


# PERFORMANCE AUDIT REPORT ON BOARD OF DIRECTORS (BoD) OF LESCO MINISTRY OF ENERGY (POWER DIVISION) FOR FYs 2021-22 & 2022-23 AUDIT YEAR 2023-24

## AUDITOR-GENERAL OF PAKISTAN

# PREFACE

The Auditor-General of Pakistan conducts audit under Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Sections 8,12 and 15 of the Auditor General's (Functions, Powers, Terms and Conditions of Service) Ordinance, 2001.The performance audit of Board of Directors (BoD) of Lahore Electric Supply Company (LESCO) for financial years (FYs) 2021-22 and 2022-23 was carried out accordingly.

The Directorate General of Audit (Power) conducted performance audit of BoD of LESCO for FYs 2021-22 and 2022-23 with a view to report significant findings to the relevant stakeholders. The main objectives of the audit were to evaluate the economy, efficiency, and effectiveness aspects of decisions of BoD. Audit examined the performance of BoD of LESCO. The performance audit report indicates specific actions that, if taken, will help management realize the company's objectives. The performance audit was conducted from August, 2023 to September, 2023. The audit observations, included in this report, have been finalized in the light of discussions in the Departmental Accounts Committee (DAC) meeting held on February 15, 2024.

The performance audit report is submitted to the President of Pakistan in pursuance of 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].

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Islamabad
Dated: 25 March, 2025

**(Muhammad Ajmal Gondal)**
**Auditor-General of Pakistan**

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# ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| AGP | Auditor-General of Pakistan |
| AMI | Automatic Metering Infrastructures |
| AMR | Automatic Meter Reading |
| AT&C | Aggregate Technical & Commercial |
| BoD | Board of Directors |
| CEO | Chief Executive Officer |
| CFO | Chief Finance Officer |
| CIA | Chief Internal Auditor |
| CP | Commercial Procedure |
| CPPA(G) | Central Power Purchasing Agency (Guaranteed) Limited |
| CSM | Consumer Service Manual |
| CSR | Corporate Social Responsibility |
| DAC | Departmental Accounts Committee |
| DISCOs | Distribution Companies |
| ESG | Environment, Safety and Governance |
| FPA | Fuel Price Adjustment |
| GoP | Government of Pakistan |
| HRD | Human Resource Director |
| HR&A | Human Resource & Administrative |
| HSE | Health, Safety and Environment |
| ISSAI | International Standards of Supreme Audit Institutions |
| KPIs | Key Performance Indicators |
| kW | Kilowatt |
| kV | Kilovolt |
| LESCO | Lahore Electric Supply Company |
| MM | Material Management |
| MMR | Mobile Meter Reading |
| MoE | Ministry of Energy |
| NEPRA | National Electric Power Regulatory Authority |
| PEPCO | Pakistan Electric Power Company |
| PSR | Preliminary Survey Report |
| SECP | Securities and Exchange Commission of Pakistan |
| SOPs | Standard Operating Procedures |
| T&D | Transmission & Distribution |

# EXECUTIVE SUMMARY

The performance audit of BoD of Lahore Electric Supply Company (LESCO) was carried out as per approved audit plan for the year 2023-24. The audit was carried out by the Directorate General of Audit (Power) for financial years (FYs) 2021-22 to 2022-23. The field audit was carried out during August and September, 2023 in accordance with International Standards of Supreme Audit Institutions.

The primary objectives of the audit were to assess the economy, efficiency, and effectiveness of the decisions made by the BoD and their implementation. Furthermore, Audit evaluated whether targets set out in performance agreement signed by BoD/CEO of LESCO with Ministry of Energy (Power Division) were achieved. Audit highlighted issues like non-achievement of targets set out in performance agreement, irregular constitution of BoD and its sub-committees, irrational enhancement of directors' remuneration/fee, non-implementation of policies for smooth functioning of DISCOs and non-pursuance of decisions of BoD.

The audit revealed that the overall operational performance of LESCO remained less effective due to non-achievement of annual operational and financial targets set forth by the Power Division for LESCO. The BoD of LESCO did not meet the performance targets during 2021-22 and 2022-23 which resulted in heavy accumulation of financial losses, less achievement of recovery targets resulting in increase in circular debt, non-installation/provision of new connections on timely basis, non-replacement of static/defective meters, non-reduction/bifurcation of high Aggregate Technical & Commercial (AT&C) losses feeders, less achievement of mobile meter reading accuracy, less remittance of Central Power Purchasing Agency (CPPA-G) invoices, non- installation of Automatic Metering Infrastructure (AMI) and Automatic Meter Reading (AMR) meters, non-finalization of required policies and framework, increase in fatal/non-fatal casualties due to non-implementation of Health, Safety and Environment (HSE) policies and non-implementation of Corporate Social Responsibility (CSR) policies.

Key audit findings and recommendations are as follows:

**a) Key Audit Findings**

i. Board's failure to meet annual performance targets assigned by Ministry of Energy (Power Division)[1].

ii. Irregular constitution of BoD of LESCO due to appointment of ineligible persons with conflict of interest[2].

iii. Irregular constitution of sub-committees of BoD in violation of Corporate Governance Rules, 2013[3]

iv. Irregular promotion of Managers/ Superintending Engineers (BPS- 19) as Chief Engineers (BPS-20)[4].

v. Irrational decision of BoD of LESCO to enhance its remuneration during the period of high financial losses[5].

vi. Unjustified approval of bonus by BoD to LESCO employees despite continuous losses of the company[6].

vii. Non-finalization of financial statements for FYs 2020-21 to 2022-23.[7]

viii. Non-conducting of internal audit for FYs 2021-22 and 2022-23.[8]

ix. Non-execution of AMR/AMI Project in violation of NEPRA's directive amounting to Rs.30.00 billion.[9]

x. Deferment of critical agendas by BoD of LESCO.[10]

1 Para # 6.1.1, 6.1.2, 6.1.3, 6.1.4, 6.1.5, 6.1.17 & 6.1.18
2 Para # 6.1.6
3 Para # 6.1.7
4 Para # 6.1.10
5 Para # 6.2.1,
6 Para # 6.2.4,
7 Para# 6.3.2
8 Para # 6.3.3
9 Para # 6.4.1
10 Para # 6.4.2

## RECOMMENDATIONS

i. Implementing Key Performance Indicators (KPIs) through a performance management system besides regularly reviewing and evaluating the performance of the BoD and management against these KPIs. Moreover, providing necessary training and development programs to enhance the effectiveness of BoD;

ii. Selecting members of BoD in accordance with "Fit and Proper" criteria of Corporate Governance Rules, 2013 to avoid any conflict of interest;

iii. Constituting sub-committees with clear terms of reference and defined roles in accordance with Corporate Governance Rules, 2013;

iv. Reviewing and adhering to the established promotion policies and procedures besides establishing a transparent and merit-based promotion process;

v. Recovering any remuneration enhancements for BoD during periods of financial losses besides aligning BoD remuneration with company performance and financial health. Moreover, implementing a remuneration policy that is approved by stakeholders and is performance-based;

vi. Establishing a bonus policy that is tied to the financial performance of the company besides recovering any bonus payments made during periods of financial losses. Moreover, implementing performance-based incentives that are sustainable and justifiable;

vii. Ensuring robust and effective risk management and establishing a system of sound internal controls at all levels within the company;

viii. Expediting the finalization and audit of pending financial statements and strengthening the financial reporting process

to ensure timely completion of financial statements in the future;

ix. Developing annual business plans, cash flow projections, forecasts, and long- term plan; budget including capital, manpower and expenditure budgets, along with variance analyses and implementing all relevant policies and strategies appropriately to evaluate while making BoD decisions; and

x. Prioritizing and addressing critical agendas in a timely manner and developing a systematic agenda-setting process to ensure that important issues are discussed and resolved promptly. Moreover, convening frequent and well-planned BoD meetings be convened, if necessary, to avoid deferments.

# 1. INTRODUCTION

Public Sector Companies (Corporate Governance) Rules, 2013 are applicable on all federal Public Sector Enterprises (PSEs) including DISCOs. It is mandatory for all PSEs to appoint the Board of Directors (BoD) through Government. Furthermore, the business of the Public Sector Company is to be carried out with integrity, objectivity, due care, and professional skills appropriate to the nature and scale of its activities for sound and prudent management. The Performance audit of BoD of LESCO was carried out for FYs 2021-22 and 2022-23.

In terms of the Public Sector Companies (Corporate Governance) Rules, 2013, the BoD of the respective companies should act in the best interest of the company and its stakeholders. They have an overall responsibility to approve and oversee the implementation of the company's strategic objectives. The performance evaluation of members of the Board including the chairman and the chief executive shall be undertaken annually by the Government for which it shall enter into a performance contract with each member of the Board at the time of his appointment. Furthermore, the Board shall annually evaluate the performance of the overall Board and CEO. The performance evaluation shall be undertaken by an external independent evaluator at least once every three years. The relevant provisions of Public Sector Companies (Corporate Governance) Rules, 2013 are as under:

**(a) Composition of the Board:**

The Board shall consist of executive and non-executive directors including independent directors and those representing minority interests with the requisite range of skills, competence, knowledge, experience, and approach so that the Board includes core competencies and diversity considered relevant in the context of the Public Sector Company's operations.

**(b) Term of office of directors of BoD:**

i. A director shall be appointed for a period of three years, unless he

resigns or is removed in accordance with the provisions of the Companies Act, 2017.

ii. No person shall be elected or nominated as a director for more than five Public Sector Companies and listed companies simultaneously, except their subsidiaries.

**(c) Director's Remuneration:**

i. There shall be formal and transparent procedures for fixing the remuneration packages of individual directors. No director shall be involved in deciding his own remuneration.

ii. The Director's remuneration package shall align their interest with those of the company. These shall be subject to prior approval of shareholders or the Board as required by company's Articles of Association.

