PERFORMANCE AUDIT REPORT ON BOARD OF DIRECTORS (BoD) OF FESCO 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 Faisalabad Electric Supply Company (FESCO) 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 FESCO 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 FESCO. 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
FESCO	Faisalabad Electric Supply Company
FPA	Fuel Price Adjustment
GoP	Government of Pakistan
HSE	Health, Safety and Environment
ISSAI	International Standards of Supreme Audit Institutions
KPIs	Key Performance Indicators
kW	Kilowatt
kV	Kilovolt
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 Faisalabad Electric Supply Company (FESCO) 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 FESCO 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 FESCO remained less effective due to non-achievement of annual operational and financial targets set forth by the Power Division for FESCO. The BoD of FESCO did not meet the 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 sub-committees of BoD in violation of Corporate Governance Rules, 2013.[2]

iii. Non-appointment of CEO, CIA, CFO and Company Secretary.[3]

iv. Deferment of critical agendas by BoD of FESCO[4]

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

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

vii. Non-conducting of internal audit for FYs 2021-22 and 2022-23.[7]

[1] Para No.6.1.1,6.1.12, 6.1.13, 6.1.14, 6.1.15, 6.1.16, 6.2.3
[2] Para No.6.1.2
[3] Para No. 6.1.3, 6.1.4, 6.1.5 & 6.1.6
[4] Para No.6.1.11
[5] Para No.6.2.2
[6] Para No.6.2.3
[7] Para No.6.3.1

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, necessary training and development programs be provided to enhance the effectiveness of BoD;

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

iii. Appointing eligible persons on key posts in BoD in line with criteria given in State Owned Enterprise Act.

iv. 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, performance-based incentives be implemented that are sustainable and justifiable;

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

vi. 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

vii. 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, 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 FESCO 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. It has 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 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 the 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 to seek 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 FESCO 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 FESCO 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 Company?

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 FESCO 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-FESCO

Faisalabad Electric Supply Company Limited (FESCO) started its operations as a Public Limited Company registered under Companies Ordinance, 1984 in May, 1998. The Company distributes the electricity to power consumers at tariff determined by National Electric Power Regulatory Authority (NEPRA) and notified by the Government of Pakistan. The Company purchase electricity from National Transmission and Despatch Company (NTDC) and sell it to various consumers within its service territory. Geographical service area of FESCO comprises Faisalabad, Jhang, Bhakkar, Sargodha, Mianwali, Toba Tek Singh, Khushab and Chiniot Districts.

The performance contract is signed between the Ministry of Energy (Power Division) and the Company. The MoE is committed to ensure that FESCO 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-FESCO during FY 2022-23

Sr.#	Key Performance Indicators	Performance of BoD	Reasons of Deviations
1	**AT&C Losses targets set to 8.84% for FY 2022-23**	AT&C losses remained at 10.26% against the target of 8.84% showing a variation of 1.42%.	Target could not be achieved due to non-payment of deferred amount of Rs. 6,126 million by Court.
2	**MMR accuracy to be 100%**	Mobile Meter Reading (MMR) accuracy remained low for general, industrial and tube-well consumers by 1%, 11% and 17% respectively.	The main reasons for low % was due to the non-replacement of defective meters and outdated mobile sets.
3	**Transmission Lines 530 KMs to be**	The company was required to complete 530 KM	The less procurement of towers due to

	completed.	transmission lines under 8th STG programme but only 337 KM achieved.	budgetary constraints and severe right of way constraints at site and court cases resulted in less achievement of targets.
4	**Replacement of 1.152 million non-static meters to be replaced**	The company was required to replace 1.152 million non-static meters but only 18,832 meters replaced leaving 1.134 million less achieved which showed extremely poor performance.	The major reasons were the extreme shortage of meters due to LCs issues. Furthermore, BoD focus was on new connections installations and replacement of defective non-static meters instead of all non-static meters.
5	**Financial performance (remittances to CPPA-G) to be 100%**	FESCO remitted Rs.333.977 billion against total invoice of Rs.350.617 billion as of 30.06.2023 which indicated 4.75% less remittances	Less remittance was due to the impact of quarterly tariff adjustments and FPA.
6	**Target of installation of industrial connection to be 1,516**	Total 1,516 industrial connections were required to be given but only 804 connections processed showing less achievement of 712 industrial connections.	Non-availability of meters
7	**16,066 AMI/AMR meters to be installed against government & private connections**	Total 16,066 AMR meters were required to be installed against government and private connections, but only 6,558 AMR meters were installed showing a less installation of 9,508 meters.	Non-availability of meters

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

6. AUDIT FINDINGS AND RECOMMENDATIONS

6. AUDIT FINDINGS

6.1 ORGANIZATION & MANAGEMENT

6.1.1 Loss of revenue due to T&D losses beyond NEPRA's targets – Rs.6,298.34 million

NEPRA had fixed targets of energy losses of 8.84% for the Financial Year 2022-23 in respect of FESCO.

