PERFORMANCE AUDIT REPORT ON BOARD OF DIRECTORS (BoD) OF GEPCO 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 Gujranwala Electric Power Company (GEPCO) 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 GEPCO 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 GEPCO. 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)
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ABBREVIATIONS AND ACRONYMS

AGP	Auditor-General of Pakistan
AMI	Automatic Metering Infrastructures
AMR	Automatic Meter Reading
AQTA	Applicable Quarterly Tariff Adjustment
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
HSE	Health, Safety and Environment
ISSAI	International Standards of Supreme Audit Institutions
KPIs	Key Performance Indicators
kW	Kilowatt
kV	Kilovolt
GEPCO	Gujranwala Electric Power Company
MMR	Mobile Meter Reading
MoE	Ministry of Energy
NEPRA	National Electric Power Regulatory Authority
PEPCO	Pakistan Electric Power Company
SECP	Securities and Exchange Commission of Pakistan
PSCs	Public Sector Companies
PSR	Preliminary Survey Report
SOPs	Standard Operating Procedures
TD&I	Technical Drive, Innovation and Automation
T&D	Transmission & Distribution

EXECUTIVE SUMMARY

The performance audit of BoD of Gujranwala Electric Power Company (GEPCO) 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 GEPCO 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 GEPCO remained less effective due to non-achievement of annual operational and financial targets set forth by the Power Division for GEPCO. The BoD of GEPCO did not meet the targets during 2021-22 and 2022-23 which resulted in heavy accumulation of financial losses, less achievement of remittance 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, 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. Deferment of critical agendas by BoD of GEPCO.[3]

iv. Non-processing of bill adjustments in accordance with commercial procedures-Rs.916.95 million.[4]

v. Irrational decision of the BoD to enhance its remuneration during the period of high financial losses– Rs. 24.96 million.[5]

vi. Unjustified approval of bonus by the Board of Directors to GEPCO employees despite continuous losses of the company Rs.289.881 million.[6]

vii. Non-achievement of 100% target of remittances to CPPAG against energy invoices-Rs.32,873 million.[7]

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

[1] Para No.6.1.1,6.1.9,6.1.10
[2] Para No.6.1.2
[3] Para No.6.1.7
[4] Para No.6.1.8
[5] Para No.6.2.1
[6] Para No.6.2.3
[7] Para No.6.2.4
[8] Para No.6.6.1

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. 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.

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

v. 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.

vi. Enhancing collection processes against billing for timely payments and improving financial monitoring systems to address the shortfall in achieving the 100% remittance target to CPPAG.

vii. Scheduling and completing the overdue internal audits, establishing a regular audit schedule to ensure future compliance, and enhancing oversight mechanisms to prevent similar lapses.

1. INTRODUCTION

Public Sector Companies (Corporate Governance) Rules, 2013 are applicable on all federal Public Sector Enterprises (PSEs) including GEPCO. 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 GEPCO 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 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 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 GEPCO 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 GEPCO 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 monitors 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 resources.

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 the 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 GEPCO 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-GEPCO

Gujranwala Electric Power Company (GEPCO) is a subsidiary of PPMC. The Company started its operations as a Public Limited Company registered under Companies Ordinance 1984 (now Companies Act 2017) in May, 1998. The Company obtained a 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 Gujranwala, Gujrat, Mandi Bahaudin, Narowal, Hafizabad and Sialkot Districts.

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

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

Sr.#	Key Performance Indicators	Performance of CEO/BoD	Reasons of Deviations
1	**Computed recovery be 100%**	The progressive computed recovery (without subsidy) against private consumers remained 97.93% against NEPRA's target of 100%.	Targets were not met due to the shortage of staff.
2	**MMR accuracy be 100%**	Mobile Meter Reading (MMR) % accuracy remained low for general, industrial and tube-well consumers by 2%,	The main reasons for low %age was due to the non-replacement of defective meters

