PERFORMANCE AUDIT REPORT
ON THE ACCOUNTS OF
QUETTA ELECTRIC SUPPLY COMPANY
(QESCO)
MINISTRY OF ENERGY
(POWER DIVISION)
AUDIT YEAR 2021-22

AUDITOR-GENERAL OF PAKISTAN

PREFACE

The Auditor General of Pakistan conducts audits subject to Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with Sections 8 & 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. The performance audit of Quetta Electric Supply Company (QESCO) was carried out accordingly.

The Directorate General Audit (Power), Lahore conducted performance audit of Quetta Electric Supply Company (QESCO) during April, 2022, for the financial years 2019-20 and 2020-21 with a view to report significant findings to stakeholders. The main objectives of the audit were to evaluate the economy, efficiency and effectiveness aspects of Quetta Electric Supply Company (QESCO). In addition, Audit also assessed, on test check basis, whether the management complied with applicable laws, rules and regulations in managing the affairs of the QESCO. The Performance Audit Report indicates specific actions that, if taken, will help the management realize the objectives of QESCO. The audit observations, included in this report, have been finalized in the light of discussion in the DAC meeting held on June 09, 2022.

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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(Muhammad Ajmal Gondal)
Auditor-General of Pakistan

Islamabad
Dated: 19 May 2023

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ABBREVIATIONS AND ACRONYMS

AoA	Articles of Association
AT&C	Aggregate Transmission and Commercial Losses
BoD	Board of Directors
CEO	Chief Executive Officer
CIA	Chief Internal Auditor
CGR	Corporate Governance Rules
CoI	Conflict of Interest
CPPA (G)	Central Power Purchasing Agency (Guarantee)
DISCOs	Distribution Companies
ECNEC	Executive Committee of the National Economic Council
EoI	Expression of Interest
EROs	Equipment Removal Orders
GDA	Gwadar Development Authority
GoB	Government of Balochistan
GoP	Government of Pakistan
GST	General Sales Tax
HP	Horse Power
HR	Human Resource
HT/LT	High Tension/Low Tension
INTOSAI	International Organization of Supreme Audit Institutions
IPPs	Independent Power Producers
IPSAS	International Public Sector Accounting Standard
IT	Information Technology
KPIs	Key Performance Indicators
M&T	Metering & Testing
MoA	Memorandum of Association
MYT	Multi Year Tariff
NEPRA	National Electric Power Regulatory Authority
NTDC	National Transmission and Distribution Company
QESCO	Quetta Electricity Supply Company
PER	Performance Evaluation Report
PPRA	Public Procurement Regulatory Authority

PSCs	Public Sector Companies
PSDR	Performance Standard (Distribution) Rules
PSR	Preliminary Survey Report
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SECP	Securities and Exchange Commission of Pakistan
T&D	Transmission and Distribution
ToR	Terms of Reference
WAPDA	Water and Power Development Authority

EXECUTIVE SUMMARY

Director General, Audit (Power), Lahore conducted the Performance Audit of Quetta Electric Supply Company (QESCO) from April 04, 2022 to April 15, 2022. The main objective of performance audit was to ensure whether the QESCO, being executing implementing agency, had successfully envisaged and executed the supply of electricity, augmentation and construction of new transmission lines in an economical, efficient and effective manner with maximum utilization of resources. The audit was conducted in accordance with the INTOSAI Auditing Standards.

The Auditor General of Pakistan approved the assignment of Performance Audit of QESCO for the financial years 2019-20 and 2020-21.

a) Key Audit Findings

i. Non-recruitment of staff against vacant posts.[1]
ii. Non-recovery of receivables amounting to Rs. 68, 539.64 million from energy defaulters.[2]
iii. Financial Loss of Rs. 24,089.60 million due to breach of T&D Losses Target by QESCO.[3]
iv. Financial Loss of Rs. 82,865.30 million due to non-achievement of recovery target by QESCO.[4]
v. Unauthorized expenditure incurred over and above approved Budget – Rs. 1,538.54 million.[5]
vi. Mis-procurement of material amounting to Rs. 12.72 million.[6]
vii. Inefficiency in bidding process of material procurement amounting to Rs.227.48 million.[7]

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[1] Para-4.1.1.1
[2] Para-4.2.1
[3] Para-4.2.2
[4] Para-4.2.3
[5] Para-4.2.6
[6] Para-4.3.1
[7] Para-4.3.2

viii. Wasteful expenditure due to suspension and stoppage of transmission line work by the Gwader Development Authority - Rs.1,098.09 million.[8]

ix. Poor performance in execution work relating to interconnection of isolated Makran Network at Basima via Nag grid station - Rs.17,421.44 million.[9]

x. Non-capitalization of capital and deposits works - Rs.200.88 million.[10]

xi. Weak inventory control management due to non-verification of physical inventory - Rs. 4,450.68 million and excessive provision of slow-moving/obsolete items valuing - Rs. 503.57 million.[11]

xii. Non-evaluation of performance of Board members of QESCO.[12]

xiii. Non establishing of Key Performance Indicators (KPIs) of QESCO.[13]

xiv. Non recovery from Agriculture Tube Well consumers – Rs. 354, 468.30 million.[14]

xv. Heavy accumulated losses due to weak operational management – Rs. 413,372.89 million.[15]

xvi. Non-achievement of objectives due to poor financial management.[16]

b) Recommendations

i. Immediate regularization of HR Policy along with pay structure. HR Policy should be transparent.

ii. Losses may be decreased by devising an effective business plan/viable strategy in order to increase customer base and increase electricity sales revenue.

[8] Para-4.4.1
[9] Para-4.4.2
[10] Para-4.4.3
[11] Para-4.5.1
[12] Para-4.6.1
[13] Para-4.6.5
[14] Para-4.6.7
[15] Para-4.7.1
[16] Para-4.7.3

iii. Reduce A&TC and T&D losses by implementing better surveillance system and reduction in theft of electricity and maximum recovery booster policies also need to be placed.
iv. Speed up recovery from long outstanding chronic defaulters.
v. Evaluation and reconciliation of budget and expenditure be reviewed on monthly basis in order to reduce excessive variations.
vi. Proper inventory management mechanism should be established in order to reduce obsolescence and waste.
vii. PPRA rules must be followed in true letter and spirit to achieve economy and efficiency during procurement.
viii. Immediately complete pending works to avoid incurrence of extra expenditure.
ix. Proper capitalization of capital nature works without further delay.

1. INTRODUCTION

The Quetta Electric Supply Company (QESCO) was formed as a public limited Company under Companies Ordinance, 1984, on May 13, 1998. QESCO commenced its business from 1st July 1998. As a result of WAPDA corporatization and commercialization process, its former Electricity Area Boards were transformed into Companies and QESCO took over the business of assets and liabilities of WAPDA. However, DISCOs at present are under the administrative control of Government of Pakistan, Ministry of Energy (Power Division). The principal activity of the Quetta Electricity Supply Company is to render uninterrupted electricity to whole of the province of Balochistan except the district Lasbela. The Board of Directors of Quetta Electric Supply Company (QESCO) comprises of Twelve (12) members.

QESCO is dealing with Power Supply System in the whole Balochistan except District Lasbela. It is smallest in terms of consumers but largest as it covers 43% area of Pakistan. QESCO system is under stress due to huge number of agricultural consumers contributing about 70-80 % of power demand. Low voltage profile prevails due to long distances from generating sources, besides availability of single 220 KV sources from Guddu Power Plant. The safe drawl of power is 721 MW. A plan of Rental Power House at Quetta, Sibi and Khuzdar is also in offing. With the commissioning of these (2 x 220KV) sources and Rental Power Houses, the low voltage profile problems which specially persist as a common feature in entire Balochistan will be eliminated altogether besides availability of additional 600-700 MW Power for Balochistan province.

1.1 Brief Profile of QESCO

Manpower (Number)	9,072
11 KV FEEDERS	501
No. of Customers	530,520
Distribution Transformers	39,794
Length of Lines (KMs)	40,977

11 KV (HT)	28,834
0.4 KV (LT)	12,143

Source: QESCO Website: http://www.qesco.com.pk/

1.2 Objectives of the Company

The objectives of the Company are to acquire or take over properties, rights and liabilities of the Pakistan Water and Power Development Authority (WAPDA) and to carry on, expand and extend the businesses of a public electricity distributor and supplier and to carry on all or any of the businesses of purchasing, importing, transforming, converting, distributing, supplying, exporting and dealing in electricity and all other forms of energy and products or services associated therewith. Furthermore, do anything which a public electricity supplier is empowered or required to do under or by virtue of or under a license or other authorization granted according to law, rules and regulations and carry out electrification of cities, towns, villages, workshops, buildings, highways, factories etc.