During performance audit of the BoD of FESCO 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, 211.694 million energy units valuing Rs.6,298.34 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.	FESCO	8.84	15.10	211.964	6,298.34

(Source: Progressive CP-22A of FESCO)

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 while signing the performance agreement / contract between Power Division and FESCO for FYs 2021-22 and 2022-23, FESCO agreed with all assigned targets against various performance parameters except a few ones mainly due to unavoidable circumstances/ uncontrollable factors which are beyond the control of FESCO. The reply is not acceptable because the management's response does not absolve the BoD of their responsibility to oversee the implementation of the strategic business plan and ensure that targets are met, regardless of any external circumstances.

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 the performance agreement, disciplinary actions may be taken against officers and officials for not achieving the targets.

6.1.2 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 FESCO for FYs 2021-22 and 2022-23, it was observed that the BoD of FESCO was reconstituted by Government of Pakistan on 01.11.2022. The BoD approved the constitution of eight sub committees in its $256^{th}/6^{th}$ meeting held on 12.01.2023. However, instead of following the prescribed procedures wherein the agenda for constitution of sub-committees was required to be presented before the Board for deliberations, the sub-committees were constituted without presenting agenda before the Board. Following is the detail of eight sub-committees working irregularly without approval of the Board:

1) HR, Nomination, and Legal Committee
2) Audit & Finance Committee

3) Customer Service Committee
4) Policy, Strategy & Market Reforms & Risk Management Committee
5) Technical, Automation & New Initiative Committee
6) Administrative Committee
7) Health, Safety, Environment & Quality Assurance Committee
8) Procurement & Disposal Committee

It was crucial that FESCO's sub-committees were properly constituted with clear mandates and accountability mechanisms. The irregularly constituted sub-committees severely undermined FESCO's governance framework and decision-making processes. The Company incurred financial loss of Rs.16,968 million during FYs 2021-22 and 2022-23.

Non-adherence to Corporate Governance Rules 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 as per SECP Corporate Governance Rules 2013, there was no bar on increasing or decreasing the number of BoD sub committees. The reply of the management was not acceptable as copy of resolution was not provided for verification.

DAC in its meeting held on February 15, 2024 directed the BoD of FESCO to evaluate the BoD committees' targets 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.

6.1.3 Non-appointment of Chief Executive Officer of FESCO 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 Commission 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 FESCO for FYs 2021-22 and 2022-23, it was observed that BoD did not appoint Chief Executive Officer (CEO), FESCO since 2014. A considerable period 09 (nine) years had lapsed but the appointment of CEO in line with the criteria and procedures mentioned in public sector guidelines, was still pending. 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, FESCO during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that as per the directions of Power Division, the recruitment process has been initiated for the post of CEO FESCO. The reply of the management was not acceptable because the management did not address the significant delay in the appointment of the CEO, FESCO and ensure adherence to the prescribed procedures. The timely appointment of a CEO in line with fit and proper criteria is crucial for effective governance and management of FESCO and the Board must take appropriate measures to expedite the appointment process while ensuring transparency and accountability.

DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within seven (7) days regarding proceedings of new appointments.

However, despite the directions of DAC, record regarding recruitment process was not produced to Audit for verification till the finalization of the report.

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

6.1.4 Non-appointment of Chief Internal Auditor of FESCO by BoD

According to Rule 13 of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall appoint a chief internal auditor. The appointment, remuneration and terms and conditions of employment shall also be determined with the approval of the Board and shall not be removed except with the approval of the Board. Further, according to Rule 22(2), no person shall be appointed as the Chief Internal Auditor of a Public Sector Company unless he has five years of relevant audit experience and is a member of a recognized Body of professional accountants or certified internal auditor or certified fraud examiner or certified internal control auditor or person holding a master's degree in finance from a university recognized by the Higher Education Commission.