**(d) Responsibilities, Powers, and Functions of the BoD:**

The directors of the Board shall be persons who, in the opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company. 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. The Board shall adopt a vision or mission statement and corporate strategy for the Public Sector Company.

**(e) Formation of Board Committees:**

The Board shall set up the following committees to support it in performing its functions efficiently, and for seeking assistance in the decision- making process, namely:

i. Audit committee, for an efficient and effective internal and external financial reporting mechanism.

ii. Risk management committee, in case of Public Sector Companies either in the financial sector or those having assets of five billion rupees or more, to effectively review the risk function.

iii. Human resources committee, to deal with all employees related matters including recruitment, training, remuneration, performance evaluation succession planning and measures for effective utilization of the employees of the Public Sector Company.

iv. Procurement committee, to ensure transparency in procurement transactions and in dealing with the suppliers.

v. Nomination committee to identity, evaluate and recommend candidates for vacant positions, including causal vacancies in the Board, including the candidates recommended by the Government for consideration of shareholders or in case of causal vacancy to the Board of Directors after examining their skills and characteristics that are needed in such candidates.

**(f) Composition of BoD committees:**

The Board committees shall be chaired by non-executive directors. However, the independent directors in the committees shall not be less than their proportionate strength. Such committees shall have written terms of reference that define their duties, authority, and composition, and shall report to the full Board. The minutes of their meetings shall be circulated to all Board members.

**(g) Meetings of the Board:**

The Board shall meet at least once, each quarter of a year, to ensure that it discharges its duties and obligations to shareholders and other stakeholders efficiently and effectively. In case of non-compliance, the same shall be reported to SECP with reasons of non-compliance, within fourteen days of the end of the quarter in which the meeting should have been held.

**(h) Frequency of the Performance Evaluation**:

The Board shall annually evaluate the performance of overall Board, and CEO whereas the same shall be undertaken (facilitated) by an external independent evaluator at least once every three years.

**(i) Action Plan:**

After the performance evaluation process, the identified issues, weaknesses, and challenges need to be addressed adequately through a proper action plan. The chairman and the nomination committee shall also formulate the requisite strategies and action plans to address the identified challenges/issues.

## 2. AUDIT OBJECTIVES

The main objective of Performance audit was to ensure whether the BoD of LESCO have successfully achieved the targets set in an economical, efficient, and effective manner. The audit objectives were summarized as under;

i. To evaluate whether the BoD composition is appropriate, and members have relevant knowledge, experience, and skills to maximize organizational value and to analyze:
    a) How well did the BoD supervise the implementation of its targets/ plans to achieve vision and mission of the company?
ii. To assess the compliance of rules while making appointments and transfers;
    a. Whether relevant criteria were followed for the appointment/transfer and promotion of members of senior management.
iii. To check whether the policy framework of LESCO was developed appropriately to evaluate the annual business plans, cash flow forecasts, shortage of manpower and variance analyses while making decisions;

a) Was BoD able to implement the devised plans in letter and spirit and whether the policies addressed the vital issues faced by the DISCOs?

iv. To analyze the BoD contribution towards developing CSR, and Environment, Safety and Governance (ESG) strategies;

a) Whether the operations are in line with the strategies developed and ensure adherence to the code of conduct.

v. To evaluate the mechanism through which the BoD monitor the performance of the members, senior management, and organization's officials through developed KPIs;

a. Whether the BoD has been assessing the performance for better utilization of the human resource.

vi. To evaluate the Board's contribution for ensuring robust and effective risk management. To ascertain whether the Board established a system of sound internal control, at all levels within the company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity, and honesty;

a. Whether any anti-corruption policy was established and how effectively it was implemented.

vii. To evaluate whether the BoD implemented Whistle Blowing Policy to eradicate corruption and a mechanism is placed to monitor grievance redressal regarding complaints by different stakeholders:

a. Whether the BoD developed and enforced an appropriate conflict of interest policy to curb any such practices.

## 3. AUDIT SCOPE

i. The performance audit was conducted for two years covering the period for FYs 2021-22and 2022-23 in the light of Audit Objectives of Preliminary Survey Report (PSR).

ii. The desk audit activity was undertaken in the office of Director General Audit, Power. The field activity for the special audit was conducted in Head Offices of LESCO during August and September, 2023.

## 4. AUDIT METHODOLOGY

The performance audit was conducted under the International Standards of Supreme Audit Institutions (ISSAIs). The relevant ISSAIs applicable in this Audit are ISSAI 100-Fundamental Principles of Public-Sector Auditing and ISSAI 300-Fundamental Principles of Performance Auditing. The applicability of these standards enables the Department of the Auditor-General of Pakistan to assess and report on the degree to which activities of the Company comply with the relevant rules and established criteria.

Further, to gather evidence Audit performed effective audit procedures in line with the established audit objectives and scope. Audit used a combination of qualitative and quantitative methods of data collection and analytical techniques, formal interviews; previous years' audit observations, field audit inspection and recalculation of certain items to form the conclusion with reasonable assurance. Audit interviewed the key management personnel after examining relevant files and records.

Audit thoroughly analyzed the regulatory environment under NEPRA. Moreover, Audit consulted NEPRA's State of Industry Reports for understanding the subject matter and as potential source of audit evidence.

# 5. PERFORMANCE EVALUATION OF BoD-LESCO

Lahore Electric Supply Company (LESCO) started its operations 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 performance contract is signed between the Ministry of Energy (Power Division) and the Company i.e., LESCO. The MoE is committed to ensure that LESCO is well managed and delivers efficient and quality services to its electricity consumers at the minimum possible cost. It was of pivotal importance to evaluate the performance of BoD in line with the given targets of KPIs which is as under:

**Targets and Performance of BoD-LESCO during FY 2022-23**

| Sr.# | Key Performance Indicators | Performance of BoD | Reasons of Deviations |
|---|---|---|---|
| 1 | **Transmission & Distribution losses target set to 8% for 2022-23** | Progressive T&D losses increased to 11.30%, which exceeded by 3.30% from the NEPRA's target. | Abnormal line losses and theft of electricity. |
| 2 | **Computed recovery be 100%** | The progressive computed recovery (without subsidy) against private consumers remained 96.30% against NEPRA's target of 100%. | Stay granted by Court against FPA, QTA and fixed charges - Rs. 18.77 billion.<br>Non-payment by WASA - Rs.10.50 billion. |
| 3 | **To reduce receivables by 5% by end of June 2023** | Receivables of the company increased to Rs.213.234 billion during FY 2022-23 as compared to Rs.163.130 billion (as on 30.06.2022) showing an increase of Rs.50.104 billion. | Increase in receivables in all major categories like government receivables, subsidies, permanent disconnected defaulters, deferred amount of court cases etc. |

| | | | |
|---|---|---|---|
| 4 | **MMR %age to be 100%** | MMR % accuracy remained low for general, industrial and tube-well consumers by 3%, 28% and 20% respectively. The main reasons for low % was due to non-replacement of defective meters and outdated mobile sets. | Human Errors and Technical problems. |
| 5 | **Bill adjustments target to be 0.01% of the billed amount** | Bill adjustment remained 4% of the billed amount during the FY 2022-23 | Bills adjustments were not processed in accordance with Commercial Procedures/SOPs of the department. Large number of adjustments was processed during the year and only amount was credited (without units). |
| 6 | **Financial performance (remittances to CPPA-G) be 100%** | LESCO remitted Rs.592.383 billion against total invoice of Rs.636.214 billion as of 30.06.2023 which indicated 7% less remittances | Impact of quarterly tariff adjustments and FPA. |
| 7 | **Target of installation of industrial connection be 2,541** | Total 2,541 connections were required to be given but only 1,585 connections were processed. | Non-availability of meters |
| 8 | **Total 74,260 AMI/AMR meters to be installed against domestic and industrial connections** | No meter installed. | Non-availability of meters |

The above table shows that LESCO did not achieve targets set by the Ministry of Energy (Power Division) which shows poor performance of BoD-LESCO.

# 6. AUDIT FINDINGS & RECOMMENDATIONS

# 6. AUDIT FINDINGS

## 6.1 ORGANIZATION AND MANAGEMENT

### 6.1.1 Loss of revenue due to T&D losses beyond NEPRA's target- Rs.14,956.78 million

NEPRA had fixed targets of energy losses of 8.0% for the Financial Year 2022-23 in respect of LESCO.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that the percentage of T&D losses was more than the targets of losses set by the NEPRA. Hence, 747.84 million energy units valuing Rs.14,956.78 million were lost beyond the NEPRA's target. The detail is as under:

| Sr. No. | Name of Company | NEPRA Target (%) | Actual %age of Loss | Units lost beyond NEPRA target (million) | Amount (Rs.in million) |
|---|---|---|---|---|---|
| 4. | LESCO | 8.00 | 11.29 | 747.84 | 14,956.78 |

**(Source: Progressive CP-22A of LESCO)**

Non-adherence to NEPRA's targets resulted in loss of revenue amounting to Rs.14,956.78 million due to T&D losses during the Financial Year 2022-23.

The matter was taken up with the management in September, 2023. The management replied that LESCO was utilizing all its resources efficiently for achieving desired targets. The reply of the management was not acceptable because it lacked acknowledgment of the significant performance shortfalls highlighted in the audit para. The management did not provide evidence of efforts undertaken to rectify deficiencies and improve performance.

The DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within thirty (30) days.

However, despite directions of DAC, no record was produced to Audit for verification till the finalization of the report.

Audit recommends establishing robust performance monitoring and control mechanism, including monthly review of progress on the achievement of targets assigned in the performance agreement. Further, in line with provisions of performance agreement, disciplinary actions may be taken against officers and officials for not achieving targets.