1.3 Operations of QESCO

QESCO is dealing with Power Supply System in the whole Balochistan less District Lasbela (which is being served by K-electric limited). It is smallest in terms of number of consumers but largest in terms of area as it covers 43% area of Pakistan. QESCO system is under stress due to huge number of agriculture consumers contributing about 70-80% of power demand. QESCO retained its distribution system through various operations circles and divisions as detailed below.

Formation	Circle	Divisions	Sub-Divisions
Operation	06	14	56
GSO	01	06	24 AE S/Divisions & 12 REs
GSC	01	04 (Including 1x Civil Division)	11 (Including 3 x Civil Division)
Construction	01	03	09

Source: QESCO CEO Office

2. AUDIT OBJECTIVES

The main objective of performance audit was to assess whether the QESCO, being executing implementing agency, had successfully envisaged and executed the supply of electricity, augmentation and construction of new transmission lines and in an economical, efficient and effective manner with optimum utilization of resources.

3. AUDIT SCOPE AND METHODOLOGY

Each distribution company is required to submit to NEPRA an annual performance report in a prescribed format, according to performance standards (distribution) Rules (PSDR) 2005. Based on the data provided NEPRA publishes Performance Evaluation Report (PER) each year and similarly NEPRA has published Performance Evaluation Report of Distribution Companies (DISCOs) for the financial year 2019-20 and 2020-21. Therefore, verification of the facts and figures mentioned in these reports will be the audit methodology during the course of performance audit of QESCO.

4. AUDIT FINDINGS AND RECOMMENDATIONS

4. AUDIT FINDINGS

4.1 Organization & Management

Organization and management include overall management of the company through proper composition of the Board of Directors in accordance with Public Sector Companies (Corporate Governance) Rules, 2013 {PSE(CG)}. It also includes the establishment of different departments of the company like, HRM, Finance & Accounts, Procurement department, Operation department, Internal audit department etc. duly equipped with comprehensive approved manuals i.e., HR manual, financial manual, Operational manual, Internal Audit manual etc. for the efficient performance of its functioning. A few weaknesses on the part of management are given here under:

4.1.1 Non-compliance to the Public Sector Companies (Corporate Governance) Rules

The Quetta Electric Supply Company (QESCO) was formed as a public limited Company under Companies Ordnance, 1984. It had to comply with Corporate Governance Rules, 2013. However, certain rules were not complied with. Instances are given here under:

4.1.1.1 Non recruitment of staff against vacant posts

According to ESTA Code - 2015, clause 12.9 of chapter 2, "immediately on the expiry of six months of the full additional charge of the particular vacant post, the post shall be treated as having been abolished in the Divisions/Departments concerned and the post so treated as abolished shall not be reviewed without the concurrence of the Financial Adviser concerned."

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that following posts remained vacant since long, which required to be filled by following recruitment procedure. If these posts were not required then these should have been abolished. The detail is as under:

Detail of vacant posts 2019-20

Sr. no	Particulars	Sanctioned Posts	Regular	Contractual	Total Filled	Vacant
01.	Officers ranked	388	246	44	290	98
02.	Officials staff	9,470	5,534	254	5,789	3,681
	Total:	**9,858**	**5,780**	**298**	**6,079**	**3,779**

Detail of vacant posts 2020-21

Sr. no	Particulars	Sanctioned Posts	Regular	Contractual	Total Filled	Vacant
01.	Officers ranked	388	242	26	268	120
02.	Officials staff	9,454	5,142	273	5,411	4,043
	Total:	**9,842**	**5,384**	**299**	**5,679**	**4,163**

It is clear from the above table that 3,779 posts for 2019-20 and 4,163 posts for 2020-21 remained vacant since many years. The omission occurred due to weak supervisory and financial internal control.

The matter was taken up with the management in April, 2022. The management replied that the process of recruitment of staff against vacant posts has been initiated. Accordingly, after obtaining approval of BoD QESCO, posts were advertised in local / national newspapers and now the further process was underway. The process would be completed by the end of July 2022.

The DAC in its meeting held on June 09th, 2022 directed the management to expedite the process of recruitment and verify the record from Audit within 30 days. Further progress was not reported till finalization of the report.

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

4.1.1.2 Non-appointment of Chief Internal Auditor

According to Rule – 13 of the Public Sector Companies (Corporate Governance) Rules, 2013, **t**he Board shall appoint a chief internal auditor. The appointment, remuneration and terms and conditions of employment of the chief internal auditor of Public Sector Company shall also be determined with the approval of the Board and shall not be removed except with the approval of the Board.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that the post of

Chief Internal Auditor (CIA) was lying vacant since inception due to which internal audit functions were not being performed. The management did not comply with the Corporate Governance Rules on one side and despite making appointment of another internal audit officer, internal audit was not being carried out. The internal audit reports were demanded from the management but the same were not available with management. Due to non-performance of the internal audit function, numerous irregularities were observed. This showed imprudent management of the company.

Audit was of the view that non-observance of rules resulted in non-appointment of the Chief Internal Auditor in pursuance of Corporate Governance Rules 2013 and avoided internal audit of 100% business transactions.

The matter was taken up with the management in April, 2022. The management replied that the BoD QESCO in its 175th/40th meeting held on 28th April 2022 has approved the appointment of Chief Internal Auditor QESCO in accordance with the Clause-22(2) of the Public Sector Companies (Corporate Governance) Rules, 2013. Appointment letter was issued on 18-5-2022.

The DAC in its meeting held on June 09th, 2022 directed the management to get the record of recruitment of CIA verified from Audit within 30 days. No record was produced till finalization of the report.

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

4.1.1.3 Unrealistic annual budget preparation without correlation to business plan and variance analysis

According to Rule – 7(2) (a) of the Public Sector Companies (Corporate Governance) Rules, 2013 significant issues shall be placed before the Board for its information and consideration in order 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 Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that annual business plans duly linked with realistic revenue forecasts and long-term plans and budgets along with variance analysis were neither prepared nor placed before the Board for its consideration. However, simple estimated revenue and expenditure figures were got approved from the Board during 2019-20. The assumptions/policies on which such budgeted figures of revenues and expenditure based were neither elaborated in the Budget book nor made part of the minutes of BOD relevant meeting. Furthermore, BOD in its 130th/54th meeting held on August 27th 2020 did not approve the annual budget for the year 2020-21 and raised different observations like justification of increase/decrease in projected sales/expenses, pay and allowances, pension payments, non-preparation of quarterly budget and expenditure statements and excessive provision of maintenance and capital budget. The foregoing was required to be provided to BOD in upcoming meeting, the status of which was not made known to Audit. In the absence of prescribed basis to make budget without correlation with the annual business plan as well as variance analysis, the approved budget cannot be termed as realistic one and indicated weak operational/financial management.

The matter was taken up with the management in April, 2022. The management replied that the BOD in its 121st/45th & 132nd / 56th meetings approved the annual budget for FY 2019-20 & 2020-21 respectively. The budget estimates were prepared keeping in view the distribution margin allowed by NEPRA.

The DAC in its meeting held on June 09th, 2022 directed the management to verify the record from Audit within 30 days. No record was produced till finalization of the report.