During performance audit of the BoD of FESCO for FYs 2021-22 and 2022-23, it was observed that BoD did not appoint Chief Internal Auditor (CIA), FESCO since 2015. Instead, Director Material Management (MM) FESCO was posted as CIA on current charge basis as stop gap arrangement. A considerable period had lapsed but the appointment of the CIA in line with the criteria and procedures mentioned in Corporate Governance Rules was still pending. Timely appointment of a CIA, in line with fit and proper criteria, is crucial for effective governance and management since CIA reports the overall performance of the management and its control environment to the Board. The BoD' failure to appoint CIA in a timely manner affected efficiency of internal audit function. This undermined the integrity of internal controls and reduced the organization's ability to enforce compliance with established policies.

Weak governance by BoD resulted in non-appointment of CIA, FESCO during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that as and when approval of the Power Division was received, recruitment process for hiring of CIA would be initiated. The reply of the management was not acceptable because the management did not address reasons of significant delay in the appointment of CIA.

DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within seven (7) days regarding proceedings of new appointment.

However, despite the directions of DAC, record regarding recruitment process was not produced to Audit for verification till the finalization of the report.

Audit recommends implementation of DAC's decision besides justifying reason for non-appointment of regular CIA even after a lapse of a considerable time and making efforts to complete the recruitment process at the earliest.

6.1.5 Non-appointment of Chief Finance Officer of FESCO by BoD

According to Rule-13 of the Public Sector Companies (Corporate Governance Rules), 2013 the Board shall appoint a Chief Finance Officer. The appointment, remuneration and terms and conditions of employment shall also be determined with the approval of the Board and shall not be removed except with the approval of the Board. Further, according to Rule-14 (1), the chief financial officer shall be responsible for ensuring that appropriate advice is given to the Board on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.

During performance audit of the BoD of FESCO for FYs 2021-22 and 2022-23, it was observed that BoD did not appoint Chief Finance Officer (CFO), FESCO since 2011. A junior rank officer was posted on acting/additional charge basis due to which the work of the finance department was not being carried out satisfactorily. A considerable period had lapsed but the appointment of the CFO

in line with the criteria and procedures mentioned in Corporate Governance Rules was still pending. The timely appointment of a CFO, in line with fit and proper criteria, is crucial for effective governance and management. The BoD's failure to appoint CFO to ensure timely succession planning and recruitment for the CFO position highlights lack of oversight in governance practices contributing to the challenges faced by FESCO during this period.

Weak governance by BoD resulted in non-appointment of CFO, FESCO during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that as and when approval of Power Division was received, recruitment process for hiring of CFO would be initiated. The reply of the management was not acceptable because the management did not address reasons of significant delay in the appointment of CFO.

DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within seven (7) days regarding proceedings of new appointment.

However, despite the directions of DAC, record regarding recruitment process was not produced to Audit for verification till the finalization of the report.

Audit recommends implementing DAC's decision besides justifying reason for non-appointment of regular CFO even after lapse of considerable time and making efforts to complete the recruitment process at the earliest.

6.1.6 Non-Appointment of Company Secretary of FESCO by BoD

According to Rule 13 of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall appoint a company secretary. The appointment, remuneration and terms and conditions of employment shall also be determined with the approval of the Board and shall not be removed except with the approval of the Board. Further, according to Rule 14(4), No person shall be appointed as the company secretary of a Public Sector Company unless he is a member of a recognized Body of professional accountants; or member of a

recognized Body of corporate or chartered secretaries; or person holding a master's degree in business administration or commerce or being a law graduate from a university recognized by the Higher Education Commission with at least five years relevant experience.

During performance audit of the BoD of FESCO for FYs 2021-22 and 2022-23, it was observed that BoD did not appoint Company Secretary (CS), FESCO since formation of the Company. Instead, technical cadre officer was posted on acting/additional charge basis. A considerable period had lapsed but the appointment of the Company Secretary in line with the criteria and procedures mentioned in public sector guidelines was still pending. The timely appointment of a Company Secretary, in line with fit and proper criteria, is crucial for ensuring that Board's procedures are followed. The BoD's failure to appoint Company Secretary in a timely manner affected compliance with applicable laws, rules and regulations.