### 6.1.2 Non-achievement of recovery target of 100% against computed billing (without subsidy)

As per performance agreement made between the Ministry of Energy (Power Division) and CEO/BOD of LESCO for Financial Year 2022-23, the percentage of recovery against computed billing (without subsidy) is a parameter to evaluate commercial efficiency. LESCO was required to attain recovery percentage not less than 100% through effective recovery campaign.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that LESCO did not achieve 100% target of recovery against computed billing (without subsidy) as per performance agreement. Actual recovery made during the financial year 2022-23 remained 96.30%. This showed that management did not effectively launch recovery campaign to achieve assigned target.

Suboptimal performance of BoD resulted in non-achievement of targets set by MoE (Power Division) during the FY 2022-23. The absence of robust performance monitoring and control mechanism prevented timely identification and rectification of performance deficiencies.

The matter was taken up with the management in September, 2023. The management replied that LESCO was utilizing all its resources efficiently for achieving desired targets. The reply of the management was not acceptable because it lacked acknowledgment of the significant performance shortfalls highlighted in the audit para. The management did not provide evidence of efforts undertaken to rectify deficiencies and improve performance.

The DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within thirty (30) days.

However, despite directions of DAC, no record was produced to Audit for verification till the finalization of the report.

Audit recommends establishing robust performance monitoring and control mechanism, including monthly review of progress on the achievement of targets assigned in the performance agreement. Further, in line with provisions of performance agreement, disciplinary actions may be taken against officers and officials for not achieving targets.

### 6.1.3 Suboptimal performance of BoD resulted in non-reduction in energy receivables by 5%-Rs.213.234 billion

As per performance agreement made between the Ministry of Energy (Power Division) and CEO/BOD of LESCO for Financial Year 2022-23, LESCO was to reduce receivables by 5% by the end of June-2023 with respect to June-2022

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that energy receivables were Rs.163.130 billion at the end of June-2022 which were required to be reduced by 5% i.e. Rs.8,157 million as detailed below:

**Status of achievement of receivables target -LESCO FY 2022-23**

| **Receivables at the End of June-2022 (Rs.in million)** | **Reduction target (Rs.in million)** | **Receivables at the End of June-2023 (Rs.in million)** | **Increase in receivables** | **% change** |
|---|---|---|---|---|
| 163,130 | 8,157 | 213,234 | 50,104 | 30.71% |

The above analysis shows that LESCO did not achieve targets set by the Ministry of Energy (Power Division) relating to reduction in energy receivables. On the contrary, energy receivables increased by 30.71% due to increase in receivables in all major categories like government receivables, subsidies, permanently disconnected defaulters, deferred amount of court cases etc.

Poor performance of BoD resulted in non-achievement of targets set by MoE (Power Division) during the FY 2022-23. The absence of robust performance monitoring and control mechanism prevented timely identification and rectification of performance deficiencies.

The matter was taken up with the management in September, 2023. The management replied that LESCO was utilizing all its resources efficiently for achieving desired targets. The reply of the management was not acceptable because it lacked acknowledgment of the significant performance shortfalls highlighted in the audit para. The management did not provide evidence of efforts undertaken to rectify deficiencies and improve performance.

The DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within thirty (30) days.

However, despite directions of DAC, no record was produced to Audit for verification till the finalization of the report.

Audit recommends establishing robust performance monitoring and control mechanism, including monthly review of progress on the achievement of targets assigned in the performance agreement. Further, in line with provisions of performance agreement, disciplinary actions may be taken against officers and officials for not achieving targets.

### 6.1.4 Non-processing of bill adjustments in accordance with commercial procedures-Rs.4,323 million

As per performance agreement made between the Ministry of Energy (Power Division) and CEO/BoD of LESCO for Financial Year 2022-23, the target for credit bill adjustment was set to the level of 0.01% of billed amount.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that LESCO management did not achieve the target of bill adjustment of 0.01% of billed amount. During FY 2022-23 percentage of adjustment remained 4% of billed amount. It is also pertinent to mention that management reported credit adjustment of Rs.4,323 million without units which was irregular and showed failure of BoD to devise effective control and SOPs

regarding implementation of consumer service manual to achieve assigned target of credit adjustments.

Suboptimal performance of BoD resulted in non-achievement of targets set by MoE (Power Division) during the FY 2022-23. The absence of robust performance monitoring and control mechanism prevented timely identification and rectification of performance deficiencies.

The matter was taken up with the management in September, 2023. The management replied that LESCO was utilizing all its resources efficiently for achieving desired targets. The reply of the management was not acceptable because it lacked acknowledgment of the significant performance shortfalls highlighted in the audit para. The management did not provide evidence of efforts undertaken to rectify deficiencies and improve performance.

The DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within thirty (30) days.

However, despite directions of DAC, no record was produced to Audit for verification till the finalization of the report.

Audit recommends establishing robust performance monitoring and control mechanism, including monthly review of progress on the achievement of targets assigned in the performance agreement. Further, in line with provisions of performance agreement, disciplinary actions may be taken against officers and officials for not achieving targets.

### 6.1.5 Non-achievement of 100% target of remittances to CPPA-G against energy invoices-Rs.44,832 million

As per performance agreement made between the Ministry of Energy (Power Division) and CEO/BoD of LESCO for Financial Year 2022-23, LESCO was to ensure 100% remittances against CPPA-G invoices.

During performance audit of BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that Central Power Purchasing Agency Guarantee Limited (CPPA-G) being single buyer raised energy invoices to LESCO amounting to Rs.636,214 million during FY 2022-23. It was required to remit 100% amount in

line with Performance Agreement but the management remitted Rs.591,383 million which was 14% less than the target assigned. This showed that BoD did not devise collection and remittance policy to ensure 100% remittances to avoid supplemental charges.

Suboptimal performance of BoD resulted in non-achievement of targets set by MoE (Power Division) during the FY 2022-23. The absence of robust performance monitoring and control mechanism prevented timely identification and rectification of performance deficiencies.

The matter was taken up with the management in September, 2023. The management replied that LESCO was utilizing all its resources efficiently for achieving desired targets. The reply of the management was not acceptable because it lacked acknowledgment of the significant performance shortfalls highlighted in the audit para. The management did not provide evidence of efforts undertaken to rectify deficiencies and improve performance.

The DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within thirty (30) days.

However, despite directions of DAC, no record was produced to Audit for verification till the finalization of the report.

Audit recommends establishing robust performance monitoring and control mechanism, including monthly review of progress on the achievement of targets assigned in the performance agreement. Further, in line with provisions of performance agreement, disciplinary actions may be taken against officers and officials for not achieving targets.

### 6.1.6 Irregular constitution of BoD of LESCO due to appointment of ineligible persons having conflict of interest

According to Rule 3(7) of the Public Sector Companies (Corporate Governance) Rules, 2013, "the appointing authorities, including the Government and other shareholders, shall apply the fit and proper criteria in making nominations of the persons for election as the Board members under the provisions of the Act. Furthermore, according to rule

3(7) (i) of the ibid, "the person proposed for any position does not suffer from a conflict of interest; this includes political office holders whether in a legislative role".

Further, according to Rule 2(d) of the Public Sector Companies (Corporate Governance) Rules 2013, "Independent Director" means a Non-Executive Director who is not in the service of Pakistan or of any statutory Body or institution owned or controlled by the Government and who is not connected or does not have any other relationship, whether pecuniary or otherwise, with the Public Sector Company, its associated companies, subsidiaries, holding company or directors.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that Ministry of Energy (MoE), Power Division, consequent upon approval of the Cabinet (Federal Government), notified the reconstitution of BoD of LESCO on December 10, 2022 and nominated Mr. Hafiz Muhammad Nauman as independent director and Chairman BoD of LESCO. He held dual positions as vice president/additional general secretary in Punjab province of a political party and chairman BoD of LESCO. Moreover, Mr. Faisal Ayub Khokhar was also office bearer of a political party as president of youth wing Lahore. Likewise, Mr. Muhammad Ali Ayaz Saddiq was elected as independent director BoD of LESCO who was also in service of Pakistan and working as doctor in ophthalmology department of Mayo Hospital, Lahore. The irregularly constituted BoD resulted in poor strategic planning and lack of oversight and necessary diversity of expertise and experience. This led to inefficiencies in LESCO's operations. The Company incurred financial losses of Rs.51,913 million during FYs 2021-22 and 2022-23.

Non-adherence to provisions of Corporate Governance Rules, 2013 resulted in irregular constitution of BoD of LESCO due to appointment of ineligible persons having conflict of interest during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that MoE notified the composition of the

Board after adhering to requisite legal requirements mentioned in relevant laws and consequent to necessary scrutiny of the Board members of LESCO as "fit and proper person". The reply of the management was not acceptable because the selection of independent directors of the Board made during the selection process was not according to the fitness criteria prescribed by the SECP.

The DAC in its meeting held on February 15, 2024 directed the management to seek clarification from Ministry of Law & Justice, Government of Pakistan through Administrative Ministry i.e. MoE (Power Division) and report to Audit within thirty (30) days.

However, despite the directions of DAC, no progress in this regard was intimated to Audit till the finalization of the report.

Audit recommends investigating the matter at the Ministry level and fixing responsibility for non-adherence to the Corporate Governance Rules, 2013.

### 6.1.7 Irregular constitution of sub-committees of the BoD in violation of Corporate Governance Rules, 2013

According to Rule 12(1) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall set up following committees to support it in performing its functions efficiently, and for seeking assistance in the decision-making process:

a) Audit Committee
b) Risk Management Committee
c) Human Resource Committee
d) Procurement Committee
e) Nomination Committee

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that the first meeting of the BoD was held on 12.12.2022 wherein it was decided that sub-committees would be constituted in next meeting. However, instead of preparing agenda for constitution of sub-committees to be presented before the Board for

deliberations, the sub-committees were constituted without presenting agenda before the Board and approval of the BoD. Moreover, seven sub-committees were constituted instead of five as given in CGR, 2013. The detail is as under:

1) Steering Committee
2) Strategic Planning Committee
3) Procurement Committee
4) HR and Admn Committee
5) Legal Committee
6) Audit & Finance Committee
7) IT Steering Committee

It was crucial that LESCO's sub-committees were properly constituted with clear mandate and accountability mechanism. The irregularly constituted sub-committees severely undermined LESCO's governance framework and decision-making process.