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

4.2 FINANCIAL MANAGEMENT

4.2 Financial Management

Finance and Accounts Department is one of the main departments of QESCO. Key responsibilities associated with this department were to monitor banking activities of the organization and ensure adequate cash flow to meet the organization's need. Moreover, budget management cost benefit analysis, forecasting needs and the securing of new funding for projects were also included in the responsibilities of this department. The smooth and efficient working of this department is based on a comprehensive financial manual. However, certain weaknesses of Financial Management were noticed during audits which were detailed hereunder:

4.2.1 Non-recovery of receivables from energy defaulters - Rs. 68, 539.64 million

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

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the period 2019-20 and 2020-21, it was observed that an amount of Rs.68,539.64 million was recoverable from energy consumers (Private & Government) having arrears for last many years. However, no efforts were made by the management to accelerate the recovery from defaulters. Owing to increasing trend of receivables, QESCO was facing difficulties in discharging its obligations towards CPPA(G), Power Sector Companies (PSCs) and Independent Power Producers (IPPs). The detail of outstanding receivables is tabulated as under:

Detail of pending receivables as on 30.06.2021 **(Rs. in million)**

	Receivables 2019-20	Receivables 2020-21	%age Inc/(Dec)
Gross Receivables	294,787.67	337,935.76	14.64
Provision for doubtful debts	230,459.95	269,396.12	16.89

Net Receivables	**64,327.72**	**68,539.64**	**6.55**
Current year's provision for doubtful debts	74,356.24	38,936.16	(47.64)
Gross receivables due for more than 3 years	243,190.35	282,096.13	15.99

The above data indicated that the trade receivables were increased from Rs. 64,327.72 million in 2019-20 to Rs. 68,539.64 million in 2020-21 registering an increase of 6.55% but a huge amount was provided in the accounts i.e. Rs. 38,936.16 million as provision for doubtful debts during the year 2020-21. It is pertinent to mention that the net receivables also included the detection charges of Rs.776.57 million for the last two years i.e., 2019-20 and 2020-21 on account of slowness, tempering in meters and pending units. Furthermore, gross receivables amounting to Rs. 282, 096.13 million for the year 2020-21 were more than 3 years old which comes to 83.48% of total receivables. The continuous accumulation of QESCO's receivables from Govt of Pakistan has remained a major concern for the Company and has had a significant impact on the Company's working capital position. On the issue of receivables and payables in relation to government entities, the Company is required to continuously engage with relevant stakeholders to seek a fair and amicable resolution, with all settlements whether Federal or Provincial.

Audit is of the view that non-adherence to WAPDA Commercial Procedure resulted in non-recovery of Rs. 68,539.64 million from energy defaulters up to the Financial Year 2020-21.

The matter was taken up with the management in April, 2022. The management replied that the receivables of the Company are a continuous process where amount is being recovered and added each month. The main reason is due to the spread of Covid 19 pandemic which had severely affected the financial position and paying power of already poor people of the province. Furthermore, the deteriorated law and order situation in the rural areas of Balochistan has badly affected the recovery campaign against defaulters. Moreover, District Administration is neither cooperating with QESCO Teams nor lodging FIRs against the defaulters as well as illegal/kunda connections. The matter regarding settlement of the remaining outstanding receivables has been taken up with the Ministry of Energy GoP as well as Chief Secretary GoB.

The DAC in its meeting held on June 09th, 2022 directed the management to submit work plan regarding recovery through its BOD and also submit weekly position and progress of recovery to the Ministry and Audit authorities. Further progress was not reported till finalization of the report.

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

4.2.2 Financial loss due to breach of Transmission & Distribution (T&D) losses target by QESCO – Rs.24,089.60 million

According to NEPRA letter No. NEPRA/TRF-386/QESCO-2017/10292-10294 dated: 06/07/2018, the line losses target of QESCO was set as 17.50%.

During performance audit of Quetta Electric Supply Company Limited (QESCO), for the years 2019-20 and 2020-21, it was observed that QESCO did not achieve the NEPRA target of Transmission & Distribution (T&D) losses in the afore mentioned financial years, which resulted into financial loss of Rs.24,089.60 million in period under review. National exchequer borne a financial loss of Rs.10,910.37 million due to breach of NEPRA target by 9.18% in the Financial Year 2019-20 and Rs.13,179.23 million due to breach of NEPRA target by 10.42% in the Financial Year 2020-21. The reported T&D losses percentage was 26.70% and 27.90% against the NEPRA target of 17.50% in the Financial Years 2019-20 and 2020-21 respectively as detailed below:

Statement showing details of line losses due to non-achieving NEPRA Target of T&D Losses during 2019-20 & 2020-21

Sr. No	Financial Year	Units KWH (in million)			Losses Percentage (%)			Loss (Rs. in million)		
		Purchased	Billed	Lost	Actual	Allowed	Excess	Units	Rate	Amount
1	2019-20	6,604.00	4,842.0	1,762.00	26.70	17.50	9.18	606.30	17.995	10,910.37
2	2020-21	6,624.60	4,775.30	1,849.30	27.90	17.50	10.42	690.01	19.10	13,179.23
Total		**13,229.00**	**9,617.00**	**3,611.31**						**24,089.60**

The above scenario indicates inefficiency on the part of QESCO management. Non-adherence to NEPRA tariff determination resulted into financial loss due to breach of T&D losses target by QESCO amounting to Rs.24,089.60 million during the financial year 2019-20 and 2020-21.

The matter was taken up with the management in April, 2022. The management replied that in order to determine the actual T&D losses of the QESCO, the management hired the consultancy services wherein, the third party submitted its evaluation report regarding line losses & declared that the losses of QESCO were 22.70% as per ground realities. Furthermore, despite worst law & order situation in Balochistan Province and non-cooperative attitude of Local Administration & Law Enforcing Agencies (LEAs) for providing assistance for removing /uprooting of illegal Kundas/connections, the management was continuously making all out efforts to reduce the line losses.

The DAC in its meeting held on June 09th, 2022 directed the management to develop strategy regarding minimizing losses through its BOD and also submit weekly position and progress of recovery to the Ministry and Audit authorities. Further progress was not reported till finalization of the report.

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

4.2.3 Financial loss due to non-achievement of recovery target by QESCO – Rs.82,865.30 million

According to NEPRA recovery performance parameter, 100% recovery achievement is essential component for DISCO's performance criteria in annual performance evaluation reports. DISCOs are encouraged to achieve the rate of 100% recovery.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that QESCO incurred loss of Rs.82,865.30 million during the period 2019-20 and 2020-21. QESCO failed to achieve the 100% recovery target of NEPRA in both financial years which resulted into a loss of Rs.31,285.00 million in the financial year 2019-20 and Rs.51,580.30 million in the financial year 2020-21. The percentage of financial loss due to non-achieving of 100% recovery target set by NEPRA was 49.20% and 39.80% in the financial years 2019-20 and 2020-21 respectively as detailed below:

Details of Financial Loss due to non-achievement of Recovery target by QESCO in the FY 2019-20 & 2020-21

Sr. No	Financial Year	Amount (Rs in million)			Recovery Percentage (%)		
		Billing	Collection	Loss	Target	Recovery	Loss
1	2019-20	61,644.50	30,359.50	31,285.00	100	49.20	50.80
2	2020-21	85,686.80	34,106.50	51,580.30	100	39.80	60.20
Total		**147,331.30**	**64,466.00**	**82,865.30**			

The above table indicates inefficiency on the part of QESCO management. Non-adherence to NEPRA target of 100% recovery public exchequer bore a financial loss of Rs.82,865.30 million during the financial year 2019-20 and 2020-21.

The matter was taken up with the management in April, 2022. The management replied that the main reason of less recovery to meet the assigned target was due to non-payment of dues by the Agri Consumers who consume 75% of electricity. Disconnection campaign has been resisted by Zamindars who show strong resentment/agitation and block the roads. The local administration did not support QESCO staff to disconnect their connections despite repeated requests for extending cooperation.

The DAC in its meeting held on June 09^{th}, 2022 directed the management to develop strategy regarding minimizing losses through its BOD and also submit weekly position and progress of recovery to the Ministry and Audit authorities. Further progress was not reported till finalization of the report.

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

4.2.4 Non-recovery of detection charges / pending units from consumers - Rs.776.57 million

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

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that energy meters of consumers of various categories were physically checked by the surveillance teams / metering & testing (M&T) department and detection charges of Rs.776.57 million for the last two years i.e., 2019-20 and 2020-21 on account of slowness, tempering in meters and pending units etc. were approved for recovery from the consumers which was not recovered. The detail is as under: -

Year	Number of detection bill	Total units charged (M. kWh)	Total amount of detection bills charged (Rs. in Millions)	Total amount of detection bills recovered (Rs. in Millions)	Outstanding receivables (Rs. in Millions)	%age Recovery against detection bill
2020-21	17,311	16.92	332.40	35.60	296.80	10.71%
2019-20	23,260	25.89	501.33	21.56	479.77	4.30%
Total	**40,571**	**42.81**	**833.73**	**57.16**	**776.57**	**15.01%**

As per above data the recovery percentage of detection charges is increased from 4.30% in 2019-20 to 10.71% in 2020-21, yet a huge number of outstanding receivables is still piled up which showed negligence on the part of management in recovering the amounts from the defaulters.