Weak governance of BoD resulted in non-appointment of Company Secretary, FESCO during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that the direction for hiring of Company Secretary from open market had been conveyed by Power Division on 28.08.2023 and it is being processed for approval by BoD FESCO through HR, Nomination & Legal Committee. The reply of the management was not acceptable because the management did not address reasons of delay in the appointment of Company Secretary.

DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within seven (7) days regarding proceedings of new appointment.

However, despite the directions of DAC, record regarding recruitment process was not produced to Audit for verification till the finalization of the report.

Audit recommends implementing DAC's decision besides justifying reason for non-appointment of regular company secretary even after a lapse of

considerable time and making efforts to complete the recruitment process at the earliest.

6.1.7 Irregular appointment of FESCO employees as consultants after superannuation – Rs. 25.098 million

According to serial No-2, 7 and 8(i) of the Establishment Division, MS Wing's U.O.No.11-3/2001-MSW-III, dated January 25, 2002, a consultancy would, therefore, always be assignment specific and time bound and should be preferred only when it is considered value effective to hire services of a consultant compared to developing in-house expertise. No person retired from a government organization will be hired as a consultant only to re-employ him/her. Consultants should not be appointed to perform routine functions of an organization.

According to the Cabinet Secretariat O.M. No. 182/20-Corrd/C/2005 dated 04-12-2007, the re-employment on contract after retirement was restricted in exceptional cases where the expertise of the civil servant was still required by the Government. However, approval of the Prime Minister of Pakistan was required to be obtained for appointment beyond the age of superannuation.

During performance audit of the BoD of FESCO for FYs 2021-22 and 2022-23, it was observed that four retired employees were re-appointed as consultants without prior approval of the Prime Minister of Pakistan. It was further observed that several extensions of six months to one-year duration were given to consultants after approval from BoD along with 100% enhancement in remuneration. Resultantly, an amount of Rs.25.098 million paid to consultants was considered irregular **(Annex-A)**. The BoD failed ensuring that all hiring and appointment processes within FESCO were conducted fairly, efficiently, and in the best interest of the Company.

Weak governance resulted in irregular appointment of employees after superannuation without the approval of Prime Minister during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that FESCO was facing acute shortage of senior officers and

the available senior management was already overburdened due to additional duties assigned to them. The company was in dire need of able and experienced individuals for posting on critical positions especially in Legal, PMU, Audit and HR Directorate. Therefore, the services of these officers were hired in advisory role due to their vast experience in these fields with the approval of BoD FESCO. The reply of the management was not acceptable as appointment of employees after superannuation instead of appointment of regular person with relevant qualification and experience was irregular.

DAC in its meeting held on February 15, 2024 directed the management to get the reply of BoD whether procedures were followed for hiring of employees after superannuation, 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 for verification till the finalization of the report.

Audit recommends investigating the matter at Ministry level for fixing responsibility for irregular appointments after superannuation.

6.1.8 Non-recruitment of staff against vacant posts in FESCO

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 FESCO for FYs 2021-22 and 2022-23, it was observed that various posts remained vacant since long in FESCO which were required to be filled by following recruitment procedures. Resultantly, operational and financial performance of FESCO deteriorated over the last few years due to insufficient staff. The detail is as under:

Detail of vacant posts 2022-23

Sr. no	Particulars	Sanctioned Posts	Regular	Contractual	Daily Wages	Total Filled	Vacant
01.	Officers (Ranked)	607	362	31	0	393	214

02.	Officials (Staff)	23,387	11,571	932	106	12,609	10,778
	Total:	**23,994**	**11,933**	**963**	**106**	**13,002**	**10,992**

The Board's inability to take concrete steps to fill vacant posts resulted in insufficient staffing. FESCO'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 a contributing factor in financial losses of the company because regulatory targets 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 FESCO during FYs 2021-22 to 2022-23.

The matter was taken up with the management in September, 2023. The management replied that in pursuance of directions of BoD, it requested Ministry of Energy (Power Division) to allow initiation of recruitment against the critically required posts along with filling of essential positions of senior management to meet its operational requirements and enhance performance. The reply of the management was not acceptable as it was the responsibility of the BoD to ensure that there was no human resource shortage which was not done. This compromised the operational efficiency of the Company.

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

However, despite the direction of DAC, no progress was intimated to audit till finalization of the report.

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

6.1.9 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 in the 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 Profit (preferably 1-2%) for selected CSR initiatives.