Non-adherence to provisions of Corporate Governance Rules, 2013 resulted in irregular constitution of sub-committees of BoD during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that sub-committees were duly approved by the Board vide resolution through circulation dated December 23,2022. The reply of the management was not acceptable as copy of resolution was not provided for verification.

The DAC in its meeting held on February 15, 2024 directed the BoD of LESCO to evaluate the targets of sub-committees with actual achievements as per approved ToRs and get the record verified through company secretary from Audit within thirty (30) days.

However, despite directions of DAC, no record was produced to Audit till the finalization of the report.

Audit recommends sharing Board's resolution dated December 23, 2022 regarding constitution of sub-committees. Moreover,

performance targets assigned to these sub-committees viz-a-viz actual achievements as per approved ToRs may also be shared with Audit.

### 6.1.8 Irregular proceedings of BoD meetings due to non-compliance of Public Sector Companies Rules, 2013

According to Rule 6 (2) of the Public Sector Companies (Corporate Governance) Rules, 2013, written notices of meetings, including the agenda, duly approved by the Chairman, shall be circulated not less than seven (7) days before the meeting, except in the case of emergency meetings, where the notice period may be reduced or waived off by the Board.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that 115 board meetings were convened during the period under review but notices and agendas of 87 meetings (76%), out of 115 meetings (100%), were issued by the Company Secretary less than 7 days' notice period which showed violation of the Corporate Governance Rules, 2013. The detail is given as under:

**Board/Sub-committees Meetings during FYs 2021-22 and 2022-23**

| Main Board/Sub-Committees | Total number of meetings held | Number of meetings in which notices & agendas issued less than 7 days | Violation in %age |
|---|---|---|---|
| Main Board | 29 | 15 | 51.72 |
| HR | 26 | 23 | 88.46 |
| Procurement | 17 | 13 | 76.47 |
| IT Steering | 9 | 9 | 100.00 |
| Risk Management | 8 | 7 | 87.50 |
| Audit | 14 | 11 | 78.57 |
| Legal | 2 | 1 | 50.00 |
| Customer Service | 10 | 8 | 80.00 |
| **Total** | **115** | **87** | **75.65** |

**Source: Record provided by company secretary**

The members of the Board and its sub-committees had insufficient time to prepare for the meeting and thoroughly review and

analyze the information provided due to short notice period. This resulted in compromised quality of decisions without fully considering the implications, besides it negatively impacted overall performance of the Board. There was lack of oversight on the important operational issues of the company and critical agendas were deferred by the Board.

Non-adherence to provisions of Corporate Governance Rules, 2013 resulted in irregular meetings of the BoD/Sub-committees during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September 2023. The management replied that Rule 6 (2) was not applicable in case of emergency meetings. The reply of the management was not acceptable as 76% meetings of the Board and its sub-committees were held on less than seven days' notice in violation of Corporate Governance Rules, 2013.

The DAC in its meeting held on February 15, 2024 directed the management to get clarification from Securities and Exchange Commission of Pakistan (SECP) regarding convening of BoD committee meetings on three days' notice instead of seven days. DAC also directed to share the SoPs approved by BoD LESCO for convening committee meetings on three days' notice period and get the record verified from Audit within a week.

However, despite directions of DAC, no record was produced to Audit till the finalization of the report.

Audit recommends seeking clarification from Securities and Exchange Commission of Pakistan (SECP) regarding convening of BoD committee meetings on three days' notice instead of seven days.

### 6.1.9 Non-appointment of Chief Executive Officer of LESCO by BoD

According to Rule 5 (2) of Public Sector Companies (Corporate Governance Rules), 2013, the Board shall evaluate the candidates based on the fit and proper criteria and the guidelines specified by the Security

& Exchange Commission of Pakistan (SECP) for appointment to the position of the Chief Executive and recommend at least three candidates to the Government for its concurrence for appointment of one of them as chief executive of the public sector company, except where the chief executive is nominated by the Government. On receiving concurrence or nomination of the Government, the Board shall appoint the Chief Executive in accordance with the provisions of the Act. The Board shall also be responsible for development and succession planning of the chief executive.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that BoD did not appoint Chief Executive Officer (CEO), LESCO after the resignation of the then CEO in February, 2023 despite a lapse of four months. Timely appointment of a CEO, in line with fit and proper criteria, is crucial for effective governance and management. The BoD' failure to appoint CEO in a timely manner negatively affected the company's operational efficiency, hindered effective management and impaired execution of key initiatives.

Weak governance by the BoD resulted in non-appointment of CEO, LESCO during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that LESCO had already initiated the process for recruitment of CEO, LESCO as per public sector companies (appointment of chief executive) guidelines 2015. The reply of the management is not acceptable because the management did not address the reasons of the significant delay in appointment of CEO, LESCO. The Board must take appropriate measures to expedite the appointment process in a transparent manner.

The DAC in its meeting held on February 15, 2024 directed the management to submit a revised reply along with target date of appointment of CEO, LESCO to audit within three (3) days.

However, despite the directions of DAC, revised reply was not

submitted to Audit till the finalization of the report.

Audit recommends complying with the provisions of Public Sector Companies (Corporate Governance) Rules, 2013 for appointment of CEO.

### 6.1.10 Irregular promotion of Managers/ Superintending Engineers (BPS-19) as Chief Engineer (BPS-20)

According to Rule 4 (2) (c) of Public Sector Companies (Corporate Governance) Rules, 2013, the chairman has a responsibility to lead the Board and ensure its effective functioning and continuous development, he shall not be involved in day-to-day operations of the Public Sector Company.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that eight (08) Manager/Superintending Engineer (BPS-19) were promoted to Chief Engineer (BPS-20) without recommendation of Human Resource & Admn. (HR&A) sub- committee of BoD and approval of the Board. The promotion board for the promotions was held on 14.02.2023. The details of recommendations of Promotion Board are given as **Annex-A**.

The Human Resource Director (HRD) was instructed to seek legal advice on holding promotion boards amid pending seniority disputes in 144$^{th}$ meeting of the HR&A Committee on 23.02.2023. The HR&A Committee further directed HRD to expedite the resolution of seniority cases in courts in 145$^{th}$ meeting on 20.03.2023. The BoD, in its 261$^{st}$ meeting on 04.05.2023, reaffirmed that seniority fixation was a management function and the management should follow existing policies, and directed to refer the matter to the Board, if any changes in policies were required. HRD issued promotion orders on 08.05.2023 before resolving the seniority issues. The promotions were made on the basis of extracts of minutes of meeting held on 04.05.2023 whereas the minutes of the meeting approved by the chairman BoD did not make any reference to holding of promotion board before completing the

necessary formalities. This casts doubts on the authenticity of the extracts of minutes on which promotions orders were issued. Moreover, HRD was required to seek clearance from Intelligence Bureau being Special Vetting Agency and to resolve pending cases of seniority before holding promotion board which was not done. The Board failed to take any action regarding promotions made on the basis of dubious extracts of minutes by the Company Secretary of HR&A committee meeting held on 04.05.2023.

Weak governance and supervisory control resulted in irregular promotion of Managers/ Superintending Engineers (BPS-19) to Chief Engineer (BPS-20) during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that recommendations of the Promotion Board were presented in 144$^{th}$meeting of HR & Admin. committee held on 23.02.2023. The matter was discussed in detail in the second session of the said meeting held on 27.02.2023 and was approved with majority. Moreover, legal opinions were received from well-reputed lawyers, presented, and discussed in HR & Admin. Committees, whereby all were of the same opinion that there was no legal impediment in holding said Promotion Board. The HR & Admin. committee in its 144$^{th}$ meeting recommended the promotions as both conditions (clearance on ISI vetting & requisite legal opinion) were decided and settled.

The reply of the management is not acceptable because neither any promotion case was recommended by the HR&A Committee nor was approved or even discussed by the main Board.

The DAC in its meeting held on February 15, 2024 directed the management to provide copy of inquiry conducted by MoE (Power Division) to Audit within three (3) days.

However, despite directions of DAC, no record was produced to Audit till the finalization of the report.

Audit recommends conducting investigation against the persons

responsible, revising promotion criteria, addressing grievances and strengthening oversight to rebuild trust and restore operational efficiency.

### 6.1.11 Irregular promotion of chief engineers without availability of seats in next higher positions

According to Clause 3(a) of Promotion Policy of LESCO, "promotions shall be awarded subject to availability of post/position/vacancy in next higher grade. Promotion can be considered where existing position is upgraded due to an increase in responsibility and volume of work. In case an employee meets all the criteria for promotion to next higher grade but there is no vacancy in that particular department or in accordance with his/her skills and experience his/her case for promotion will not be considered till such time that position is upgraded for a higher grade or the employee is transferred to another department where a vacancy exists in next higher grade within the cadre subject to fulfillment of all required conditions for promotion".

During performance audi qqqt of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that Human Resource Director (HRD), LESCO presented the agenda of promotion of managers/ superintending engineers as chief engineers to promotion board. On the recommendations of promotion board, three (03) managers were promoted to chief engineers without availability of seats which was a violation of promotion policy and an undue favour to these officers. Furthermore, the promotion case of Manager (Material Management), revealed certain irregularities on the part of management including HRD and company secretary. An inquiry into the matter was conducted wherein it was observed that the vacant post of Manager MM in LESCO was upgraded to that of Chief Engineer MM on 26.11.2016 keeping in view service exigencies. Resultantly, the post of Manager (MM) ceased to exist in LESCO since the same was upgraded to next higher scale. This information was not passed on by the HRD to PEPCO management and officer was unduly promoted against a defunct post of Manager MM.

The board approved promotions in contravention of promotion policy and no action were taken on the findings of inquiry committee relating to promotion process of Chief Engineer Material Management.