		6% and 7% respectively.	and outdated mobile sets.
3	**Bill adjustments target to be 0.01% of the billed amount**	Bill adjustment remained 4% of the billed amount during the FY 2022-23. Moreover, large number of adjustments were processed during the year and only the amount was credited (without units). In 50,693 cases, the company credited Rs.916.95 million without units as well.	Bills adjustments were not processed in accordance with Commercial Procedures/SOPs of the department. (without units).
5	**Financial performance (remittances to CPPA-G) be 100%**	GEPCO remitted Rs.249.968 billion against total invoice of Rs. 282.841 billion as of 30.06.2023 which indicated 12% less remittances	Due to the impact of quarterly tariff adjustments and FPA.
6	**4,900 illegal connections be removed**	4,900 illegal connections were required to be disconnected but only 3,767 illegal connections removed.	Non pursuance of GEPCO
7	**50,000 AMI/AMR meters to be installed against government & private connections**	A total of 50,000 AMR meters were required to be installed against government and private connections but only 10,598 meters were installed so far leaving 39,402 meters not installed so far.	Non-availability of meters

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

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.2,877.77 million

NEPRA had fixed targets of energy losses of 9.10 % for the Financial Year 2022-23 in respect of GEPCO.

During performance audit of the BoD of GEPCO 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 NEPRA. Hence, 747.84 million energy units valuing Rs.2,877.77 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.	GEPCO	9.10	12	132.433	2,877.77

(Source: Progressive CP-22A of GEPCO)

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 as regard achievement of results, the targets of fundamental importance were achieved, however, a few lapses were beyond control of GEPCO management and the BOD. The reply was not acceptable because the BoD cannot absolve itself of the responsibility to oversee the implementation of the strategic business plan and ensure that targets were 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. Further, in line with the provisions of 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– Rs 24.96 million

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, namely:

a) Audit committee
b) Risk management committee
c) Human resource committee
d) Procurement committee
e) Nomination committee

During performance audit of the BoD of GEPCO for FYs 2021-22 and 2022-23, it was observed that the BoD of GEPCO was reconstituted by Government of Pakistan on 22.04.2021. The BoD in its 123rd meeting dated 07.05.2021 vide agenda items 3 and 4, constituted nine (09) sub committees. The following are the nine committees constituted by the Board in contravention of Corporate Governance Rules. 2013:

1) Finance & Risk Management Committee
2) HR & Nomination Committee
3) Procurement Committee
4) Audit Committee
5) Technology Drive, Innovation & Automation Committee
6) Health, Safety & Environment Committee
7) Strategic planning & Investment Initiatives Committee
8) New connections, Customer Service Delivery & Legal Affairs Committee
9) HR BS-19 Officer Affairs Committee

An unjustified expenditure of Rs. 24.96 million was incurred on these committees in lieu of meeting fees and other remuneration. It was crucial that BoD of GEPCO's sub-committees to be properly constituted with clear mandates and accountability mechanisms. The irregularly constituted sub-committees severely undermined GEPCO's governance framework and decision-making processes. The Company incurred financial losses of Rs.20,217 million during the FY 2021-22.

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. It was replied that considering the nature and broader scope of activities of GEPCO, there was a dire need to do some handholding of the management on a range of aspects such as safety, internal audit, HR, technology, customer services, procurement, operational performance and other areas in order to direct and guide them towards achievement of the targets as envisaged in the performance agreement, signed with the MoE (PD). The above-mentioned Committees were constituted to ensure that the Board discharges its functions effectively as defined in the Companies Act, 2017 and the Corporate Governance Rules, 2013. The reply was not acceptable because the establishment of these committees, without clear justification for their necessity and without proper adherence to regulatory frameworks, remains irregular.

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

However, despite directions of DAC, record regarding evaluation of targets of sub-committees with actual achievement as per approved ToRs was not produced to Audit for verification till the finalization of the report

Audit recommends sharing performance targets assigned to these sub-committees viz-a-viz actual achievements as per approved ToRs.