During performance audit of the BoD of FESCO for FYs 2021-22 and 2022-23, it was observed that the 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. Contrary to the above, BoD of FESCO did not develop 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 BoD was not only a regulatory non-compliance but also threatened FESCO'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 FESCO during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that FESCO was already complying with the directions of NEPRA like scholarship and Internship programmes for FESCO employees. The reply of the management was not acceptable because it failed to justify the non-formulation of CSR policy by the BoD since 2013.

DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within seven (7) days.

However, despite directions of DAC, record regarding scholarship and Internship programmes for FESCO employees was not provided to Audit for verification till the finalization of the report.

Audit recommends formulation of CSR policy byBoD and its implementation.

6.1.10 Non-formulation and finalization of necessary policies by BoD-FESCO

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.

According to Clause 5 of performance agreement/contract between Power Division and FESCO for FYs 2021-22 and 2022-23, Part-II of the contract refers to Responsibilities and Commitments by FESCO BoD/Management, "The Board may formulate strategic HR policies including succession planning aligned with the targets set out in performance evaluation agreement".

During performance audit of the BoD of FESCO for FYs 2021-22 and 2022-23, it was observed that FESCO BoD did not formulate important policies like HR, IT and Safety policies for smooth functioning of the Company since its incorporation in 1998. GM (HR) PEPCO also circulated 28 draft policies for adoption/enforcement in DISCOs on 29.06.2021 (**Annex-B)**. However, BoD did not adopt these policies. These policies 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 FESCO during FYs 2021-22 and 2022-23. This led to operational inefficiencies, financial mis-management, and ultimately failure to meet various performance targets.

The matter was taken up with the management in September, 2023. The management replied that policies / rules had already been reviewed / evaluated and were being presented to HR, Nomination & Legal Committee for recommendations to BoD FESCO for approval. The reply of the management was not acceptable because the company did not formulate essential policies mandated by Corporate Governance Rules.

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

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

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

6.1.11 Deferment of Critical Agendas by the Board of Directors (BoD) of FESCO

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 FESCO for FYs 2021-22 and 2022-23, it was observed that BoD of FESCO deferred several critical agenda items, including:

1. Considering and discussing advertisement/ hiring of officer from market for MIRAD directorate

2. Standard board committee for power sector enterprises
3. Approval of transport monetization policy
4. Intra board committee

The BoD is responsible for providing strategic oversight and ensuring that the company operates efficiently and effectively. The deferment of these critical agendas reflected lack of prioritization and attention to essential operational and strategic issues. BoD repeatedly deferred critical agenda items, including strategic plans and procurement policies, which reflected poor prioritization and oversight.

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

Non-adherence to the provision of public sector companies Rules, 2013 resulted in deferment of critical agendas by the BoD of FESCO.

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

6.1.12 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 FESCO for Financial Year 2022-23, FESCO was to ensure 100% MMR for general, industrial and tube-well consumers.

During performance audit of the BoD of FESCO for FYs 2021-22 and 2022-23, it was observed that the Board did not ensure 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 89% for industrial, and 83% 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 Mobile Meter Reading (MMR) for general, industrial and tube-well consumers. 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 FESCO 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 the provisions of performance agreement, disciplinary actions may be taken against officers and officials for not achieving targets.

6.1.13 Non-achievement of target relating to construction of 530 KM transmission lines

As per performance agreement made between the Ministry of Energy (Power Division) and CEO/BOD of Faisalabad Electric Supply Company for Financial Year 2022-23, FESCO was to construct 530 KM transmission lines.

During performance audit of the BoD of FESCO for FYs 2021-22 and 2022-23, it was observed that the Board and management, as stipulated in the performance agreement, were required to extend transmission lines by 530 kilometers to support capacity expansion in response to the increasing demand for electricity. However, during the financial year 2022-23, only 337 kilometers of transmission lines were completed and integrated into the system, falling 193

kilometers short of the target, although, subject expansion in transmission lines was approved in PC-I of 8th STG. It is pertinent to mention that only 762 towers were delivered through the procurement made for the financial year 2022-23 which could not meet the requirement for construction of 530 KM transmission lines.

Suboptimal performance of BoD resulted in non-achievement of target relating to construction of 530 KM transmission lines. 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 FESCO 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.