Non-adherence to Commercial Procedures resulted in non-recovery of detection charges amounting to Rs.776.57 million from the consumers up to the Financial Year 2020-21.

The matter was taken up with the management in April, 2022. The management replied that the recovery against detections charged to the consumers was affected in installments. Therefore, the percentage of recovery was very less.

The DAC in its meeting held on June 09th, 2022 directed the management to develop strategy regarding recovery through its BOD and also submit weekly position and progress of recovery to the Ministry and Audit authorities. Further progress was not reported till finalization of the report.

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

4.2.5 Non-recovery of arrears due to non-execution of Equipment Removal Orders (EROs) – Rs. 343,821.80 million

According to Para-3 of Authority's circular dated April 15, 1998, "Disconnections will be affected through removal of meters, transformers, span or any other equipment to ensure that no possibility of loop hole is left for unauthorized use of energy during the period of disconnection. The equipment after having been removed from site was required to be returned to store".

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that 0.397 million industrial / commercial / tube well consumers defaulted the payment of energy charges of Rs. 643,652.90 million for the last two years 2019-21. The Equipment Removal Orders (EROs) was issued but executed partially as only meters were removed whereas transformers remained at sites. The circle wise detail of which is as under:

Sr No	Name of Circle	2020		2021		Grand Total	
		No of EROs	Amount (Rs. in million)	No of EROs	Amount (Rs. in million)	No of EROs	Amount (Rs. in million)
1	Central	30,739	40,769.38	24,789	47,690.51	55,528	88,459.89
2	LoraLai	36,073	45,728.04	37,572	51,349.79	73,645	97,077.83
3	Khuzdar	32,613	103,468.98	34,361	11,863.27	66,974	22,2101.70
4	Sibi	26,243	37,248.54	26,767	41,324.32	53,010	78,572.86
5	Pisihin	29,749	53,674.62	30,930	62,112.58	60,679	115,787.20
6	Mekran	42,513	18,941.56	44,538	22,711.88	87,051	41,653.44
	QESCO	**197,930**	**299,831.12**	**198,957**	**343,821.80**	**396,887**	**643,652.90**

As per above data EROs needed to be implemented along with removal of all the allied electric material/equipment in order to stop the defaulters for using electricity without payments of dues. Non-implementation of Authority's instructions resulted in non-removal of the transformers and allied material from the sites and non-recovery of outstanding energy charges of Rs. 643,652.90 million for the period 2019-21.

The matter was taken up with the management in April, 2022. The management replied that the total outstanding EROs were Rs. 343,821.80 million against 198,957 consumers instead of Rs.643,652.90 million against 396,887 consumers. Audit was requested to correct the figures accordingly as Audit had taken collective figures of both the years. The management further explained that the amount was outstanding against Agri defaulters, Govt. connections and private connections and field staff had already been directed to launch vigorous recovery campaigns against these defaulters.

The DAC in its meeting held on June 09^{th}, 2022 accepted the management stance regarding revising of amount of para from Rs. 643,652.90 million to Rs. 343,821.80 million and also directed the management to develop strategy regarding recovery through its BOD and also submit weekly position and progress of recovery to the Ministry and Audit authorities. Further progress was not reported till finalization of the report.

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

4.2.6 Unauthorized expenditure incurred over and above approved Budget - Rs. 1,538.54 million

According to rule 4 (3) of Corporate Governance Rules 2013, the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

The budget estimates should have been prepared keeping in view the past experience and future needs with due regard to available financial revenues and efforts should be made to keep the expenditure within the budget estimates. In case of additional requirement of funds, approval of competent authority may be obtained before incurring expenditure over and above budget allocation.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that management incurred expenditure of Rs. 6,009.50 million against approved budget on account of different heads of account during 2019-21. Thus, an amount of Rs.1, 538.54 million was incurred over and above the approved budget, which was 26% of the budget allocation without obtaining approval of competent authority **(Annex-I)**.

Expenditure of Rs. 1,538.34 million which was in excess to the approved budgetary allocation was caused without approval of competent authority. It was manifestation of the fact that the management of Quetta Electric Supply Company Limited (QESCO) did not exercise proper control over the expenditure particularly on account of Employees Benefits, Repair & Maintenance Expenses, Utilities, Professional Charges, TA/DA and Misc. expenses. Furthermore, BOD in its 130th/54th meeting held on August 27th 2020 did not approve the annual budget for the year 2020-21 and raised different observations like justification of increase/decrease in projected sales/expenses, pay and allowances, pension payments, non-preparation of quarterly budget and expenditure statements and excessive provision of maintenance and capital budget needs to be provided to BOD in upcoming meeting, the status of which was not made known to Audit.

Audit was of the view that management incurred excess expenditure of Rs. 1,538.34 million against approved budget on account of different heads of account during 2019-21 which is held irregular in audit.

The matter was taken up with the management in April, 2022. The management replied that irregular expenditure incurred may be verified by Audit.

The DAC in its meeting held on June 09th, 2022 directed the management to regularize excess expenditure from BOD and get it verified by Audit. DAC also directed to inquire the matter at PPMCL level (GM (S&I) and fix responsibility. Further progress was not reported till finalization of the report.

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

4.2.7 Financial Analysis/ Comments on Annual Audited Accounts of QESCO

Working results of the Quetta Electric Supply Company Limited (QESCO) is given hereunder:

(Rs in million)

Particulars	2020-21	% Age Inc/ Dec	2019-20	% Age Inc/ Dec	2018-19 (Restated)
Electricity sales	49,995.19	(7.55)	54,077.51	32.29	40,878.83
Agricultural tube-wells subsidy	18,837.97	0.01	18,836.24	(0.93)	19,013.67
Tarif differential subsidy	21,850.04	61.76	13,507.91	62.47	8,313.86
Total revenue	**90,683.21**	4.93	**86,421.66**	26.71	**68,206.36**
Cost of electricity	(81,254.87)	(191.31)	88,987.02	(218.12)	(75,335.65)
Gross profit/ (loss)	**9,428.34**	(467.53)	**(2,565.35)**	(64.02)	**(7,129.28)**
Amortization of deferred credit	603.10	2.53	588.24	6.44	552.66
Operational expenses	(56,918.71)	(44.38)	(102,342.94)	217.99	(32,184.59)
Other income	4,589.74	(2.44)	4,704.53	14.11	4,122.82
Operating profit/ loss	**(42,297.53)**	(57.54)	**(99,608.78)**	187.57	**(34,638.39)**
Finance cost	(7,182.48)	(7.48)	(7,762.97)	117.61	(3,567.41)
Operating profit/ loss before taxation	**(49,480.01)**	(53.92)	**(107,371.75)**	181.04	**(38,205.80)**
Taxation	(789.59)	(23.31)	(1,029.57)	(2.46)	(1,055.53)
(Loss) after taxation	**(48,690.42)**	(55.08)	**(108,401.32)**	176.10	**(39,261.34)**
Other comprehensive income/loss	(13,009.82)	51,364.92	(25.28)	(93.19)	(371.03)
Total comprehensive loss	(61,700.23)	(43.09)	(108,426.60)	173.58	(39,632.37)
Accumulated losses	**(413,372.89)**	17.90	**(350,619.05)**	44.52	**(242,607.97)**

(Source: Annual Audited Accounts)

The above table revealed that the company was running in gross losses in 2018-19 and 2019-20 respectively which were improved to gross profit in 2020-21 but net losses accumulated to Rs. 413,372.89 million up to June 30, 2021. Main reason for such losses was the increase in operational expenditure by 218% during 2019-20 as compared to 2018-19 which further rose to 44% in 2020-21. This was a sign of weak financial management. The management was therefore, stressed upon to prepare its business plan as well as viable strategy and improve its revenue. Strict control over incurrence of expenditure may also be exercised to curtail the expenditure.

Comparison of Total Revenue with Total Cost:

The year wise detail of total revenue and total cost for last three years is as under:

(Rs. In Million)

Year	Total Revenue	Total Expenses
2018-19	72,883.28	112,514.22
2019-20	91,938.62	195,879.81
2020-21	96,665.65	158,365.88
Total	**261,487.55**	**466,759.91**
Average %age of Cost to Revenue		178%

The above table shows that the average cost to generate revenue is 178% due to which the Company is accumulating huge losses which rose to Rs. 413.37 million.