6.1.3 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 GEPCO for FYs 2021-22 and 2022-23, it was observed that 97 Board meetings were convened during the period under review but notices and agendas of 40 meetings (42%), out of 97 meetings (100%), were issued by the company secretary less than seven (7) days' notice period which showed violation of the Corporate Governance Rules, 2013.The detail is given as under:

Board/Sub-committees Meetings during FYs2021-22 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	25	6	24%
Audit and Risk Management Committee	11	2	18%
Audit Committee	8	1	13%
Financial & Procurement Committee	9	6	67%
Risk Management Committee	9	5	56%
HR & N Committee	17	12	71%
Procurement Committee	13	6	46%
TDI & A Committee	5	2	40%
Total	**97**	**40**	**42%**

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 decisions being made without fully considering the implications, potentially compromising the quality of decisions. This negatively impacted the overall performance of the Board. There was a 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 a total of twenty-five (25) Board meetings were held including four (04) emergent meetings (i.e., 135, 144, 145 and 149). It is submitted that except for these 04 emergent BoD meetings, notices for the remaining 21 Board meetings were circulated well before seven (07) days of the meeting. Further, as per PSCs (Corporate Governance) Rules, 2013, the requirement of circulation of notice before seven days is only for Board meetings not for the meetings of Board Committees. The reply of the management was not acceptable because 40 out of 97 meetings (including sub-committees of BoD) 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 SECP regarding convening of BoD committees' meetings on three days' notice instead. DAC also directed to share the SoPs approved by BoD GEPCO for convening Committees meetings on three days' notice period and get the record verified within a week.

However, despite directions of DAC, record relating to clarification from SECP regarding convening of BoD committees' meetings on three days' notice instead of was not produced to Audit for verification 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.

6.1.4 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 Profit (preferably 1-2%) for selected CSR initiatives.

Furthermore, 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 GEPCO 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 referred above. Contrary to the above, BoD of GEPCO 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 GEPCO's corporate reputation, employee morale, 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 GEPCO during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. It was replied that GEPCO offers ample opportunities to the youth for their skill development i.e., Extensive Internship Programs are being offered in multiple departments including Engineering, Human Resources, Finance, Accounts, Audit and IT etc. The reply of the management was not acceptable because the objectives/ targets mentioned in SECP CSR policy were entirely different.

The DAC in its meeting held on February 15, 2024 directed the management to finalize the GEPCO CSR policy and implement after approval of 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 formulating CSR policy by the BoD and its implementation.

6.1.5 Non-formulation and finalization of necessary policies by BoD-GEPCO

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

During the performance audit of the BoD of GEPCO for FYs 2021-22 and 2022-23, it was observed that the BoD did not formulate important policies like HR, IT and Enterprise Risk Management for smooth functioning of company. The BoD did not show intent to finalize and approve the requisite policies since the incorporation of GEPCO in 1998. It is also apprised that GM (HR) PEPCO also circulated 30 draft policies for adoption/enforcement in DISCOs vide letter dated: 29.06.2021 **(Annex-A)**. However, these policies were

not adopted/implemented by BoD GEPCO. These policies were necessary for good corporate governance. 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 GEPCO during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that seven policies were approved and implemented, and remaining policies would also be reviewed and submitted to Human Resource Nomination and Legal Committees of the Board. 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 verify the approval and implementation of policies from Audit within 30 days.

However, despite the directions of DAC, no progress regarding approval and implementation of policies was intimated to Audit till the finalization of the report.

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

6.1.6 Non-recruitment of staff against vacant posts

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 GEPCO for FYs 2021-22 and 2022-23, it was observed that various posts remained vacant since long in GEPCO which were required to be filled by following recruitment procedures. The BoD deliberated upon the restructuring of finance and operations

directorates in its various meetings but the same could not be materialized due to non-recruitment of vacant posts. The BoD did not take concrete steps in the said matter. The details are as under:

Detail of vacant posts 2022-23

Sr. no	Particulars	Sanctioned Posts	Working Posts	Vacant
01.	Officers ranked (BPS - 17 to 21)	458	303	155
02.	Officials staff (BPS – 1 to 16)	17,013	11,555	5,458
	Total:	**17,471**	**11,858**	**5,613**

The Board's inability to take concrete steps to fill vacant posts resulted in insufficient staffing. GEPCO's operational and financial performance deteriorated over the past few years, leading to the non-achievement of its performance targets given by the 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 the Public Sector Companies (Corporate Governance) Rules 2013 resulted in non-recruitment of staff against vacant posts in GEPCO during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that NOC for permission / advertisement of vacant posts and for initiating fresh recruitment process was sought but reply was still awaited from Ministry of Energy (Power Division) Islamabad. The reply of the management was not acceptable as management did not justify the overburdening of staff due to non-recruitment which caused operational, technical and financial inefficiencies in GEPCO.