6.1.14 Non-achievement of target relating to installation of industrial connections

As per the performance agreement made between the Ministry of Energy (Power Division) and CEO/BOD of Faisalabad Electric Supply Company for Financial Year 2022-23, FESCO was to provide 2,541 industrial, and 472,459 other connections during FY 2022-23

During performance audit of the BoD of FESCO for FYs 2021-22 and 2022-23, it was observed that as per Performance Agreement signed between the BoD-FESCO and MoE (Power Division), FESCO was required to provide 1,516 new connections to Industrial category during the FY-2022-23. However, there were only 804 new connections added to the industrial category resulting in a shortfall of 712 as detailed below:

Table—Status of installation of new industrial and other connections as per target given in Performance Agreement

Period	Target for industrial connections to be installed		Achievement		Variations	
FY-2022-23	1,516	74	804	204	-712	130

The significant shortfall in providing the targeted number of new industrial connections during FY 2022-23 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. 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 FESCO 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.

6.1.15 Non-replacement of 1.153 million non-static meters against all categories of consumers in line with target given in performance agreement

As per the performance agreement made between the Ministry of Energy (Power Division) and CEO/BOD of Faisalabad Electric Supply Company for Financial Year 2022-23, FESCO was to replace 1.153 million non-static meters against all categories of consumers during FY 2022-23

During performance audit of the BoD of FESCO for FYs 2021-22 and 2022-23, it was noted that, according to the Performance Agreement between the BoD-FESCO and the Ministry of Energy (Power Division), FESCO was obligated to replace 1.153 million non-static meters for all categories of consumers. However, only 18,832 non-static meters were replaced, leaving a significant shortfall of 1.134 million which could result in financial losses due to inaccurate meter reading and operational inefficiencies.

Unsatisfactory performance of the BoD resulted in non-replacement of 1.153 million non-static meters against all categories of consumers in line with target given in performance agreement. 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 FESCO 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 besides disciplinary actions may be taken against officers and officials for not achieving targets.

6.1.16 Non-installation of AMI/AMR meters in line with target given in performance agreement

As per the performance agreement made between the Ministry of Energy (Power Division) and CEO/BOD of Faisalabad Electric Supply Company for Financial Year 2022-23, FESCO was to install 16,066 AMI/AMR meters during FY 2022-23

During performance audit of the BoD of FESCO for FYs 2021-22 and 2022-23, it was noted that, according to the Performance Agreement between the BoD-FESCO and the Ministry of Energy (Power Division), FESCO was required to install 16,066 AMI/AMR meters. However, only 6,558 AMI/AMR meters replaced leaving a balance of 9,508 AMI/AMR meters pending for installation. It is pertinent to mention that installation of AMI/AMR meters was of crucial importance due to transmission of real time error free data to ensure accurate billing to minimize of line losses besides eradication of theft of electricity.

Unsatisfactory performance of BoD resulted in non-installation of AMI/AMR meters in line with target given in performance agreement. 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 FESCO 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 besides disciplinary actions may be taken against officers and officials for not achieving targets.

6.2 FINANCIAL MANAGEMENT

6.2.1 Heavy accumulated losses due to weak governance and operational mismanagement – Rs. 96,763 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 FESCO for FYs 2021-22 and 2022-23, it was observed that the accumulated losses of the company were increased from Rs.77,475 million as on June 30th 2022 to Rs.96,763 million as on June 30th 2023.

The financial position of the company during FYs 2017-18 to 2022-23 was as under:

Sr No.	Financial Year	Total Profit/Loss	Accumulated Losses
1	2017-18	(35,452.00)	(72,378.00)
2	2018-19	(8,901.00)	(89,194.00)
3	2019-20	6,074.36	(75,204.64)
4	2020-21	17,402.20	(57,802.44)
5	2021-22	(1,985.00)	(77,475.00)
6	2022-23	(14,983.00)	(96,763.00)

It was the primary responsibility of the Board to take effective steps to reduce the 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 FESCO. This lack of oversight hindered effective performance management, compromised accountability, and eroded organizational governance. The accumulated losses raised concerns about FESCO's ability to meet its financial obligations. This insolvency risk threatened the company's operational viability. The main reason for the accumulated losses was the increase in Operation and Management (O&M) expenditure from Rs. 20,239 million per annum in 2017-18 to Rs. 38,989 million in 2022-23 registering an increase of 93%. Likewise, other expenses also increased from Rs. 154 million in 2017-18 to Rs. 882 million in 2022-23 showing an abnormal increase of 473%. The BoD failed to deliberate upon ways to reduce accumulating heavy losses. This showed weak governance and operational mismanagement. During financial year 2021-22, company had positive equity amounting to Rs. 3,713 million which turned into negative amounting to Rs. 9201 million due to massive net loss of Rs. 14,983 million as on 30 June, 2023.