Ratio Analysis:[17]

1. **Liquidity Ratios:**

Liquidity is a measure of the ability of debtor to pay their debts as and when they fall due. It is usually expressed as a ratio or percentage of current liabilities showing the ability of a company to pay short-term obligations. “Liquidity is the case with which assets may be converted into cash without loss”. Thus, liquidity is the base of continuous business operations. To measure the liquidity position of Quetta Electric Supply Company Limited (QESCO) - current ratio has been calculated.

[17] Annex II

- **Current Ratio:**

The Current ratio (current assets / current liabilities) has been fluctuating significantly over the last three years i.e., 2018-19 to 2020-21 averaged 0.33:1 in three years which was less than the generally accepted standard ratio of 2:1.

Year	Current Assets	Current Liabilities	Current Ratio
2018-19	138,701.25	322,834.06	0.43
2019-20	116,574.36	405,753.04	0.29
2020-21	125,852.74	470,532.95	0.27

The above figures indicate that the company could not meet up its short-term financial obligations as at when due. The Company should try to maintain the ratio at a standard level of 2**:**1.

2. **Profitability Ratios:**

Profitability ratios measure the efficiency of management in the employment of business resources to earn profits. These ratios indicate the success or failure of a business enterprise for a particular period of time. To analyze the profitability position of the company, these ratios are calculated- Gross Profit/Loss margin, Operating Profit/Loss margin and Net Profit/Loss margin.

Sr No	Year	Gross Profit/ (Loss) Ratio (%)	Operating Profit/ (Loss) Ratio (%)	Net Profit/ (Loss) Ratio (%)
1	2018-19	(10.45)	(50.78)	(57.56)
2	2019-20	(2.97)	(115.26)	(125.43)
3	2020-21	10.40	(46.64)	(53.69)

Operating Loss and Net Loss margins show the abnormal fluctuations till 2019-20 as compared to 2018-19 but then gradual decrease in 2020-21. Furthermore, an increase in gross profit in 2020-21 to 10.40% positive increase in G.P ratio which is a good sign as compared to rest of the years. Efforts should be made to make good the company loss by initiating proper business plan and make it a viable concern.

4.3 PROCUREMENT AND CONTRACT MANAGEMENT

4.3 Procurement and Contract Management

The procurement and contract management department is responsible to make arrangement for the procurement of goods and services and to get the civil work done at the most competitive and economical rates as well as transparent manners to meet the requirement of the company. For these purposes the management was also required to establish/constitute different committees to make the process most transparent in line with PPRA's rules guidelines. The weaknesses came to notice in this regard during performance audit are given hereunder:

4.3.1 Mis-procurement of material – Rs.12.72 million

According to rule 9, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. Furthermore, according to rule 4 of PPRA Rules 2004, "Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical." The procuring agencies shall devise a mechanism, for planning in detail for all proposed procurements with the object of realistically determining the requirements of the procuring agency for one year.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that while placing purchase orders for procurement of various types of material during the financial year 2020-21, QESCO procured various type of material from suppliers/manufacturers at higher rates while the same material was procured at much cheaper rates in previous months. The financial impact of difference of rates was Rs.12.722 million which showed inefficient and un-economical procurement **(Annex-III)**. Audit holds that if procurement of material would have been done according to procurement plan and without splitting, QESCO would have saved extra financial burden of Rs.12.72 million.

Non-adherence of PPRA rules resulted into inefficient and uneconomical procurement of material amounting to Rs.12.72 million during the financial year 2020-21.

The matter was taken up with the management in April, 2022. The management replied that while placing purchase orders for procurement of various types of material the economy aspect was not violated.

The DAC in its meeting held on June 09th, 2022 directed the management to get the record verified by Audit. No record was produced to Audit for verification till finalization of the report.

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

4.3.2 Inefficiency in bidding process of material procurement – Rs.227.48 million

According to rule 4 of PPRA Rules, 2004 "Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical."

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that QESCO placed five (05) Purchase Orders on various suppliers for procurement of various distribution materials amounting to Rs.227.48 million during the financial year 2020-21. During scrutiny of bidding documents of these purchase orders it was observed that single bidders participated in the bidding process **(Annex-IV)**. Later on, the bidders voluntarily altered (reduced) their rates mentioning it as a gesture of goodwill to strengthen their business relation with the organization after opening of bids. The change of rates after opening of bid was against the PPRA rules and was inefficiency of QESCO management by not cancelling these tenders and re-tendering to get fair, transparent and economical rates.

Non-adherence to PPRA rules resulted into inefficiency in bidding process of material procurement amounting to Rs.227.476 million during the financial year 2020-21.

The matter was taken up with the management in April, 2022. The management replied that the quoted rates of single responsive bidder were accepted and the rates were compared with other DISCOs, the quoted rates were with minor difference. The rates were reduced by the bidders at their own for providing discount to the company.

The DAC in its meeting held on June 09th, 2022 directed the management to verify the record from audit within 30 days. No record was produced to Audit for verification till finalization of the report.

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

4.4 CONSTRUCTION AND WORKS

4.4 Construction and Works

The construction and works department is responsible to make arrangements for the site selection, acquisition of land, preparation of design and drawings, preparation of cost estimates, award of contracts, construction supervision and resuming operations to get done the civil work at the most competitive and economical rates as well as transparent manners to meet the requirement of the company. For the purposes the management was also required to establish/constitute different committees to make the process most transparent in line with the relevant rules and regulations. The weaknesses came to notice in this regard during performance audit are given below:[18]

4.4.1 Wasteful expenditure due to suspension and stoppage of transmission line work by the Gwader Development Authority- Rs.1,098.09 million

According to Section-III (1) of WAPDA Guidelines regarding enforcing responsibility for losses due to fraud, theft or negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that QESCO incurred an expenditure of Rs. 1,098.09 million on construction of 132-KV SDT Gwadar-Jiwani Transmission Line and 132-KV Grid Station Jiwani as per approved drawings and specifications. Moreover, material was procured and major portion of transmission line and grid station of Jiwani had been executed by the contractors and it was not possible to change the route at this stage. Meanwhile Gwadar Development Authority (GDA) has suspended the Transmission Line work from 220-KV Gwadar Grid Station to Jiwani zero-point section due to revision of Gwadar Master Plan. Due to suspension and stoppage of work the expenditure incurred had gone wasted because the revised scope of work would be issued and cost of the works would also be increased.

[18] Note: These paras were shifted from MFDAC section of printed audit reports for the years 2019-20 and 2020-21.

Unsatisfactory project management resulted in wastage of expenditure amounting to Rs.1,098.09 million during the financial years 2019-21.

The matter was taken up with the management in July, 2020 and reported to the Ministry in October, 2020. The management replied that the matter has already been taken with GDA authority. Further outcome would be informed accordingly. No progress was intimated till the finalization of report.

Audit recommends that the matter needs to be investigated besides ensuring the expedite of work.

4.4.2 Poor performance in execution work relating to interconnection of isolated Makran Network at Basima via Nag Grid Station - Rs.17,421.44 million

According to PC-I of the project, completion date of project was September, 2021.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that Executive Committee of the National Economic Council (ECNEC) approved the project of Interconnection of isolated Gwadar/ Makran area with National Grid System of Pakistan at a rationalized cost of Rs.17,412.44 million with FEC of Rs.6,637.06 million on 29.08.2019. Project completion date was set as 20th September, 2021. The proposed schemes involved construction of new 132 KV grid station at Nag along with allied 132 KV single circuit as well double circuit transmission lines and 28 Nos. line bays at grid station. However, physical progress of project remained only 7% which indicated poor execution of project. During financial year 2020-21, Government released Rs.3,000 million which remained unspent. The main reasons of delay in project were pending NOC from Civil Aviation Authority, Low participation of National & International firms in bidding process, multiple re-tendering process for procurement of imported equipment for grid station and transmission lines.

Due to above mentioned reasons, project delayed by 14 months and 13.46% variation in USD may escalate project cost particularly on imported items which may lead to cost and time overrun of the project.

Non-adherence to the provision of PC-I resulted in poor performance of project authorities.