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.

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

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

6.1.7 Deferment of Critical Agendas by the Board of Directors (BoD) of GEPCO

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

1. Procurement of 100,000 No. (in 04 Lots of 25,000 each) S-Phase Static Meters against GEPCO Tender No. 158/MM/2022-23
2. Hiring of Consultancy Services for architectural & complete structural design/drawings for 05-storey (02 Bed /Room) officers hostel and construction of 05-storey academic block at GEPCO's Training & Development Center (GTDC) Nandipur, Gujranwala
3. Appointment of market based Advisors for Strengthening Human Resource of Distribution Companies (DISCOS) conveyed by the Ministry of Energy (Power Division)
4. Performance Review of GEPCO against the targets assigned by the Ministry of Energy (Power Division).
5. Discussion on the HR related issues

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. GEPCO's BoD repeatedly deferred critical agenda items, including procurement of meters, hiring of consultants and performance review of GEPCO, reflected weak prioritization and oversight. This undermined effective decision-making and compromised operational efficiency.

Non-adherence to the provision of public sector companies Rules, 2013 resulted in deferment of critical agendas by the Board of Directors (BoD) of GEPCO.

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

6.1.8 Non-processing of bill adjustments in accordance with commercial procedures-Rs.916.95 million

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

During performance audit of the BoD of GEPCO for FYs 2021-22 and 2022-23, it was observed that GEPCO 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.916.95 million without units which was quite 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. 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 GEPCO 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.

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

During performance audit of the BoD of GEPCO for FYs 2021-22 and 2022-23, it was observed that the Board did not ensure to achieve 100% accuracy in billing to general, industrial and tube-well consumers based on MMR. For financial year 2022-23, the accuracy rate of 98% for general consumers, 94% for industrial, and 93% for tube-well consumers indicated a 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 GEPCO was utilizing all its resources efficiently for achieving the 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 besides disciplinary actions may be taken against officers and officials for not achieving targets.

6.1.10 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 GEPCO for Financial Year 2022-23, GEPCO was to install 16,066 AMI/AMR meters during FY 2022-23

During performance audit of the BoD of GEPCO for FYs 2021-22 and 2022-23, it was noted that, according to the Performance Agreement between the BoD-GEPCO and the Ministry of Energy (Power Division), GEPCO was required to install 50,000 AMI/AMR meters. However, only 10,598 AMI/AMR meters installed leaving a balance of 39,402 AMI/AMR meters pending for installation. It is pertinent to mention that installation AMI/AMR meters was of crucial importance due to transmission of real time error free data to ensure accurate billing and minimization of line losses besides eradication of theft of electricity.

Poor performance of BoD resulted in non-installation of AMI/AMR meters in line with target given in performance agreement. 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 GEPCO was utilizing all its resources efficiently for achieving the 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 Irrational decision of the BoD to enhance its remuneration during the period of high financial losses– Rs. 24.96 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 Gujranwala Electric Power Company (GEPCO) for FYs 2021-22 and 2022-23, it was observed that BoD of GEPCO 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. Furthermore, the BoD in its 131st meeting held on

05.08.2021 had approved and enhanced the remuneration package for members of BoD meeting fee from Rs. 35,000 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 financial position of the company as it had accumulated loss of Rs.24.723 billion as on June 30th 2021 which increased to Rs.39.819 billion as on June 30th 2022.

Imprudent decision making and non-adherence to instructions of Power Division resulted in irregular enhancement and payment of remuneration of BoD members amounting to Rs. 24.96 million during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023. The management replied that the BoD was the competent authority to determine/enhance the remuneration package for attending Board and its sub-committee meetings and there was no requirement of approval/concurrence from Power Division. The subject enhancement of remuneration by the Board was in line with the provisions of the Companies Act, 2017 and the Articles of Association. 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 for till the finalization of the report.