Weak governance and operational management 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 the reason of accumulated loss was pending prior year adjustments and quarterly adjustments with NEPRA as financial impact thereof was yet to be incorporated in accounts. The reply of the management was not acceptable because FESCO's accumulated losses reached to Rs.96,763 million by June, 2023 due to escalating expenses. The BoD failed to devise effective policies to reduce the burden of accumulated losses.

DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within seven (7) days.

However, despite the directions of DAC, record relating to annual business plan and adjustment with NEPRA 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 FESCO. Implementing stringent cost-control measures to reduce operating expenses and improve profitability is essential. Exploring opportunities to enhance revenue streams, such as improving billing efficiency and reducing line losses.

6.2.2 Irrational decision of BoD to enhance its remuneration during the period of high financial losses – Rs. 74.50 million

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

During performance audit of the BoD of FESCO for FYs 2021-22 and 2022-23, it was observed that BoD of FESCO adopted the remuneration package for its directors as per approval of Ministry of Water and Power dated: 04.10.2016 in which Rs. 35,000/- per meeting fee was fixed. Later, the BoD in its meeting held on 17.09.2021 approved and enhanced the 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.57,802 billion as on June 30th 2021 which increased to Rs.96,763 million on June 30th 2023.

Non-adherence to instructions of the Power Division resulted in irregular enhancement and subsequent payment of remuneration of BoD members amounting to Rs.74.50 million during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that the remuneration of Directors shall be determined by the BoD as per Companies Act, 2017. The reply of the management was not acceptable because the MoE (Power Division) notified the directors of the Board. Therefore, it was necessary to seek its approval before the enhancement of meeting fee.

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 up the matter with Ministry of Finance through MoE (Power Division) for clarification.

6.2.3 Unjustified approval of bonus by the Board of Directors to FESCO employees despite continuous losses of the company-Rs. 666.031 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 the 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 Authority 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".

During performance audit of the BoD of FESCO for FYs 2021-22 and 2022-23, it was observed that the BoD of FESCO, in its 266th / 16th meeting held on 23.06.2023, approved the disbursement of bonus amounting to Rs. 666.031 million to all FESCO employees. This decision was unjustified, keeping in view NEPRA's guidelines and continuous losses 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. The details of the financial losses are as follows:

Status of financial losses of FESCO **(Rs.in million)**

Sr No.	Financial Year	Profit/(Loss) for the year
1	2017-18	(35,452.00)
2	2018-19	(8,901.00)
3	2019-20	6,074.36
4	2020-21	17,402.20
5	2021-22	(1,984.84)
6	2022-23	(14,983.39)

Moreover, the bonus was approved by the BoD for all employees without any performance evaluation or prescribing any criteria. The BoD's decision to approve the bonus payment despite evident financial constraints and regulatory non-compliance reflected poor 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 FESCO employees amounting to Rs.666.031 million despite suboptimal financial performance of the Company.

Audit recommends justifying the award of bonus despite continuous losses and without approval of NEPRA besides ensuring recovery of the same.

6.2.4 Non-achievement of 100% target of remittances to CPPA-G against energy invoices-Rs.16,640 million

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

During performance audit of the BoD of FESCO 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 FESCO amounting to Rs.350,617 million during FY 2022-23. It was required to remit 100% amount in line with the Performance Agreement but management remitted Rs.333,977 million which was 4.75 % less than the target assigned. This showed that BoD did not devise correlated collection and remittance policy to ensure 100% remittances to avoid supplemental charges.

The matter was taken up with the management in September, 2023. The management replied that while signing the performance agreement between Power Division and FESCO for FYs 2021-22 and 2022-23, FESCO agreed with all assigned targets against various performance parameters except a few ones mainly due to unavoidable circumstances factors which are beyond the control of FESCO. The reply is not acceptable because the BoD cannot absolve itself of responsibility to oversee the implementation of the strategic business plan and ensure that targets are met, regardless of any external circumstances.

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 besides disciplinary actions may be taken against officers and officials for not achieving the targets.