The matter was taken up with the management in November, 2021. The management stated that matter has been taken with Ministry & Managing Director PEPCO for early resolution of pending matter. No progress intimated till the finalization of report

Audit recommends to investigate the matter for poor performance of the project and fix the responsibility of person (s) at fault under intimation to Audit.

4.4.3 Non-Capitalization of Capital works and Deposits Works - Rs.200.88 million

As per DISCOs Accounting Manual, A-90 Form (completion report) prepared by the Deputy Manager (Construction)/ Deputy Manager (GSC) is certified by the Consultants and forwarded to Project Director (Construction)/Project Director (GSC) for capitalization.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that thirty-six (36) electrification works comprising capital and deposit works of Grid Stations / Transmission Lines amounting Rs.200.88 million were completed during the financial year 2019-21. However, the said completed electrification works could not be capitalized due to non-preparation of completion reports (A-90). Resultantly, the assets could not be transferred to respective formations in order to achieve envisaged benefits.

Non-adherence to provision of Accounting Manual resulted in non-capitalization of capital works and deposits works amounting to Rs.200.88 million during the financial years 2019-21.

The matter was taken up with the management in July, 2020 and reported to the Ministry in September, 2020. The management replied that debit advice be issued to Finance Director, QESCO, Quetta Capitalization would be made after compiling the trial balance for the month of June, 2020 (Final). No further progress was intimated till finalization of inspection report.

Audit recommends that the management needs to look into the matter besides ensuring the capitalization of capital/deposit works into books of accounts after fulfill all codal formalities.

4.5 ASSET MANAGEMENT

4.5 Asset Management

Assets Management Department is one of the main departments of QESCO. Key responsibilities associated with this department were to maintain proper record of assets, coding and identification of assets, periodic physical verification reports. The smooth and efficient working of this department is based on a comprehensive asset management manual/policy and its proper implementation. However, certain weaknesses of Asset Management were noticed during audits which were detailed hereunder:

4.5.1 (i) Weak inventory control management due to non-verification of physical inventory - Rs. 4,450.68 million;
(ii) Excessive provision of slow-moving items valuing - Rs. 503.57 million

According to clause 5(b) of Corporate Governance Rules, 2013 for Public Sector Companies, the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company using the funds, assets and resources of the Public Sector Company with due diligence and care.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that a large number of stores and spare parts valuing Rs 4,450.68 million were lying unused since long and the management declared huge inventory as slow-moving items. The spare parts were procured unnecessarily or without assessment of their actual requirement as most of the items were purchased and stored on urgent/critical basis but could not be utilized since long. Furthermore, no counting of the stores and spares was held by the company neither provided evidence for verification of valuation of the stores and spares as on June, 30,2020 and 2021. The detail of stores and spares is as under:

Detail of stores and spares as on 30th June **(Rs. in million)**

	Store and spares 2020	Store and spares 2021	%age Inc/(Dec)
Distribution equipment	1,812.51	2,652.15	46.33

Grid Station equipment	1,580.46	2,072.48	31.13
Generation equipment	227.70	227.70	0.00
Others	1.911	1.91	0.00
Gross stores and spares	**3,622.58**	**4,954.25**	36.76
Provision for slow moving and obsolete stock	43.31	503.57	1,062.60
Net stores and spares	**3,579.27**	**4,450.68**	**24.35**

It is clear from the above table that the absolute inventory amounting to Rs.4,450.68 million mainly consists of spares relating to different distribution, grid station and generation equipment including electricity meters, transformers, HT/LT cables, conductors, steel and PCC poles and structures etc. With the passage of time the stores and spare parts become rusty and even lost its scrap value. Retention of the obsolete inventory for such long time without its future utilization may cause heavy losses. Due to long storage of the inventory, the precious money of QESCO amounting to Rs.4,450.68 million was blocked unnecessarily. Thus, improper internal controls and weak inventory management caused unnecessary accumulation of such quantities of inventory valuing Rs.4,450.68 million which became useless and hence loss to the company.

The matter was taken up with the management in April, 2022. The management had not submitted reply yet.

The DAC in its meeting held on June 09th, 2022 directed the management to submit action plan through its BOD within one week and implement the plan within one month and also submit position and progress to the Ministry and audit authorities. Further progress was not reported till finalization of the report.

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

4.6 MONITORING AND EVALUATION

4.6 Monitoring and Evaluation

The monitoring and evaluation of the management functions at appropriate level plays a vital role in the company. Accordingly, in the light of Public Sector Companies (Corporate Governance) Rules, the Board is required to 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 was to be reported to the Commission with reasons of non-compliance, within fourteen days of the end of the quarter in which the meeting should have been held. Improper monitoring and evaluation resulted in numerous irregularities and losses which occurred as already pointed out in the preceding paragraphs. However, some weaknesses are given hereunder:

4.6.1 Non-evaluation of performance of Board members of QESCO

As per Rule 8(1) of the Corporate Governance Rules 2013, the performance evaluation of the members of the Board including the chairman and the chief executive shall be undertaken for which the Board shall establish a process, based on specified criteria, and the chairman of the Board shall take ownership of such an evaluation. The committees shall also carry out their evaluation on an annual basis.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that the Company's management failed to comply with the Corporate Governance Rules regarding evaluation of performance of Board members. Thus, the performance of the Board members had not been observed.

The matter was taken up with the management in April, 2022. The management replied that the performance evaluation of members of the Board including the Chairman and the Chief Executive should be undertaken annually by the Government for which the Government should enter into performance contract. In this regard the performance agreement has already been signed by the Govt of Pakistan with BOD QESCO.

The DAC in its meeting held on June 09th, 2022 directed the management to submit detailed expenditure on BOD meetings and also submit performance of

BOD members as per performance agreement. Further progress was not reported till finalization of the report.

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

4.6.2 Inefficiency of QESCO by not achieving NEPRA's System Average Interruption Frequency Index (SAIFI) standard

According to Rule 4(a) of Performance Standards (Distribution) Rule, 2005, "A distribution company shall ensure that the System Average Interruption Frequency Index (SAIFI) of supply of power per consumer per annum does not exceed thirteen.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that QESCO failed to achieve NEPRA's target of System Average Interruption Frequency Index (SAIFI) in the financial year under review, which shows inefficiency and poor performance on the part of QESCO management. Although according to Performance Standards (Distribution) Rules, 2005 the SAIFI standard is 13 (thirteen) per annum. However, NEPRA set the SAIFI target for QESCO 81.9 for the financial year 2019-20 on the methodology i.e. 5% reduction over the mean value of its historic data of last five years. The System Average Interruption Frequency Index (SAIFI) of QESCO was 99.13 against the NEPRA target of 81.90 with a breach of target of 17.23 during the financial year 2019-20 and it was 97.98 against the target of 13 with a breach of target of 84.98 during the Financial Year 2020-21, which reflects inefficiency on the part of QESCO management.

Sr. No	Financial Year	Reported	NEPRA Target	Breach of Target
1	2019-20	99.13	81.90	17.23
2	2020-21	97.98	13.00	84.98

Non-adherence to Performance Standards (Distribution) Rule, 2005 resulted into breach of NEPRA's System Average Interruption Frequency Index (SAIFI) during the Financial Year 2019-20 and 2020-21.

The matter was taken up with the management in April, 2022. The management did not submit reply to audit.

The DAC in its meeting held on June 09th, 2022 directed the management to justify the reasons for not achieving the targets of NEPRA Performance Standards. Further progress was not reported till finalization of the report.

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

4.6.3 Inefficiency of QESCO by not achieving NEPRA's System Average Interruption Duration Index (SAIDI-Minutes)

According to Rule 4 (b) of Performance Standards (Distribution) Rules 2005, "A distribution company shall ensure that the System Average Interruption Duration Index (SAIDI) of supply of power per consumer per annum does not exceed fourteen."

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that due to inefficiency of QESCO management NEPRA's system average interruption duration index (SAIDI-Minutes) was not achieved during the financial years under review. Although the SAIDI target as per Performance Standard (Distribution) rules is 14 minutes. However, NEPRA set the target of 3,188.62 minutes for QESCO on the methodology of 10% reduction over the mean value of historic data of five years. The QESCO breach of NEPRA's target was 5,187.96 minutes in the financial year 2019-20 and 8,163.06 minutes in the financial year 2020-21. The above scenario indicates inefficiency and below standard performance of QESCO management against the NEPRA target.