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

6.2.2 Heavy accumulated losses due to weak governance and operational mismanagement – Rs. 20,217 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 Gujranwala Electric Power Company (GEPCO) for FYs 2021-22 and 2022-23, it was observed that the accumulated losses of the company were Rs. 20,217 million as on June 30th 2023. The financial position of the company from 2017-18 to 2022-23 is as under:

Status of Accumulated Losses **(Rs. in million)**

Sr No.	Financial Year	Net Profit/(Loss) after taxation	Accumulated Losses
1	2017-18	(4,178)	(11,023)
2	2018-19	6,496	(8,046)
3	2019-20	(15,119)	(26,178)
4	2020-21	1,076	(24,723)
5	2021-22	(20,586)	(39,819)
6	2022-23	22,884	(20,217)

The above table shows that the company sustained huge losses from the FY 2017-18 and accumulated losses reached to the tune of Rs.20,217 million during FY 2022-23 which poses threats to the viability of the company. The main reasons for such increases in the accumulated losses were an increase in Operation and Management (O&M) expenditure from Rs. 17,224 million in 2017-18 to Rs. 30,386 million in 2022–23 registering an increase of 76%. This showed weak governance and operational management led to significant accumulated losses of Rs. 20,217 million at GEPCO by June 30, 2023 due to

ineffective Board oversight and failure to address increasing operational expenditures.

Weak governance and operational management 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 GEPCO had sustained losses in the previous years due to the reasons like delay in tariff notifications, timing differences in booking of power purchase cost and impact of related tariff adjustments and Applicable Quarterly Tariff Adjustments (AQTA). The reply of the management was not acceptable because GEPCO's accumulated losses reached Rs. 20,217 million by June, 2023 due to escalating expenses. Being a supervisory body, the BoD failed to devise operational policies to achieve the objectives of the business plan and to reduce the burden of accumulated losses.

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, record relating to tariff notifications, timing differences in booking of power purchase cost and impact of related tariff adjustments and AQTA and audited financial statements was not provided to Audit till the finalization of the report.

Audit recommends devising operational policies to achieve objectives of business plan.

6.2.3 Unjustified approval of bonus by the Board of Directors to GEPCO employees despite continuous losses of the company-Rs.289.881 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 BoD of autonomous/semi-autonomous bodies/public Corporation/organizations are not entitled to receive bonuses.

According to the decision of the Authority in 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 Gujranwala Electric Power Company Limited (GEPCO) for FYs 2021-22 and 2022-23, it was observed that the BoD of GEPCO, in its 145th meeting held on 12.08.2022, approved the disbursement of bonus amounting to Rs.289.881 million to all GEPCO 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 details of the financial losses are as follows:

Rs.in million

Sr No.	Financial Year	Profit/(Loss) for the year
1	2017-18	(4,178)
2	2018-19	6,496
3	2019-20	(15,119)
4	2020-21	1,076
5	2021-22	(20,586)
6	2022-23	22,884

Moreover, the bonus was approved by the BoD for 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 poor governance and lack of fiduciary responsibility.

The BoD should have prioritized measures to mitigate losses and improve financial stability.

The imprudent decision of the BoD resulted in unjustified approval of bonus to GEPCO employees amounting to Rs.289.881 million despite unsatisfactory 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.32,873 million

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

During performance audit of the BoD of Gujranwala Electric Power Company (GEPCO) 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 GEPCO amounting to Rs.282,841 million during FY 2022-23. It was required to remit 100% in line with performance agreement but management remitted Rs.249,968 million which was 11.62% 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.

Unsatisfactory performance of BoD resulted in non-achievement of targets set by MoE (Power Division) during FY 2022-23. 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 GEPCO was utilizing all its resources efficiently for achieving the 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 besides disciplinary actions may be taken against officers and officials for not achieving targets.

