installed	1.29
343	292	QESCO	Irregular installation of material not drawn from store	1.38
344	339	QESCO	Non-achieving the benefits of Energy loss Reduction (ELR) Programme due to delay in completion of works	50.59
345	396	QESCO	Non-return of electrical equipment to store	5.47
346	397	QESCO	Non-recovery of cost of deposit work from sponsor	17.56
347	400	QESCO	Non-recovery of liquidated damages from contractor	1.50
348	426	QESCO	Irregular sanction of service connections without obtaining the proof of NTN / filer from FBR	5.52
349	444	QESCO	Loss on account of commitment charges	1.37
350	478	QESCO	Non-dismantlement of idle feeders	15.00
351	479	QESCO	Huge refund to consumers due to revision of reading and detection charges	5.64
352	480	QESCO	Non-recovery of receivables from energy defaulters	694.82

353	505	QESCO	Wasteful expenditure due to poor performance by the consultant	6.35
354	524	QESCO	Non-recovery from subsidized agriculture tubewell defaulters	84,844.30
355	525	QESCO	Recoverable agriculture tubewell subsidy from Federal & Provincial Governments	24,258.78
356	563	QESCO	Irregular sanction of service connections without obtaining the proof of NTN / filer from FBR	16.77
357	566	QESCO	Non-recovery of dues from energy defaulters	275.07
358	567	QESCO	Recoverable agriculture tube well subsidy from Federal & Provincial governments	3,466.77
359	568	QESCO	Non-dismantlement of idle feeders	20.00
360	571	QESCO	Irregular sanction of two industrial connections at the same premises	1.47
361	572	QESCO	Non-recovery from subsidized agriculture tube well defaulters	24,382.00
362	573	QESCO	Loss of revenue due to theft of energy by commercial consumer	-
363	637	QESCO	Excessive line losses due to non-execution of HT work	44.85
364	683	QESCO	Non-recovery of electricity dues from consumers	3.50
365	691	QESCO	Non-return of dismantled electrical equipment to store	2.53
366	753	QESCO	Non-recovery on account of consumer share from the subsidized agricultural consumers	222,837.00
367	1033	QESCO	Non-recovery of liquidated damages from contractors	1.12
368	164	SEPCO	Huge receivables from running and disconnected defaulters	181.59
369	165	SEPCO	Non-return of material to store	6.76
370	167	SEPCO	Loss of revenue due to non-billing of electricity on sick feeders	142.57
371	170	SEPCO	Non-return of healthy dismantled transformers to store	13.63
372	219	SEPCO	Non-completion of work in progress	311.70
373	297	SEPCO	Irregular / excess labor charges against completed works	2.18
374	310	SEPCO	Non-recovery of fixed charges from agricultural tube-well consumers.	17.87
375	369	SEPCO	Loss of revenue to the Company due to non-billing of energy consumption	36.05
376	370	SEPCO	Non-return of healthy transformers to store	20.27
377	373	SEPCO	Non-return of dismantled / excess material to store	1.52

378	375	SEPCO	Non-recovery of standard rent from illegal / un-authorized occupant	3.93
379	378	SEPCO	Irregular award of contract due to tampering in bidding documents	1.60
380	380	SEPCO	Non-return of transformers spared from augmentation works	12.89
381	382	SEPCO	Recoverable amount of tariff differential subsidy from Federal Government	2,043.04
382	383	SEPCO	Irregular drawal of POL in excess of fixed limit	2.39
383	408	SEPCO	Un-due favour to contractor on account of non-obtaining of Performance Security	3.64
384	461	SEPCO	Wasteful expenditure due to purchase of poor quality / substandard HT Spun Poles	46.36
385	462	SEPCO	Non-recovery of liquidated damages from contractors	7.92
386	526	SEPCO	Undue financial benefits extended to the contractor due to non-deduction of liquidated damages	70.49
387	527	SEPCO	Irregular utilization of material drawn from warehouse	11.63
388	528	SEPCO	Non–installation of electrical equipment	195.81
389	529	SEPCO	Non-obtaining of performance security from contractor	23.65
390	532	SEPCO	Unjustified excess charging of overheads	32.11
391	533	SEPCO	Non-return of dismantled material of transmission lines	4.40
392	534	SEPCO	Irregular execution of maintenance work against PSDP budget	10.11
393	535	SEPCO	Loss due to theft of electricity with the connivance of SEPCO staff	12.42
394	877	SEPCO	Loss due to illegal occupancy of SEPCO's residence	0.86
395	947	SEPCO	Non-billing to consumers after replacement of meters	15.89
396	949	SEPCO	Loss due to purchase of POL at exorbitant rates	1.37
397	951	SEPCO	Poor performance due to non-achievement of benefits	1,348.50
398	1034	SEPCO	Undue/excess billing to Government of Sindh connection	532.90
399	1116	SEPCO	Non-return of excess store material	2.37
400	100	TESCO	Irregular utilization of funds of deposit works	425.00
401	101	TESCO	Non-recovery of security deposits from industrial consumers	66.47
402	777	TESCO	Loss due to electricity supply without meters to the domestic consumers Rs.10,320.88 million	10,320.88