Unsatisfactory governance of BoD resulted in irregular promotion of Chief Engineers without availability of seats in next higher positions in violation of the promotion policy during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that HR&A committee in its 144$^{th}$meeting approved the promotion of three managers to chief engineers subject to availability of seats. The case of manager (MM) was considered and recommended for promotion since the officer fulfilled the criteria. He was promoted from Manager MM to Sr. Manager MM with the approval of the HR&A committee.

The reply of the management was not acceptable because the promotion of three managers to chief engineers was made without availability of seats. Moreover, in case of Manager (MM), promotion was made against a post which became defunct after its up gradation to that of Chief Engineer (MM). Had this information been passed on to PEPCO by the HRD, LESCO, the promotion of said officer would have been deferred due to non-availability of vacant post.

The DAC in its meeting held on February 15, 2024 directed the management to verify the record relating to vacancy position from Audit within three (3) days.

However, despite directions of DAC, no record relating to vacancy position was produced to Audit for verification till the finalization of the report.

Audit recommends strengthening HR&A committee oversight by establishing independent verification and maintaining an accurate vacancy database.

### 6.1.12 Non establishing of Performance Monitoring & Control Mechanism/ KPIs

According to the Performance Agreement Contracts 2021-22 and 2022- 23 signed between the Ministry of Energy (MoE) Power Division and Chief Executive Officer/Board of Directors (BoD) members LESCO "The BoD LESCO and Management shall arrange setting performance targets given in this contract and signing the same at appropriate level (BoD may sign with the CEO and the CEO may sign with GM/Head of each circle/division/sub-division level) and establish performance monitoring & control mechanism at the earliest, in any case maximum within 30 days of signing of this contract".

According to Rule 17 (4) (d) of Public Sector Companies (Corporate Governance) Rules, 2013, key performance indicators (KPIs) of the Public Sector Company will reflect its outcomes which significantly highlight the work and impact and a comparison of actual results with the budgeted figures.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that the BoD in its 241$^{st}$ meeting held on 13.01.2022 directed the management to prepare KPIs and future plans of all departments and submit to HR committee for deliberation. The agenda for approval of KPIs was presented multiple times but was deferred by the Board. Hence, performance monitoring and control mechanism, which was required to be established within 30 days of the signing of the performance agreement, could not be created due to non-approval of KPIs by the Board. It is difficult to ensure that decisions were contributing towards the achievement of organizational objectives in the absence of timely and clear KPIs. Performance evaluations were also not based on clearly defined KPIs and it can negatively impact accountability, financial and operational decision making and resource allocation. LESCO management needed to focus on continuous improvement initiatives that do not rely heavily on specific KPIs but rather on overall process efficiency and effectiveness. Deployment of

performance monitoring dashboards can aggregate data from various sources and provide real- time insights. These dashboards can be customized to reflect temporary metrics or interim goals, allowing management to track performance effectively, which was not done. The Board's repeated deferral of KPI approvals had far-reaching consequences for LESCO. This oversight hindered effective performance management, compromised accountability, and eroded organizational governance. The delay also impacted financial performance, strategic planning, and the organization's ability to adapt to change.

Inaction of the BoD resulted in the non-establishing of performance monitoring and control mechanism for LESCO employees during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that draft KPIs of Functional heads were presented before HR & Admn. committee of BoD in its 149$^{th}$ meeting dated 06-07-2023. The committee directed that detailed review of weightage and priority of each KPI was required for setting targets and effective utilization of said KPIs. It was added that the weightage of ERP implementation should also be added to the KPIs. The reply was not acceptable because the management cited the presentation of draft KPIs before the HR & Admn. committee. The significant delay in establishing KPIs for LESCO employees highlights a failure to adhere to ministry's directives and governance standards. It is essential for LESCO management to prioritize the timely development and implementation of KPIs to enhance accountability, improve service delivery, and fulfill organizational responsibilities effectively.

The DAC in its meeting held on February 15, 2024 directed the LESCO BoD to implement the KPIs at the earliest.

However, despite directions of DAC, no progress was intimated to Audit till the finalization of the report.

Audit recommends implementation of DAC's decision besides probing the matter at Ministry level regarding non-approval of KPIs by

the Board as required under the performance agreement.

### 6.1.13 Non recruitment of staff against vacant posts in LESCO

According to Rule 5(7) of the Public Sector Companies (Corporate Governance) Rules 2013, the Board shall also formulate significant policies of the Public Sector Company for smooth running of its operations.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that various posts remained vacant since long in LESCO which were required to be filled by following recruitment procedures. The detail is as under:

**Detail of vacant posts FY 2022-23**

| Sr. no | Particulars | Sanctioned Posts | Working Posts | Vacant |
|---|---|---|---|---|
| 01. | Officers (Ranked) | 1,375 | 1,017 | 358 |
| 02. | Officials (Staff) | 31,246 | 18,569 | 12,677 |
| | **Total** | **32,621** | **19,586** | **13,035** |

**Source: Human Resources Department LESCO**

The Board's inability to take concrete steps to fill vacant posts resulted in insufficient staffing. LESCO's operational and financial performance deteriorated over the past few years, leading to the non-achievement of its performance targets given by Power Division. The shortage of manpower was one of the contributing factors in financial losses of the Company because regulatory target relating to recovery and line losses could not be achieved besides distribution assets could not be safeguarded from damage and theft.

Non-adherence to Corporate Governance Rules, 2013 resulted in non- recruitment of staff against vacant posts in LESCO during FYs

2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that audit observation was not valid since there was no lapse on the part of LESCO. HR department was continuously communicating its critical requirements to MoE (Power Division) but the approval was not provided by Power Division. The reply of the management was not acceptable as management did not justify the non-recruitment which caused operational, technical and financial inefficiencies in LESCO.

The DAC in its meeting held on February 15, 2024 directed the management to get NOC from Ministry of Energy (Power Division) and initiate recruitment process at the earliest.

Despite the direction of DAC, no NOC was produced to audit till finalization of the report.

Audit recommends obtaining approval from MoE (Power Division) for recruitment of vacant posts in LESCO.

### 6.1.14 Non-compliance of SECP Corporate Social Responsibility (CSR) Policy Framework

According to rule 3 of Corporate Social Responsibility (CSR) Guidelines, 2013, companies are encouraged to have a CSR policy endorsed by the Board of Directors of the company, reflecting their understanding and commitment to CSR, thereby ensuring that CSR policy is incorporated into vision, code of ethics and business plan/strategy of the company. Further, according to rule 8, the company is expected to earmark specified quantifiable resources, specific criteria, or a proportion of annual net profit (preferably 1-2%) for selected CSR initiatives.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that NEPRA vide its letter dated 25.09.2020 directed all DISCOs to formulate and implement CSR policies and projects as required under SECP CSR guidelines,

2013.However, the BoD of LESCO neither developed CSR policy nor earmarked any budget to meet expectations of commitment in achieving goals and targets of CSR initiatives as directed by NEPRA and SECP. This inaction by the BoD was not only a regulatory non-compliance but also threatened LESCO's corporate reputation, community relations, and long-term strategic positioning. It was crucial for the Board to frame CSR policy, to allocate corresponding resources and actively support the execution of CSR initiatives.

Non-adherence to CSR Guidelines, 2013 and NEPRA's direction resulted in non-formulation and implementation of CSR policies and standards in LESCO during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that the CSR framework was being developed and shortly would be presented to the Board for approval. The reply of the management was not acceptable because it failed to justify the delay in development of CSR policy and implementation strategy in line with CSR guidelines and NEPRA directives since 2013.

The DAC in its meeting held on February 15, 2024 directed the management to finalize the CSR policy and implement it after approval from BoD within sixty (60) days and report to Audit.

However, despite directions of DAC, no progress was intimated to Audit till the finalization of the report.

Audit recommends seeking approval of CSR policy from BoD and implementing it.

### 6.1.15 Unjustified increase in salary package of contractual employees

According to the Finance Division OM dated June 26, 1999, the revision of and pay structure of salaries, allowances and perquisites of the supervisory executive staff of Public Sector Corporations, Autonomous/semi-Autonomous Bodies may be carried out by the respective BoD. Such revision should invariably be tagged with the

financial position of the respective organization. Clearance from the Finance Division would, however, be necessary to ensure a rationale basis and a degree of uniformity in such revisions. No corporation will announce the revision of salary/allowance, structure without prior approval of the competent authority.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that the BoD in its 263rd meeting held on 22.06.2023 approved the recommendations of HR & Admn. committee and increased the salary package of contractual employees by 35% in disregard to the financial position of the company and without getting concurrence from Finance Division. The increase in salary package of contractual employees was unjustified considering the weak financial position of the company due to continuous losses. It was also observed that the Contractual Employment Policy of LESCO was not framed by the BoD. Hence, increase in pay and allowances of contractual employees reflected that decision making in BoD were made without considering the financial impact and in disregard to government instructions.

Poor decision making by the BoD resulted in unjustified increase in pay and allowances of contractual employees without concurrence of Finance Division during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that as per Ministry of Law and Justice Office Memorandum No.645/2012-Law-I dated 04.12.2012, LESCO as a public sector company was empowered to run the affairs and business of the company and authorized to take financial and administrative decisions independently in accordance with the provisions of the Companies Ordinance and were not required taking approval from the Federal Government. The Contract Employment Policy had been approved by the Board of directors and was under legal opinion now. The reply was not acceptable because Federal Government being main stakeholder of DISCOs notified to take prior approval of the Finance Division to ensure a rational basis and a degree of uniformity in such

revisions.

The DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within thirty (30) days.

However, despite directions of DAC, no record was produced to Audit till the finalization of the report.

Audit recommends seeking approval of Contractual Employment Policy of LESCO from BoD and getting concurrence of revision in salary packages of contract employees from Finance Division.