Sr. No	Financial Year	Reported (Min)	NEPRA Target (Min)	Breach of Target (Min)
1	2019-20	8,376.58	3,188.62	5,187.96
2	2020-21	8,177.06	14.00	8,163.06

Non adherence of Performance Standards (Distribution) Rule, 2005 resulted into breach of NEPRA's System Average Interruption Duration Index (SAIFI-Minutes) during the Financial Year 2019-20 and 2020-21.

The matter was taken up with the management in April, 2022. The management did not submit reply to audit.

The DAC in its meeting held on June 09th, 2022 directed the management to justify the reasons for not achieving the targets of NEPRA Performance Standards. Further progress was not reported till finalization of the report.

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

4.6.4 Poor performance due to non-provision of 12,126 new connections to eligible consumers

According to Rule 4 (b) of Performance Standards (Distribution) Rules 2005, "A distribution company shall provide electric power service to at least 95% of new connections to its eligible consumers as specified in the Consumer Eligibility Criteria laid down by the Authority pursuant to section 21(2)(b) of the Act."

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that QESCO failed to provide new connections to 12,126 eligible consumers during the period under review. The percentage of pending connections was more than 5% in each year, which shows poor performance of QESCO management in providing new connections to eligible consumers. A total of 21,939 consumers applied for new connection and out of these consumers only 18,051 connections were given and 3,888 remained pending within prescribed time during the financial year 2019-20. Similarly, out of total 26,257 applied consumers only 18,019 connections were installed and 8,238 remained pending during the financial year 2020-21. The percentages of pending connections were 17.72% and 31.37% in the financial year 2019-20 and 2020-21 respectively as detailed below:

Details of Breach of NEPRA Time Frame for New Connection by QESCO during the Financial Years 2019-20 & 2020-21							
Sr. No	**Financial Year**	**No of Consumers Applied**	**No of Connections Given within Prescribed time**	**No of Connections not given within Prescribed time**	**%age Connections not given within Prescribed Time**	**%age NEPRA Target of Pending Connections**	**Breach of Target (%)**
1	2019-20	21,939	18,051	3,888	17.72%	5%	12.72%
2	2020-21	26,257	18,019	8,238	31.37%	5%	26.37%
Total		**48,196**	**36,070**	**12,126**			

The above scenario indicates poor performance, inefficiency of QESCO management in providing new connections to eligible consumers. Non-adherence of Performance Standards (Distribution) Rule, 2005 resulted into poor performance due to not providing 12,126 (More than 5%) new connections to eligible consumers during the Financial Year 2019-20 and 2020-21.

The matter was taken up with the management in April, 2022. The management replied that the delay in provision of new connections is mainly due to Govt. connections i.e., Water supply of PHE Department. The main reason of delay was because of outstanding dues against the department. As and when the dues were cleared the new connections would be installed.

The DAC in its meeting held on June 09th, 2022 directed the management to expedite the provision of new connections after getting recovery of previous dues from the concerned and get it verified by audit. Further progress was not reported till finalization of the report.

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

4.6.5 Non establishing of Key Performance Indicators (KPIs) of QESCO

According to rule 17 (4) (d) of Public Sector Companies (Corporate Governance Rules 2013), key performance indicators of the Public Sector Company will reflect its outcomes which significantly highlight the work and impact and a comparison of actual results with the budgeted figures. Such indicators shall focus on as to how well the Public Sector Company has responded to accountability requirements, improved service delivery, reduced costs and adherence to the principles of environmental and corporate social responsibilities.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that according to Chairman BOD QESCO email dated: 12/07/2021, "It has been decided and directed by the Ministry for preparation of KPI of all officers and staff." But despite directions of Ministry of Power and Board of Directors (BoD) QESCO management failed to prepare and approve Key Performance Indicators for the employees of QESCO from BoD to evaluate their performance as well as of the company. KPI, or a key performance indicator, are measurable values used to evaluate how successful a person or organization is at reaching a target. Audit holds that non-establishing of KPI's is not only violation of Ministry directions but also inefficiency on the part of QESCO management.

Non adherence to Ministry directions resulted into non-establishing of Key Performance Indicators of QESCO Employees.

The matter was taken up with the management in April, 2022. The management replied that the PPMC (Former) PEPCO vide letter No.25-11-27/MD/PEPCO/GM(HR)/DCMP dated 14-02-2018 has circulated the Key Performance Indicators (KPIs) of the officers for measuring performance of following categories, the copies of the KPIs enclosed for your kind perusal please. However, the Job Description of each staff is available.

The DAC in its meeting held on June 09th, 2022 directed the management to get the record verified from Audit within 30 days. No record was produced to Audit for verification till finalization of the report.

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

4.6.6 Loss due to non-replacement of 25,987 defective meters

As per Section-6 of Part-IV of NEPRA Performance Standards (Distribution) Rules, 2005, a distribution company shall ensure any investigation and decision of dispute concerning metering, billing and electricity consumption charges are finalized within twenty-one days. The disputed meter shall be inspected by the authorize distribution company personnel within five days of receipt of the particular complaint.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that 24, 600 defective/disputed meters were pending for replacement during 2019-20 which further increased to 25,987 during 2020-21. The pendency in replacement of defective meters for more than one year caused theft of energy and loss worth millions of rupees as detailed below:

DEFECTIVE METERS REPLACED (2019-20)

Phase	Meters Defective	Meters Replaced	Meters not Replaced	%age of Meters Replaced
Single Phase	52,141	29,661	22,480	57%
3-Phase	3,559	1,439	2,120	40%
Total	**55,700**	**31,100**	**24,600**	**56%**

DEFECTIVE METERS REPLACED (2020-21)

Phase	Meters Defective	Meters Replaced	Meters not Replaced	%age of Meters Replaced
Single Phase	47,665	22,441	25,224	47%
3-Phase	2,420	1,657	763	68%
Total	**50,085**	**24,098**	**25,987**	**48%**

Non-observance of rules resulted in loss to the Company due to non-replacement of defective meters during the financial year 2019-20 and 2020-21.

The matter was taken up with the management in April, 2022. The management replied that the detection and replacement of defective meters was a continuous process and defective meters were replaced within the time frame as defined in CSM.

The DAC in its meeting held on June 09th, 2022 directed the management to get the record verified from Audit within 30 days. No record was produced to Audit for verification till finalization of the report.

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

4.6.7 Non recovery from Agriculture Tube Well Consumers – Rs.354,468.30 million

According to Ministry of Energy (Power Division) letter No.PF-05(09)/2012 dated: 09th November, 2018 recovery from QESCO Agriculture tube well consumers will be made as following: -

Proposal	One Agri Consumer (Avg Motor Size=30 HP)	Total installed 29522 Agri-Consumers
Fixed Rate of Rs.10,000/- monthly/Agri Consumers	Government of Pakistan share @40%	Rs.767.57 million per month
	Government of Balochistan Share @ 60%	Rs.1,151.36 million per month

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that a huge amount of Rs.354,468.30 million was recoverable from 29,447 Agriculture Tube Well consumers as on June, 2020. The recoverable amount was Rs.306,384.90 million at the close of Financial Year 2019-20. Therefore, receivables increased by 15.70% in the year gap which showed inefficiency on the part of QESCO management as detailed below:

Comparison of Agriculture Tube Well Consumers' Receivables of QESCO for the FY 2019-20 & 2020-21

Sr. No	Financial Year	Consumers		Amount of QESCO's Receivables (Rs in million)					
		Total	Active	Consumers (Rs.10,000/-)	GST Subsidy	Prime Minister Subsidy Relief Package	GOP (40%)	GOB (60%)	Total (Rs)
1	2019-20	29,412	27,514	266,475.00	115.44	75.53	19,326.80	20,391.22	306,384.90
2	2020-21	29,447	27,507	304,721.12	115.43	75.54	19,862.00	29,694.21	354,468.30
Difference		**35**	**(7)**	**38,246.12**	**(0.01)**	**0.01**	**535.20**	**9,302.99**	**48,083.40**
Percentage (%)		**0.10%**	**0.00%**	**14.40%**	**0.00%**	**0.00%**	**2.80%**	**45.60%**	**15.70%**

The inefficiency of QESCO is also evident from the fact that the balances of fixed part recovery of Rs.10,000/- from Agriculture Consumers increased by 14.40%, which is the ultimate responsibility of QESCO management. The receivable balance of this part was Rs.266,475.00 million at the close of financial year 2019-20 and which increase to Rs.304,721.12 million at the close of financial year 2020-21. The subsidy portion payable by Government of Balochistan increased by 45.60% which is highest in all the elements of recovery. The receivables from Government of Balochistan was Rs.20,391.22 million in 2019-20 which increased to Rs.29,694.21 in 2020-21. Moreover, it was also reported that illegal tube well connections were also on increasing trend and tube well consumers were using high HP motors than sanctioned HP, which is also a recurring cause of loss to QESCO and major reason of increase in receivables. Audit holds that the increasing trend of receivables from Agriculture Tube well consumers and non recovery of subsidy shares from Government of Pakistan and Government of Balochistan shows poor performance on the part of QESCO management.