403	843	TESCO	Recoverable amount from private dead and running defaulters	416.55
404	844	TESCO	Recoverable amount from running industrial consumers	2,643.29
405	846	TESCO	Loss due to procurement of electrical material at higher rates - Rs.4.214 million	4.21
406	849	TESCO	Non-recovery / return of material issued on loan basis	30.61
407	880	TESCO	Non-recovery from industrial consumers	1,557.33
408	941	TESCO	Less recovery of energy dues from consumers against billing	2,674.80
409	943	TESCO	Non-recovery of arrears from running industrial consumers	684.89
410	944	TESCO	Loss of revenue due to distribution losses beyond NEPRA's targets	129.21
411	1182	TESCO	Non-recovery of liquidated damages from suppliers	7.39
412	1205	TESCO	Loss due to purchase of defective/substandard energy meters - Rs.4.43 million	4.43
413	1209	TESCO	Excess charging of units to operation circle	262.66
414	1211	TESCO	Non-recovery of cost of meters and other related material drawn from Store for installation/ replacement to consumers – Rs.31.051 million	31.05
415	1004	PITC	Un-approved computerized system of the PITC	-
416	1005	PITC	Irregular purchase without annual procurement plan	92.50
417	1006	PITC	Irregular procurement of material	4.49
418	1189	Ministry of Energy Power Division	Undue favour due to non-obtaining of performance guarantee from contractor	0.21
419	1191	Ministry of Energy Power Division	Irregular expenditure after the completion of project	0.02
420	305	AEDB	Irregular purchase and allocation of vehicles	8.91
421	306	AEDB	Loss due to delay in amendment in Renewable Energy Policy 2006 for competitive bidding	-
422	333	AEDB	Misplacement / non-traceability of items shifted from Karachi to Islamabad	-
423	418	AEDB	Inaction on illegal appointments, regularizations and promotions in AEDB	-
424	835	AEDB	Irregular expenditure incurred on account of entertainment	1.27

425	1113	CPPAGL	Loss due to forced outage of HUBCO Power Plant	11.14
426	1146	CPPAGL	Non-regularization of supplemental charges	110.63
427	1147	CPPAGL	Disparity in payment of insurance premium on lump sum basis at different rates	23.05
428	1150	CPPAGL	Non-realization of liquidated damages	1,993.29
429	1192	CPPAGL	Mis-procurement of repair and renovation works	3.93
430	1185	PHPL	Non-refund of advance Income Tax from FBR	7.75
431	1188	PHPL	Non-recovery of agency fee from Finance Division	3.46
432	281	PPIB	Non-encashment of performance guarantees	966.88
433	1023	PPIB	irregular promotion and payment thereof	7.88
434	1024	PPIB	Loss due to irregular promotion of staff	8.96
435	701	NPPMCL	Non-production of adjustment account of compensation to damages	22.59
436	886	NPPMCL	Excess payment on account of renewal of Microsoft services	1.25
437	968	NPPMCL	Loss on account of interest charges for non-payment of additional gas supply deposit	1,097.89
438	280	NEECA	Non-recovery of standard rent and utility charges	1.29
			TOTAL	**718,724.89**