### 6.1.16 Non-formulation and finalization of necessary policies and procurement strategy by BoD-LESCO

According to Rule 5 (7) (c) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall formulate significant policies of the Public Sector Company, which may include 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.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that LESCO BoD did not formulate important policies like HR, IT and Safety policies as well as Procurement Strategy for smooth functioning of the Company since its incorporation in 1998. GM (HR) PEPCO also circulated 30 draft policies for adoption/enforcement in DISCOs on 29.06.2021 (**Annex-B)**. However, BoD did not adopt these policies. These policies, including Procurement Strategy were necessary for good corporate governance within the Company. This showed that BoD failed to perform its primary function of providing strategic direction to the management through framing of significant policies**.**

Non-adherence to Public Sector Companies (Corporate

Governance) Rules, 2013 and non-implementation of performance agreement 2020-21 resulted in non-formulation of policies of LESCO during FYs 2021-22 and 2022-23. This led to operational inefficiencies, financial mis-management, and ultimately, failure to meet performance targets.

The matter was taken up with the management in September, 2023. The management replied that the BoD & relevant departments of LESCO were in the process of implementing strategic measures aimed at developing its own comprehensive set of strategic and related policies. The reply of the management was not acceptable because the Company did not formulate essential policies mandated by Corporate Governance Rules.

The DAC in its meeting held on February 15, 2024 directed the management to finalize and implement the policies after getting approval from BoD LESCO within sixty (60) days and report to Audit.

However, despite directions of DAC, no progress was intimated to Audit till the finalization of the report.

Audit recommends implementation of important policies after review/evaluation from third party consultants and approval from BoD under intimation to Audit.

### 6.1.17 Non-achievement of 100% accuracy of Mobile Meter Reading (MMR) for general, industrial and tube-well consumers

As per performance agreement made between the Ministry of Energy (Power Division) and CEO/BOD of LESCO for Financial Year 2022-23, LESCO was to ensure 100% MMR for general, industrial and tube-well consumers.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that board did not ensure to achieve 100% accuracy in billing to general, industrial and tube-well consumers based on Mobile Meter Reading. For FY 2022-23, the accuracy rates of

97% for general consumers, 74% for industrial, and 75% for tube-well consumers indicated a substantial shortfall from the agreed-upon performance targets, reflecting inefficiencies in meter reading processes. It is also pertinent to mention that BoD did not devise operational policies to attain agreed targets assigned in the Performance Agreement.

Unsatisfactory performance of BoD resulted in non-achievement of 100% accuracy of MMR for general, industrial and tube-well consumers. The absence of robust performance monitoring and control mechanism prevented timely identification and rectification of performance deficiencies.

The matter was taken up with the management in September, 2023. The management replied that LESCO was utilizing all its resources efficiently for achieving desired targets. The reply of the management was not acceptable because it lacked acknowledgment of the significant performance shortfalls highlighted in the audit para. The management did not provide evidence of efforts undertaken to rectify deficiencies and improve performance.

The DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within thirty (30) days.

However, despite directions of DAC, no record was produced to Audit for verification till the finalization of the report.

Audit recommends establishing robust performance monitoring and control mechanism, including monthly review of progress on the achievement of targets assigned in the performance agreement. Further, in line with the provisions of performance agreement, disciplinary actions may be taken against officers and officials for not achieving targets.

### 6.1.18 Non-achievement of performance target relating to installation of industrial and other connections

As per the performance agreement made between the Ministry of

Energy (Power Division) and CEO/BoD of LESCO for Financial Year 2022-23, LESCO was to provide 2,541 industrial, and 472,459 other connections during FY 2022-23.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that as per Performance Agreement signed between the BoD-LESCO and MoE (Power Division), LESCO was required to provide 2,541 connections to Industrial and 472,459 connections to other categories during the FY-2022-23. However, there were only 1,585 new connections added in the industrial category and 307,456 connections to other categories of consumers provided as detailed below:

**Table—Showing the statement regarding installation of new industrial and other connections as per target given in Performance Agreement**

| Period | Target for connections to be installed | | | | Achievement | | | | Variations | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Industrial | | Others | | Industrial | | Others | | Industrial | | Others | |
| | No | Load added (MW) | No | Load added (MW) | No | Load added (MW) | No | Load added (MW) | No | Load added (MW) | No | Load added (MW) |
| FY-2022-23 | 2,541 | 469 | 472,459 | 884 | 1,585 | 325 | 307,456 | 682 | -144 | -165,003 | -165,003 | -202 |

The significant shortfall in provision of the targeted number of new connections during FY 2022-23—1,585 against target of 2,541 for industrial connections and 307,456 against target of 472,459 for other categories—indicated a considerable inefficiency in meeting the performance agreement target.

Unsatisfactory performance of BoD resulted in non-achievement of target relating to installation of industrial and other connections. The

absence of robust performance monitoring and control mechanism prevented timely identification and rectification of performance deficiencies.

The matter was taken up with the management in September, 2023. The management replied that LESCO was utilizing all its resources efficiently for achieving desired targets. The reply of the management was not acceptable because it lacked acknowledgment of the significant performance shortfalls highlighted in the audit para. The management did not provide evidence of efforts undertaken to rectify deficiencies and improve performance.

The DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within thirty (30) days.

However, despite directions of DAC, no record was produced to Audit for verification till the finalization of the report.

Audit recommends establishing robust performance monitoring and control mechanisms, including monthly review of progress on the achievement of targets assigned in the performance agreement. Further, in line with provisions of performance agreement, disciplinary actions may be taken against officers and officials for not achieving targets.

## 6.2 FINANCIAL MANAGEMENT

### 6.2.1 Irrational decision of the BoD to enhance its remuneration during the period of high financial losses – Rs. 34.19 million

According to Ministry of Water & Power (Generation Wing) letter No. GPI-1(01)/2012, dated: 04.10.2016 regarding remuneration package for Board of Directors, the remuneration package was revised in which committee meetings fee was enhanced to Rs. 35,000/- per meeting.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that BoD of LESCO adopted the

remuneration package for its directors as per approval of Ministry of Water and Power dated: 04.10.2016 wherein Rs. 35,000 per meeting fee was fixed. Later, the BoD in its 238th meeting held on 22.10.2021 approved the enhancement of meeting fee for directors of BoD to Rs. 60,000 without obtaining approval from MoE (Power Division) which was irregular. Moreover, the decision by the BoD did not take into consideration the aspect of economy as the company had accumulated loss of Rs.143,825 million as on June 30th 2021 and the financial loss of Rs.23,202 million during FYs 2021-22.

Non-adherence to instructions of the Power Division resulted in irregular enhancement and payment of remuneration of BoD members amounting to Rs.34.19 million during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that as per Article 53 (c) of Articles of Association of LESCO, and Rule 19 of Corporate Governance Rules Directors shall determine the directors' fee and re-imbursement for attending the meeting of the Board and committees. The reply of the management was not acceptable as MoE (Power Division) appointed and notified directors of the Board. Therefore, it was necessary to seek approval from MoE (Power Division).

The DAC in its meeting held on February 15, 2024 directed the management to get clarification from Ministry of Finance (Finance Division), Government of Pakistan through administrative ministry i.e. MoE regarding vetting/approval of BoD fees package enhancement and report to Audit within thirty (30) days.

However, despite the directions of DAC, no intimation was furnished to Audit till the finalization of the report.

Audit recommends taking the matter with Ministry of Finance through MoE (Power Division) for clarification.

### 6.2.2. Heavy accumulated losses due to weak governance – Rs. 219,665 million

According to Rule 4 (2) (a) of the Public Sector Companies (Corporate Governance Rules) 2013, the Chairman of the Board shall ensure that the Board is properly working and all matters relevant to the governance of the Public Sector Company are placed on the agenda of Board meetings. Similarly, Rule 7(2) (a) of ibid states that significant issues shall be placed before the Board for its information and consideration to formalize and strengthen the corporate decision-making process including the annual business plans, cash flow projections, forecasts and long-term plans, budgets including capital, manpower and expenditure budgets, along with variance analysis.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that the accumulated losses of the company were Rs. 219,665 million as on June 30th 2023. The financial position of the company from 2017-18 to 2022-23 is as under:

**Details of accumulated losses (Rs. in millions)**

| Sr No. | Financial Year | Total Profit/Loss after tax | Accumulated Losses |
|---|---|---|---|
| 1 | 2017-18 | -18,252 | -127,351 |
| 2 | 2018-19 | -14,665 | -142,016 |
| 3 | 2019-20 | -14,858 | -156,874 |
| 4 | 2020-21 | -9,320 | -166,194 |
| 5 | 2021-22 | -23,202 | -189,396 |
| 6 | 2022-23 | -10,508 | -199,904 |

It was the primary responsibility of the Board to take effective steps to reduce accumulated losses of the company. However, BoD did not set KPIs for the management as the agenda was deferred multiple times. Moreover, monitoring and evaluation framework was not developed to gauge the performance of the management which was

required to be developed within 30 days of signing of the annual performance agreement between Power Division and BoD of LESCO. This lack of oversight hindered effective performance management, compromised accountability, and eroded organizational governance. The accumulated losses raised concerns about LESCO's ability to meet its financial obligations.

Weak governance of BoD resulted in heavy accumulated losses of the company during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that LESCO was continuously making efforts to reduce operational losses and enhance profitability of the company. The reply of the management was not acceptable because LESCO's accumulated losses reached Rs. 219,665 million by June, 2023 due to escalating expenses. Being a supervisory Body, the BoD failed to devise operational policies to achieve the objectives of business plan and to reduce the burden of accumulated losses.

The DAC in its meeting held on February 15, 2024 directed the management to share the business plan and get the record verified from Audit within thirty (30) days.

However, despite the directions of DAC, business plan was not provided to Audit till the finalization of the report.

Audit recommends devising KPIs and monitoring and evaluation framework to reduce accumulated losses of LESCO. Implementing stringent cost-control measures to reduce operating expenses and improve profitability. Exploring opportunities to enhance revenue streams, such as improving billing efficiency and reducing line losses.