6.3 MONITORING & EVALUATION

6.3.1 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 FESCO for FYs 2021-22 and 2022-23, it was observed that the management did not conduct internal audit for FYs 2021-22 and 2022-23. Despite approval by the Audit Committee, the Board did not ensure execution of internal audit plan for FYs 2021-22 and 2022-23. 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 operations.

Non-adherence to Public Sector Companies (Corporate Governance) Rules, 2013, and BoD' 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 the internal audit of respective formations was being executed as per approved annual audit plan for FY 2021-22 and was scheduled to

be completed in February, 2024. Moreover, the annual audit plan for FY 2022-23 would be put up before the Audit & Finance committee FESCO for approval and would be executed from March, 2024. The reply of the management was not acceptable because the annual audit plan for FYs 2021-22 and 2022-23 was not executed, indicating non-adherence to corporate governance rules.

DAC in its meeting held on February 15, 2024 directed the management to get the record verified from Audit within seven (7) days.

However, despite directions of DAC, internal audit reports for FYs 2021-22 and 2022-23 was 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.

7. OVERALL ASSESSMENT

The audit findings highlighted significant governance and operational deficiencies, resulting in financial losses and regulatory non-compliance in FESCO. 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 unjustified grant of bonuses to employees against the direction of the Regulator and the failure to conduct internal audits for FY 2021-22 and FY 2022-23. The deferment of critical agendas by the BoD of DISCOs reflects unsatisfactory 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 selecting, 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 timely execution of internal audits to enhance financial transparency and accountability. By prioritizing and addressing critical issues promptly, FESCO 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 FESCO for the assistance and cooperation extended to the auditors during this assignment.

10. ANNEXES

Annex-A
6.1.7

Sr No.	Name of Consultant	Designation	Date of approval of BoD	Date of Retirement on superannuation	Date of appointment as consultant	Remuneration payments (Rs. in million)
1	Mr. Abdul Razzaq	Legal Consultant (equivalent to Grade-19 officer)	118th /06thBoD meeting dated: 07.03.2014 (for six months)	04.07.2013	01.04.2014	Rs. 80,000 P.M. (01.04.2014 to 18.05.2022) = Rs. 7.84 million Rs. 150,000/- P.M. (19.05.2022 to 30.06.2023) = Rs. 1.80 million G. Total = Rs. 9.64 million
2	Mr. Muhammad Sharif	Environment and Social Safeguard Consultant	169th /57thBoD meting dated: 06.10.2017		04.10.2017	Rs. 150,000 P.M. (04.10.2017 to 22.09.2022) = Rs. 9.00 million Rs. 200,000/- P.M. (23.09.2022 to 30.06.2023) = Rs. 1.80 million G. Total = Rs. 10.80 million
3	Mr. Zafar Maqbool	Audit Consultant	203rd/32ndBoD meting dated: 31.08.2020	23.04.2020	23.09.2020	Rs. 101,490/- (23.09.2020 to 22.09.2021) = Rs. 1.218 million
4	Mr. Nasar Hayat Maken	HR Consultant	243rd/37thBoD meting dated: 29.07.2022	14.08.2022	16.08.2022	Rs. 312,847/- (16.08.2022 to 30.06.2023) =Rs. 3.44 million
Total						**Rs. 25.098 million**

Annex-B

6.1.10

Detail of different Policies not yet formulated in FESCO.

Employee Service Rules
Disciplinary Policy
Employee Code of Conduct Policy
Compensation & Benefit Policy 2022
Revised Employment Policy of FESCO
Employee Grievance & Redressal Policy
Performance Management Policy/Promotion Evaluation System/Seniority Policy
Anti-Harassment Policy
Health and Safety Policy
IT/ERP/MIS Policy
Learning and Development Policy
House Allocation Policy
Collaborative Office Management System
Travel Management System
Compensation & Benefit Policy
Transfer Posting Policy
Employee Grievance & Redressal Policy
Vehicle Management Policy
FESCO Employees Medical Attendance Rules-2022
FESCO Management Trainee Policy-2022
House Allocation Policy-2022
Deputation Policy-2022
FESCO Employees (Travelling Allowance) Rules-2022
Compensation & Benefit Policy 2022
FESCO Employees (Determination of Date of Birth) Rules-2022
FESCO Employees (Provision of Artificial Limbs to Disabled Persons) Rules-2022
FESCO Employees (Treatment of Chronically Sick Persons) Rules, 2022
FESCO Employees (Restriction on Marriages with Foreign Nationals) Rules, 2022