Annexure-A

ROLES OF MAJOR PLAYERS IN POWER SECTOR

Sr. No	Name of Entity	Functional Role
1.	**Pakistan Electric Power Company (PEPCO)**	PEPCO is the management company of the power sector distribution companies (DISCOs).
2.	**National Transmission and Dispatch Company (NTDC)**	NTDC controls the transmission network (i.e power lines of 220KV and above); its role is to pick (i.e evacuate) the electricity from the power generation companies and ensure its transmission to the concerned DISCOs.
3.	**Distribution Companies (DISCOs)**	DISCOs are supplying, distributing and selling power (electricity) in their designated areas. These companies receive electricity from power producing units and distribute it among end consumers and charge them as per NEPRA tariffs notified by Government of Pakistan.
4.	**Generation Companies GENCOs**	These are government owned power producing units operating mostly on furnace oil and natural gas basis.
5.	**Water and Power Development Authority (WAPDA)**	All hydel power general generation facilities (maintained at present) are being managed by WAPDA.
6.	**Central Power Purchasing Agency-Guarantee (CPPA-G)**	It is the power-sector's market operator. It purchases electricity on behalf of distribution companies and sells it on behalf of power generation companies. It bills the distribution companies for sold electricity and makes payments to the power generating units.
7.	**National Power Control Center (NPCC)**	It is a subordinate office of NTDC. It is responsible for real time monitoring of electricity demand and supply, power

		balancing and formulation of *Economic Merit Order* ensuring that adequate supply of electricity from cheapest available sources is made available to DISCOs.
8.	**Power Holding Private Limited (PHPL)**	It is responsible for arranging bridge financing/other financial instruments for repayment of liabilities of DISCOs in order to settle the circular debt of Power Sector on the terms and conditions approved by Government from time to time.
9.	**National Electric Power Regulatory Authority (NEPRA)**	NEPRA is a regulator of the power sector of Pakistan, it provides the basis for sale and purchase of electricity i.e. determination of tariffs.
10.	**Private Power Infrastructure Board (PPIB)**	It is responsible for preparing and executing implementation agreements with private parties willing to set up power projects in Pakistan
11.	**Alternate Energy Development Board (AEDB)**	It is responsible for facilitating, promoting and encouraging development of Renewable Energy in Pakistan. In this regard it is also responsible for preparing and executing implementation agreements with private parties willing to set up renewable power projects in Pakistan
12.	**Independent Power Producers IPPs**	These are private entities having sovereign contracts with the GoP for the sale of electricity being supplied by them.
13.	**Bank Consortiums**	They have been providing loans to PHPL to pay-off CPPA-G liability
14.	**Gas Companies (SNGPL & SSGCL)**	They provide natural gas and LNG procured to the domestic consumers, GENCOs and limited IPPs.
15.	**Pakistan State Oil Company (PSO)**	They provide fuel to fuel based GENCOs and IPPs

Annexure-B

HIGH-PRICE ENERGY MIX

Sources	Installed Capacity (MW)	De-rated Capacity (MW)
Fuel based Sources		
Residual Furnace Oil (RFO)	6,521	5,906
Gas / RLNG	12,056	10,849
Coal	2,810	2,638
Sub-Total	**21,387**	**19,393**
Other Indigenous Sources		
Hydel	8,443	7,500
Nuclear	1,345	1,246
Wind	1,033	1,033
Bagasse	201	191
Solar	400	400
Sub-Total*)*	**11,422**	**10,370**
Grand Total	**32,809**	**29,763**

Source: CPPA data)

Annexure-C

REVENUE SHORTFALL IN DISCOS

DISCOs	2018-19				2017-18				Inc./Dec.
	Computed Billing	Current Collection	Short Fall	%age Recovery	Computed Billing	Current Collection	Short Fall	%age Recovery	
LESCO	319,553	278,049	41,504	87.01	270,034	230,518	39,516	85.37	1.65
GEPCO	142,058	125,038	17,020	88.02	121,239	106,385	14,854	87.75	0.27
FESCO	183,468	168,597	14,871	91.89	155,927	143,206	12,721	91.84	0.05
IESCO	175,070	139,410	35,660	79.63	140,794	116,095	24,699	82.46	-2.83
MEPCO	209,568	182,484	27,084	87.08	176,024	149,434	26,590	84.89	2.18
PESCO	134,894	101,703	33,191	75.39	108,847	81,765	27,082	75.12	0.28
HESCO	59,072	31,997	27,075	54.17	53,016	28,045	24,971	52.90	1.27