### 6.2.3. Non-implementation of Circular Debt Management Plan - Rs. 378,305 million

According to directions of BoD LESCO in its 235$^{th}$ meeting held on 15.07.2021, "management shall prepare comprehensive plan/program for reduction of AT&C losses of LESCO and circular debt." The Board

further directed that "performance review meeting shall be conducted periodically to review the operational, technical, commercial, and financial performance of LESCO. The management shall present periodically indicators to the Board on regular basis."

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that the management failed to adhere to the directives given in the 235th meeting of the BoD. The BoD did not conduct any performance review meeting to devise policies (to reduce AT&C losses and improve recovery) and oversee management actions to reduce surge in circular debt during FYs 2021-23. This showed that there was no mechanism in place whereby the BoD could ensure implementation of its directions. Resultantly, the total amount of circular debt pertaining to LESCO stood at Rs.378,305 million as on June 30, 2023. The detail is as under:

**Table 5: Detail of Circular Debt (LESCO)**

| Year | CPPA invoices payable by LESCO (Rs. in million) | AT&C Losses (Rs. in million) | Total Circular Debt Burden (Rs. in million) |
|---|---|---|---|
| 2021-22 | 294,965 | 12,335 | 307,300 |
| 2022-23 | 328,030 | 50,275 | 378,305 |

Lack of oversight by the BoD resulted in increase in circular debt of LESCO.

The matter was taken up with the management in September, 2023. The management replied that there were two main reasons of Circular debt i.e., T&D Losses and shortfall in recovery against billing of company. LESCO had filed a request before NEPRA for review of T&D losses which was pending for adjudication before Appellate Tribunal of NEPRA. The reply of the management was not acceptable because BoD did not follow up to ensure implementation of Circular Debt Management Plan, 2023.

The DAC in its meeting held on February 15, 2024 directed the management to share the business plan and get the record verified from

Audit within thirty (30) days.

However, despite the directions of DAC, annual business plan was not provided to Audit till the finalization of the report.

Audit recommends making concrete efforts in implementing Circular Debt Management Plan, 2023 circulated by Power Division under intimation to audit.

### 6.2.4. Unjustified approval of bonus by the BoD to employees despite continuous operational losses of the Company- Rs.539.50 million

According to the bonus policy laid down by the Government of Pakistan, Finance Division (Regulation Wing) through OM dated November 30, 2001; the payment of bonus by autonomous bodies/semi-autonomous bodies /Corporations required approval by administrative ministry and concurrence of the Finance Division. Further, according to Government of Pakistan, Ministry of Finance vide letter No.F.3(5) R.12/80(R.14) Vol.II/2002-544 dated March 18, 2002 directed that the bonus would be paid on operational profit of the organization only excluding income from other sources. Further, according to Finance Division (Regulation Wing), O.M.No.F.3(5) R.12/80(R-14)2002-154 dated March 18, 2002 Managing Directors and Members of the Board of Directors of autonomous/semi-autonomous bodies/public Corporation/organizations are not entitled to receive bonuses.

According to decision of the NEPRA in Multi Year Tariff (MYT) determination of SEPCO dated 12.01.2023 "the authority acknowledges that providing incentives to employees can enhance performance and productivity. However, such incentives should be funded from the organization's profits and not passed on as costs to power sector consumers. Consequently, the request is deemed unjustified and has been denied".

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that the BoD of LESCO, in its 245$^{th}$

meeting held on April 15, 2022, approved the disbursement of bonus amounting to Rs.539.50 million to all LESCO employees. This decision was taken in complete disregard of instructions issued by Finance Division from time to time and NEPRA's guidelines since continuous losses were incurred by the company from FY 2017-18 to FY 2022-23. The BoD neither approved any budgetary provision nor presented any case for such bonus in its original MYT petition or during the subsequent hearings of the MYT petition. However, the impact of payment of bonus was shifted to consumers. Details of the financial losses are as follows:

**Rs.in million**

| Sr No. | Financial Year | Total Profit/Loss after tax | Accumulated Losses |
|---|---|---|---|
| 1 | 2017-18 | -18,252 | -127,351 |
| 2 | 2018-19 | -14,665 | -142,016 |
| 3 | 2019-20 | -14,858 | -156,874 |
| 4 | 2020-21 | -9,320 | -166,194 |
| 5 | 2021-22 | -23,202 | -189,396 |
| 6 | 2022-23 | -10,508 | -199,904 |

Moreover, the bonus was approved by the BoD to all employees without any performance evaluation or prescribing any criteria. The BoD' decision to approve the bonus payment despite evident financial constraints and regulatory non-compliance reflected unsatisfactory governance and lack of fiduciary responsibility. The BoD should have prioritized measures to mitigate losses and improve financial stability.

Imprudent decision of the BoD resulted in unjustified approval of bonus to LESCO employees amounting to Rs.539.50 million despite unsatisfactory financial performance of the Company.

Audit recommends justifying the award of bonus despite continuous losses and without approval of Finance Division and

NEPRA, besides ensuring recovery of the same.

## 6.3. Monitoring & Evaluation

### 6.3.1. Non-implementation of decisions of BoD regarding revamping of legal department

According to Section 20 of the State-Owned Enterprises (Governance and Operations) Act, 2023, "The Board shall ensure the integrity of the systems of internal control and any person who is found liable for a deviation or violation from the company's code of conduct or other systems of internal control shall be subject to disciplinary proceedings in accordance with the state-owned enterprise's internal policies.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that the BoD in its 237$^{th}$ meeting dated 21.09.2021 directed the management to allow legal department to hire lawyers other than the existing panel of lawyers in Kasur for litigation purposes subject to condition that non-panel lawyers would be entitled to the existing prescribed fee. Moreover, BoD also directed to purchase a specialized software for the legal department to monitor day to day cases and update information regarding litigation in all circles, especially in Kasur and Okara Circles. But LESCO management did not implement the aforementioned decisions of BoD to revamp the Legal Department of LESCO. The company was involved in more than 30,000 litigation cases (50% in Kasur Circle) filed by electricity consumers in various courts which resulted in substantial financial burden due to exorbitant legal fees. The BoD did not actively follow-up the decision taken for revamping of the legal department despite the escalating litigation cases.

Furthermore, it was also observed that an inquiry committee was constituted by the BoD on 29.03.2019 to probe the matter of a complaint lodged against the Chief Law Officer (CLO) of LESCO. The inquiry committee submitted a comprehensive report with recommendations. The said CLO was terminated on 14.06.2019, however, recommendations of inquiry report were not implemented due to non-

follow up by the BoD. It was worth mentioning that instead of blacklisting the complainant, legal cases had continuously been awarded to lawyer till to-date as 83 cases were awarded and fee of Rs.0.510 million was paid in 43 cases during July-2021 to June-2022. The Board's failure to ensure implementation of the recommendations reflected weak governance.

Lack of weak governance and oversight resulted in non-implementation of BoD decisions regarding non-revamping of legal department and implementation of inquiry committee's recommendations during FYs 2021- 22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that revamping of legal directorate was proposed and presented before BoD by the then CLO. A dashboard of daily monitoring of legal cases in the courts related to all operation circles including Okara and Kasur circle was in development phase. The reply of the management was not acceptable because management's response lacks evidence of effective implementation of Board decisions, thereby addressing prolonged financial burden and operational inefficiencies.

The DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within a week's time.

However, despite directions of DAC, no record was produced to Audit for verification till the finalization of the report.

Audit recommends improving supervisory oversight and monitoring function by BoD for getting its decisions implemented. Furthermore, reasons for non-implementation of recommendations of inquiry committee may be explained besides implementing them expeditiously.

### 6.3.2. Non-finalization of financial statement for FYs 2020-21 to 2022-23

According to the clause 192 (3) of Companies Act, 2017, the

Chairman shall be responsible for leadership of the Board and ensure that the board plays an effective role in fulfilling its responsibilities. Every financial statement circulated under section 223 of this Act shall contain a review report by the Chairman on the overall performance of the board and effectiveness of the role played by the board in achieving the company's objectives.

As per Section 223 of Companies Act, 2017, Board of every company must lay before the stakeholders 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. The financial statements must be laid within a period of four months following the close of financial year of a company:

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that BoD did not ensure timely finalization and submission of financial statements for FYs 2020-21 to 2022-23 to the Registrar of companies and NEPRA as required under rules. Resultantly, the Board failed to lay before the stakeholders in annual general meeting its financial statements for last three financial years. The delay in finalizing financial statements undermined transparency, making it difficult for stakeholders to assess the company's financial health and operational performance accurately. This very act was non-compliant with legal requirements and deprived stakeholders of crucial financial information at annual general meetings for three consecutive years.

Weak governance of the Board resulted in non-finalization of accounts for FYs 2020-21 to 2022-23.

The matter was taken up with the management in September, 2023. The management replied that efforts were being made to finalize the financial statements for last three years. The reply of the management was not acceptable as it was imperative for BoD to prioritize the

finalization of its annual accounts for FYs 2020-21 to 2022-23.

The DAC in its meeting held on February 15, 2024 directed the management to finalize the audited accounts of last three years and submit statement of compliance for last three FYs i.e. 2020-21 to 2022-23 to SECP after approval of BoD within sixty (60) days and report to Audit.

However, despite directions of DAC, audited accounts of last three years were not produced to Audit for verification till the finalization of the report.

Audit recommends ensuring prompt finalization of annual accounts and its submission in accordance with regulatory requirements.

### 6.3.3. Non-conducting of internal audit for FYs 2021-22 and FY 2022-23

According to rule 22(1) of the Public Sector Companies (Corporate Governance) Rules, 2013, there shall be an internal audit function in every Public Sector Company. The chief internal auditor, who is the head of the internal audit function in the public sector company, shall be accountable to the audit committee and have unrestricted access to the audit committee. Further, according to Rule 22(3), every public sector company shall ensure that internal audit reports are provided for the review of external auditors.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that the Audit Committee of the Board approved annual internal audit plan of LESCO for the FY 2022-23. However, the BoD did not ensure implementation of the internal audit plan for 2022-23. The internal audit of LESCO was not conducted for FYs 2021-22 and 2022-23 which led to incurring expenditure without proper oversight. In the absence of implementation of internal audit plan, the overall control environment in the company was compromised and contributed to fraudulent activities such as material misappropriations and embezzlements in the billing recovery and pension fund. This

highlighted BoD' failure in ensuring transparency and accountability in company's operations.