6.3 CONSTRUCTION & WORKS

6.3.1 Losses due to award of civil works contract at exorbitant rates – Rs. 68.149 million

According to Rule 5(1) of the Public Sector Companies (Corporate Governance Rules) 2013, "the directors of a Board shall be persons who, in 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." Further, rule 5(5)(a) states that "the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage."

During Performance audit of the BoD of GEPCO for the years 2021-23, it was observed that the BoD awarded four civil works contracts valuing Rs. 251.577 million. During detailed scrutiny of bidding documents, it was revealed that the Procurement committee of BoD of GEPCO awarded these works at exorbitant rates ranging from 18.52% to 49.76% above the engineers estimated cost of Rs. 183.431 million which is held irregular. This reflected poor financial management and the slackness of the BoD.

Non-adherence to the prescribed rule resulted in avoidable loss of Rs.68.149 million due to award of civil works at high rates.

Audit is of the view that the management did not bother to negotiate the contract price at par with BOQ estimate to avoid loss which resulted in loss of Rs 68.149 million. Audit is of the view that although the contract was awarded through competitive bidding to the bidder lowest yet management awarded the contract over and above the technical sanction limits.

The matter was taken up with the management in September, 2023. The management replied that these tenders were floated and evaluated according to PPRA rules and in these cases, the BOQ was calculated based on WAPDA's Composite Schedule rates which were published in 2013 and after lapse of 8 years the rates of material & labor had been increased. Reply was not acceptable as loss can be avoided through the competitive bidding process.

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

However, despite the direction of DAC, no clarification from BoD was provided to audit till the finalization of the report.

Audit recommends implementation of DAC's decision besides investigating reasons for awarding contract over and above the prescribed limit and fix responsibility on persons held responsible.

6.4 ASSETS MANAGEMENT

6.4.1 Non-implementation of NEPRA's directive relating to Tagging of Assets - Rs.64,159 million

According to NEPRA in its Tariff Determination of GEPCO for financial year 2020-21 to 2024-25 directed to the Petitioner to complete the tagging of assets by December 31st 2022.

According to sub-committee of BoD (Technology Drive, innovation & Automation Committee) suggested in its 3rd meeting held on August 31, 2021 to complete the project in phases by segregating fixed assets, separate tender (s) may be floated for each phase.

During performance audit of the BoD of GEPCO for FYs 2021-22 and 2022-23, it was observed that NEPRA in determination of tariff for the FYs 2020-21 to 2024-25 dated June 02, 2022 directed GEPCO to maintain a proper record of its assets by way of tagging each asset for proper tracking. However, GEPCO had not tagged its assets which showed violation of NEPRA's directives. The BoD and its sub-committees did not take any steps to implement directives of NEPRA. Non-tagging of assets increased significant risks to GEPCO's operational efficiency, financial reporting accuracy, and regulatory compliance.

Weak governance of the BoD resulted in non-adherence to NEPRA directives regarding tracking of the location, condition, and status of fixed assets amounting to Rs.64,159 million which caused inefficiencies, inaccuracies, and non-compliance thereby undermining the achievement of overall objectives of the company.

The matter was taken up with the management in September, 2023. The management replied that, M/s Crowe Hussain Chaudhary and Co was actively engaged in the execution of the task physical verification, accountal and tagging of fixed assets of GEPCO. The completion period was 15 months and the target date given by the NEPRA was not humanly possible to complete the task within the target given as the task was outsourced and keeping in view the complex and difficult technicalities involved. The reply was not acceptable as tagging of fixed assets could not be completed due to negligence and lack of interest of management as well as BoD.

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 Ministry of Energy (Power Division) to take notice of slackness of BoD towards tagging of assets and fix responsibility on person (s) at fault.

6.5 MONITORING & EVALUATION

6.5.1 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 GEPCO for FYs 2021-22 and 2022-23, it was observed that management did not conduct internal audit for FYs 2021-22 and 2022-23 which led to incurrence of expenditure without proper oversight. Despite the approval by the Audit Committee, the Board did not ensure to formalize the 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's 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 due to the multi-period nature of internal audits not all formations were audited for the same financial year at the same time. As a result, GEPCO did not have a fixed completion date for audits of formations for FYs 2021-22 and 2022-23. 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 adherence to corporate governance rules.