SEPCO	42,110	16,229	25,881	38.54	41,140	14,104	27,036	34.28	4.26
QESCO	52,452	12,742	39,710	24.29	51,770	11,024	40,746	21.29	3.00
TESCO	23,414	4,431	18,983	18.92	18,376	2,845	15,531	15.48	3.44
ALL DISCOs	**1,341,658**	**1,060,680***	**280,978**	**79.06**	**1,137,168**	**883,421***	**253,747**	**77.69**	**1.37**

Annexure-D

HUGE RECEIVABLES FROM RUNNING AND DEBT DEFAULTERS

Sr. No.	DISCOs	Accumulative Running Defaulters (as on 30th June 2019)	Accumulative Permanent Disconnection (as on 30th June 2019)	Total (Rs. in million)
1	LESCO	7,076	11,969	19,045
2	GEPCO	1,265	610	1,875
3	FESCO	1,452	652	2,104
4	IESCO	1,378	277	1,655
5	MEPCO	3,741	6,279	10,020
6	PESCO	57,866	43,866	101,732
7	HESCO	52,010	13,754	65,764
8	SEPCO	84,917	12,527	97,444
9	QESCO	227,348	1,939	229,287
10	TESCO	39,879	3,374	43,253
Total		**476,932**	**95,247**	**572,179**

(Source: PEPCO Data upto June, 2019)

Annexure-E

DISCOS' RECEIVABLES FROM THE GOVERNMENT

Description	Amount *(Rs. in billion)*
Receivables of Agricultural Tube-well consumers in Baluchistan	282.69
Receivables for Supply of AJK	126.77
Receivable from KE	91.73
Receivables from Govt. Owned entities, departments	48.01
Grand Total	**549.2**

(Source: PEPCO Data 2018-2019)

Annexure-F

UNDER UTILIZED LOANS

Sr. No.	Loan Title	Loan ID	Recipient	Loan Amount (US $ In million)	Unutilized Loan	
					Amount (US $ in million)	Percentage
1.	MFF-Energy Efficiency Investment Program, Project 1: MOE	2553-PAK	MOE	20.00	19.99	100%
	Loan commenced on 30.08.2010,with original closing date of 31.03.2017 ,further revised up to 16.09.2019					
2.	Power Distribution Enhancement Investment Program-Project 1	2439-PAK	PEPCO	10.00	2.81	28%
	Loan commenced on 13.01.2009,with original closing date of 30.06.2012 ,further revised up to 31.12.2018					
3.	MFF Power Distribution Enhancement Investment Program-Tranche 2	2727-PAK	DISCOs	242.00	89.40	37%
	Loan commenced on 05.10.2011,with original closing date of 30.09.2015 ,further revised up to 30.06.2018					
4.	MFF Power Distribution Enhancement Investment Program-Tranche 3	2972-PAK	DISCOs	245.00	36.57	15%
	Loan commenced on 10.12.2013,with original closing date of 31.12.2016 ,further revised up to 30.06.2018					
5.	MFF Power Distribution Enhancement Investment Program-Tranche 4	3096-PAK	DISCOs	167.20	39.38	24%
	Loan commenced on 18.07.2014,with original closing date of 30.06.2017 ,further revised up to 30.06.2018					
TOTAL				**684.20**	**188.15**	**27%**

Annexure-G

UN-UTILIZED LOANS

Sr. No.	Loan Title	Loan ID	Donor Agency	Recipient (NTDC/ DISCOs/ PEPCO/ Ministry)	Date of Commencement	Closing Date of Loan		Loan Amount (US $ In million)	Unutilized Loan	
						Original	Revised		Amount (US $ in million)	Amount in Percentage (US $ in million)
1	MFF: Second Power Distribution Enhancement Investment Program-Tranche 1	3328-PAK	ADB	DISCO's	17.05.2017	30.06.2019	30.06.2024	380	380	100%
2	MFF: Second Power Distribution Enhancement Investment Program-Tranche 1	3329-PAK	ADB	DISCO's	17.05.2017	30.06.2024	-	20	20	100%
3	Jamshoro Power Generation Project	3091-PAK	ADB	GENCO	20.11.2014	30.06.2024	30.06.2027	30	30	100%

4	MFF Power Transmission Enhancement Investment Program II - Tranche 3	3677-PAK	ADB	NTDC	25.02.2019	31.12.2023	-	280	280	100%
5	MFF Power Transmission Enhancement Investment Program II - Tranche 3 (Grant)	0578-PAK	ADB	NTDC	25.02.2019	31.12.2023	-	280	280	100%
							Total	**990**	**990**	