Non-adherence to Public Sector Companies (Corporate Governance) Rules, 2013, and BoD's weak supervision resulted in internal control weakness due to non-conducting of internal audit during FYs 2021-22 and FY 2022-23.

The matter was taken up with the management in September, 2023. The management replied that complete status of annual audit plan for FY 2022-2023 along with other audit reports pertaining to FY 2022-2023 were presented to audit committee of the Board in its 75th meeting held on August 09, 2023. The reply of the management was not acceptable because the annual audit plan was not executed for FYs 2021-22 and 2022-23, indicating lapses in oversight and non-adherence to corporate governance rules.

The DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within a week time.

However, despite directions of DAC, internal audit reports for FYs 2021-22 and 2022-23 were not produced to Audit for verification till the finalization of the report.

Audit recommends completing internal audit for FYs 2021-22 and 2022-23 and sharing internal audit reports with Audit.

## 6.4. Procurement & Contract Management

### 6.4.1. Non-execution of AMR/AMI Project in violation of NEPRA's directive Rs.30.00 billion

According to para 48.3 of Multi-Year Tariff (MYT) determination of LESCO dated 08-03-2016, the Authority in order to ensure prudent and effective spending of the allowed investment approved the AMR/AMI project for the Petitioner, for the period of five years, so that progress on the implementation of these projects could be monitored effectively and in case of any failure regarding proper

implementation of the target plans, proceedings would be initiated against the Petitioner under MYT Act, Rules and Regulations.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that the BoD failed to make strategy to materialize pilot project of installation of 1.2 million AMR meters as envisaged in MYT determination of LESCO (2015-16 to 2019-20). This pilot project was aimed at reducing AT&C losses by 2% over the five years which could have resulted in substantial financial gain for the company. However, LESCO did not materialize this ADB funded project because the agenda relating to implementation of installation of AMR/AMI meters as pilot project was never presented in the board meetings. This showed lack of oversight and poor governance by the BoD.

NEPRA allowed investment amounting to Rs.30.00 billion (Rs.7,500 million for each financial year from 2015-16 to 2019-20) to LESCO under AMR/AMI project as illustrated below:

**Detail of AMI/AMR Metering Plan**

| Sr.# | Description | Nos. |
|---|---|---|
| 1 | AMR Meters installation at Domestic & Commercial Consumers | 1,151,393 |
| 2 | AMR Meters installation at Sub-stations, 11 KV Feeders and Distribution Transformers | 26,665 |
| 3 | AMR Meters installation at Bulk Consumers | 24,654 |
| | **TOTAL** | **1,202,712** |

Source: MYT determination by NEPRA dated: 8th March, 2016

It is pertinent to mention that above mentioned plan was not implemented and NEPRA again allowed an investment of Rs.8,906 million to LESCO for commercial improvements in the company in MYT of 2023-24 to 2027-28 due to its failure to materialize the previous project.

Unsatisfactory governance and lack of oversight by the BoD resulted in non- execution of investment plan of Rs.30.00 billion

Audit recommends investigating the matter at the ministry level and fixing responsibility. Moreover, the BoD should develop a mechanism to prioritize and oversee implementation of directions of NEPRA.

### 6.4.2. Deferment of Critical Agendas by the Board of Directors (BoD) of LESCO

According to rule 7 (1) and (2) (a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish appropriate arrangements to ensure it has access to all relevant information, advice, and resources necessary to enable it to carry out its role effectively. Significant issues like annual business plans, cash flow projections, forecasts, and long-term plans; budgets including capital, manpower and expenditure budgets, along with variance analyses shall be placed before the Board for its information and consideration, to formalize and strengthen the corporate decision-making process.

During performance audit of the BoD of LESCO for FYs 2021-22 and 2022-23, it was observed that BoD of LESCO deferred several critical agenda items, including:

- Presentation on the 6-month strategic plan of the technical department.
- Consideration and approval of future plans and Key Performance Indicators (KPIs) for the operation, technical, customer services, MIRAD, and IT directorates.
- Discussion and consideration of the contractual employment policy.
- Draft Standard Operating Procedures (SOPs) for the replacement of damaged/defective transformers.
- Procurement related agenda

The BoD is responsible for providing strategic oversight and ensuring that the company operates efficiently and effectively. The deferment of these critical agendas reflected a lack of prioritization and

attention to essential operational and strategic issues. BoD repeatedly deferred critical agenda items, including strategic plans, finalization of departmental and employees related KPIs, SOPs for operations department and procurement policies, reflecting poor prioritization and oversight.

Weak governance by the BoD resulted in deferment of critical agendas which undermined effective decision-making and operational efficiency, violating corporate governance rules.

Audit recommends justifying the reasons of deferment of agendas by the BoD.

# 7. OVERALL ASSESSMENT

The audit findings highlighted significant governance and operational deficiencies, resulting in financial losses and regulatory non-compliance in LESCO. The Board of Directors (BoD) exhibited unsatisfactory performance, failing to achieve key performance indicators and improperly enhancing their remuneration amidst financial distress. Critical governance lapses, such as non-constitution of sub-committees and irregular promotions, further exacerbated the issues. Additionally, the approval of unjustified bonuses, irregular public forums, delayed financial statements, and the neglect of internal audits and critical projects like the AMR/AMI Project underline systemic inefficiencies.

# 8. CONCLUSION

The audit findings reveal significant governance and operational shortcomings, leading to financial distress and non-compliance with regulatory mandates. The Boards have underperformed, failing to meet Key Performance Indicators (KPIs) and making irrational decisions, such as increasing their remuneration during financial losses and approving unjustified bonuses for employees. Further, the BoD violated Corporate Governance Rules by not constituting necessary sub-committees and irregularly promoting managers, highlighting a lack of adherence to established procedures.

Critical financial and operational processes were neglected, as seen in the non-finalization of financial statements and failure to conduct internal audits for FY 2021-22 and FY 2022-23. The non-execution of the AMR/AMI Project despite directives from NEPRA, underscores the inefficiencies and potential regulatory repercussions. The deferment of critical agendas by the BoD reflects poor organizational management and a lack of prioritization of essential issues.

The recommendations provided aim to address these deficiencies

through comprehensive reforms. Implementing a performance management system with clear KPIs and regular evaluations for the BoD is essential. Adhering to SECP's Corporate Governance Rules for BoD member selection, establishing a transparent and merit-based promotion process, and aligning remuneration policies with company performance are critical steps to restore governance integrity. Strengthening risk management and internal control systems, expediting the finalization of financial statements, and ensuring timely internal audits to enhance financial transparency and accountability. By prioritizing and addressing critical issues promptly, LESCO can realign its operations with regulatory requirements and corporate governance standards, ultimately stabilizing its financial and operational standing.

# 9. ACKNOWLEDGEMENT

We express our appreciation with positive concern to the management and staff of LESCO for the assistance and cooperation extended to the auditors during this assignment.

# 10. ANNEXES

**Annex-A**
**6.1.10**

## Recommendation of promotion Board for promotion

| Sr.# | Name of Officer | Designation | Recommendation of Promotion Board |
|---|---|---|---|
| 1 | Manzoor Hussain | Manager (S&I) | Deferred |
| 2 | Tahir Mehmood | CE (O&M) | Fit |
| 3 | Tariq Mehmood Siddique | Manager | Fit |
| 4 | Muhammad Asif Majeed | CE (Dev) PMU | Fit |
| 5 | Muhamad Ramzan Butt | CE (TS) Design | Fit |
| 6 | Raja Mehmood Ahmed | Manager (P&S) | Fit |
| 7 | Ijaz Ahmed | Manager (Op) Nankana | Fit (Subject to availability of seat) |
| 8 | Rai Muhammad Asghar | Customer Service Directorate | Fit (Subject to availability of seat) |
| 9 | Muhammad Akhlaq Qadri | Manager (attached with Operations Director) | Deferred (on Medical Ground) |
| 10 | Muhammad Sarwar Mughal | Manager (Op) East Cir. | Fit (Subject to availability of seat) |
| 11 | Altaf Qadri | DG (MIRAD) | Not considered |
| 12 | Muhammad Anees | Manager (MI) | Not considered |

**Annex-B**
**Para –6.1.16**

## Detail of proposed Draft Polices for adoption in DISCOs

1. Employee Service Rules
2. Disciplinary Policy
3. Employee Code of Conduct Policy
4. Compensation & Benefit Policy 2022
5. Revised Employment Policy of LESCO
6. Employee Grievance & Redressal Policy
7. Performance Management Policy/Promotion Policy/Seniority Policy
8. Anti-Harassment Policy
9. Anti-Corruption Policy
10. Whistle Blowing Policy
11. Health and Safety Policy
12. IT/ERP/MIS Policy
13. Learning and Development Policy
14. House Allocation Policy
15. Collaborative Office Management System
16. Travel Management System
17. Compensation & Benefit Policy
18. Transfer Posting Policy
19. Deputation Policy
20. Employee Grievance & Redressal Policy
21. Vehicle Management Policy
22. LESCO Employees Medical Attendance Rules-2022
23. LESCO Management Trainee Policy-2022
24. House Allocation Policy-2022
25. LESCO Employees (Travelling Allowance) Rules-2022
26. Compensation & Benefit Policy 2022
27. LESCO Employees (Determination of Date of Birth) Rules-2022
28. LESCO Employees (Artificial Limbs to Disabled Persons) Rules-2022
29. LESCO Employees (Treatment of Chronically Sick Persons) Rules, 2022
30. LESCO Employees (Restriction on Marriages with Foreign Nationals) Rules, 2022