The DAC in its meeting held on February 15, 2024 directed the management to get response from audit committee through company secretary

regarding approval of annual audit plan and annual internal audit report by audit committee and BoD and report to Audit within thirty (30) days.

However, despite directions of DAC, internal audit reports for FYs 2021-22 and 2022-23 have 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. The BoD should establish or strengthen an internal audit department with authority and resources to conduct thorough audits. This department should be independent and report directly to the BoD or an audit committee.

6.5.2 Non-conducting of audit of GEPCO Employees Pension Fund- Rs.100.00 million

According to clause 21 (e) of the pension fund, "the accounts of the fund shall be audited every year within 180 days from June 30th, being the completion date of the preceding financial year. The audit shall be carried out by a firm of Chartered Accountants appointed by the Trustees with the consent of GEPCO through its Board of Directors. The cost of audit shall be borne by GEPCO".

During performance audit of the BoD of GEPCO for FYs 2021-22 and 2022-23, it was observed that the BoD in its 151st meeting held on 06.03.2023 approved the appointments of tax/legal consultants, auditors and actuaries as required under clause 21 (c) and clause 24 of trust deed of "GEPCO Employees Pension Fund" registered on 05.08.2015 through Trust Deed. It was further approved that these appointments may be made under rule 42(b) of PPRA 2004 on a quotation basis. As per the clause, the accounts of the fund were required to be audited annually, and the audit should have been completed within 180 days from June 30th every year, being the completion date of the preceding financial year. It was the responsibility of the BoD to ensure regulatory and statutory compliance regarding audit of pension funds which is pending and showed unsatisfactory oversight mechanism of BoD and its sub-committees. This reflected weak governance and regulatory compliance compromised the accountability and fund integrity.

Non-adherence to the provisions of trust deed and Corporate Governance Rules, 2013 resulted in non-conducting of audit of GEPCO employees' pension fund amounting to Rs.100.00 million during FYs 2021-22 and 2022-23.

The matter was taken up with the management in September, 2023.It was replied that NEPRA vide tariff determination dated July 25, 2022 allowed GEPCO in FY 2022-23 for provision of past retirement benefits. Accordingly, GEPCO deposited funds from August 2022 in the said NBP Account. The management of GEPCO was in the process of getting statutory audit of GEPCO Employees' Pension Fund conducted from third party. Audit contended that third party audit needs to be conducted as per statutory requirement and report be shared with audit.

The DAC in its meeting held on February 15, 2024 directed the management to get it audited from Chartered Accountants firm during next year's audit.

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

Audit recommends conducting audit and sharing the report with Audit.

7. OVERALL ASSESSMENT

The audit findings highlighted significant governance and operational deficiencies, resulting in financial losses and regulatory non-compliance in GEPCO. The Board of Directors (BoD) exhibited unsatisfactory performance, failing to achieve key performance indicators. Critical governance lapses, such as non-constitution of sub-committees and non-achievement of key performance indicators as set in performance agreement, 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 approving unjustified bonuses for employees. Further, the BoD violated Corporate Governance Rules by not constituting necessary sub-committees highlighting a lack of adherence to established procedures.

Critical financial and operational processes were neglected, as seen in the 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, GEPCO 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 GEPCO for the assistance and cooperation extended to the auditors during this assignment.

10. ANNEXES

Annex- A
Para – 6.1.5

Detail of proposed Draft Polices for adoption/enforcement 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 GEPCO
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. GEPCO Employees Medical Attendance Rules-2022
23. GEPCO Management Trainee Policy-2022
24. House Allocation Policy-2022
25. GEPCO Employees (Travelling Allowance) Rules-2022
26. Compensation & Benefit Policy 2022
27. GEPCO Employees (Determination of Date of Birth) Rules-2022
28. GEPCO Employees (Artificial Limbs to Disabled Persons) Rules-2022
29. GEPCO Employees (Treatment of Chronically Sick Persons) Rules, 2022
30. GEPCO Employees (Restriction on Marriages with Foreign Nationals) Rules, 2022