Non adherence to Government instructions resulted into inefficiency in recovery from Agriculture Tube Well Consumers amounting to Rs.354,468.30 million.

The matter was taken up with the management in April, 2022. The management replied that the major share of billing was made to Agri consumers which is approximately 75% of the total billing. The QESCO staff posted under 06 x Operation Circles of QESCO is making perpetual efforts to recover the outstanding dues from Agri Consumer Share.

The DAC in its meeting held on June 09th, 2022 directed the management to submit work plan regarding recovery through its BOD and also submit weekly position and progress of recovery to the Ministry and Audit authorities. No record was produced to Audit for verification till finalization of the report.

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

4.7 SUSTAINABILITY

4.7 Sustainability

The sustainability of the company was open to question as the company was running under gross losses since inception of its operation in 2010. In this regard some of the main issues are given hereunder:

4.7.1 Heavy accumulated losses due to weak operational management - Rs 413,372.89 million

According to rule 4(3) of the Public Sector Companies (Corporate Governance Rules 2013), the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that accumulated losses rose to Rs.413,372.89 million upto June 30th 2021. The financial position of the company was as under:

(Rs in million)

Sr No	Financial Year	Income	Expenditure	Annual Loss	Accumulated Losses
1	2019-20	91,938.619	200,365.220	108,426.602	350,619.048
2	2020-21	97,809.751	159,509.986	61,700.235	413,372.889

It is clear from the above table that although the Company's total income increased by 6% yet accumulated loss increased to Rs. 413,372.889 million in 2020-21. Main reasons for such increases in the accumulated losses were increase in operating and management expenses including depreciation, impairment of Property, Plant & Equipment, huge provision on doubtful debts and slow-moving and obsolete stock, heavy expenditure on repair & maintenance, finance cost and actuarial loss on remeasurement of post-retirement benefits. Therefore, it is clear that due to non existence of business plan/viable strategy to increase consumer base, reduce T&D losses and control the expenditure, the accumulated losses showing an increasing trend. Thus, no steps were taken to ensure commercial viability of the company. This showed a weak financial management. Audit was of the view that weak financial management resulted into occurrence of losses of the company.

The matter was taken up with the management in April, 2022. The management replied that the main reason was less recovery. The sales mix showed that 75% of the billing pertained to Agriculture Customers. The agriculture customers in QESCO were subsidized by the Government. NEPRA in its tariff determination for the year 2019-20 allowed T&D losses @ 17.15% which were unrealistic. However, company filed Multi Year Tariff (MYT) before NEPRA and requested T&D losses 28% to 26% from FY- 2020-21 to FY- 2024-25 and investments of Rs. 4,906 million under the head Energy Loss reduction (ELR) to reduce the T&D losses

The DAC in its meeting held on June 09th, 2022 directed the management to submit action plan regarding minimizing losses through its BOD within one week and implement that plan within one month and also submit position and progress to the Ministry and Audit authorities. Further progress was not reported till finalization of the report.

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

4.7.2 Weak position of assets and liabilities due to imprudent working capital management

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

The generally accepted standard ratio of working capital is 2:1. Working capital management involves the relationship between a Company's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that a Company is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses. The management of working capital involves managing inventories, accounts receivable and payable and cash.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that net working capital (difference of current assets and current liabilities) was (Rs.289,178.68) in 2019-20 which was further decreased to (Rs.344,680.22) million in 2020-21. The working capital position showed that company was facing shortage of working capital requirement. Furthermore, current assets are less than current liabilities which shows weak position of the Company regarding payments of short-term obligations. Comparative position of working capital/ current ratio during the period 2019-20 & 2020-2021 was tabulated as under:

(Rs. in million)

Sr No	Year	Current Assets	Current Liabilities	Net Working Capital	Current Ratio
1.	2019-20	116,574.36	405,753.04	(289,178.68)	0.29:1
2.	2020-21	125,852.74	470,532.95	(344,680.22)	0.26:1

The above data indicated that the current ratio (current assets/ current liabilities), was deteriorated ranging from 0.29 to 0.26 at times which was far below than the generally accepted standard ratio of 2:1. The above facts indicated that company was not generating sufficient cash to meet its operational expenses and cannot be run as a going concern.

The matter was taken up with the management in April, 2022. The management replied that due to deteriorated law and order situation the company has a poor recovery position and on the other end the current liabilities of the company were increasing continuously as a result of that the current ratio of the company is deteriorating, however company is making all its efforts to increase the recovery.

The DAC in its meeting held on June 09th, 2022 directed the management to submit action plan regarding improvement of working capital through its BOD within one week and implement that plan within one month and also submit position and progress to the Ministry and audit authorities. Further progress was not reported till finalization of the report.

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

4.7.3 Non-achievement of objectives due to poor financial management

According to rule - 4(3) of the Public Sector Companies (Corporate Governance Rules 2013), the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance.

According to Memorandum and Articles of Association, Quetta Electric Supply Company Limited (QESCO) is a Public limited Company. It was incorporated on May 13, 1998 under the repealed Companies Ordinance 1984 (now Companies Act, 2017) and started its commercial operations w.e.f. July 1st 1998. The principal activities of the Company were that of a public electricity distributor and supplier, mainly through purchase of electricity from CPPA and through own generation. It owns, operates and maintains the power distribution network located within licensee's jurisdiction area to provide reliable and uninterrupted electric power to approximately 0.662 million consumers of Balochistan.

During performance audit of Quetta Electric Supply Company Limited (QESCO) for the years 2019-20 and 2020-21, it was observed that the Company suffered a net loss of Rs. 39,632.37 million in 2019 to Rs. 108,426.60 million in 2020 registering an increase of 173.58% and Rs. 61,700.23 million for the year 2021 to net loss of registering a decrease of 43.09%. This resulted in accumulation of losses of Rs. 413,372.89 million upto 2020-21. During the year ended on 30th June, 2021, the Company sold 9,608 million units (2020: 9,043 million units) showing an increase of 6.25%. It is also added that QESCO has sanctioned strength of 9,842 posts out of which only 5,679 posts were filled showing a 42-% vacant posts position during 2020-21. The detail of operational and financial results regarding sale, billing and recovery during the last two years is as under:

Consumer Tariff category wise sale, assessment and recovery for 2019-20 & 2020-21

2019-20

Tariff Category	No. of Consumers	Units Sold KWH (In million)	Billing (Rs. in million)	Recovery (Rs. in million)	Outstanding Receivables (Rs. in million)
Domestic	477,757	517.78	6,645.16	4,453.60	2,191.56
Commercial	123,504	118.18	3,684.47	3,515.93	168.54
Industrial	3,719	154.76	4,788.37	4,760.07	28.30
Agriculture	29,599	3,247.44	35,964.80	12,274.50	23,690.30
Govt. Departments	8,397	379.11	10,561.70	5355.40	5,206.30
Total	**642,976**	**4,417.27**	**61,644.58**	**30,359.50**	**31,285.08**
2020-21					
Domestic	490,985	572.81	7,761.27	5,473.74	2,287.53
Commercial	127,802	131.78	4,139.28	3,992.05	147.23
Industrial	3,795	197.83	4,709.36	4,634.50	74.86
Agriculture	29,637	3,483.79	58,419.02	10,366.74	48,052.28
Govt. Departments	9,949	389.01	10,657.88	9,639.43	1,018.45
Total	**662,168**	**4,775.21**	**85,686.81**	**34,106.46**	**51,580.35**
%age Inc/(Dec)	**2.98**	**8.10**	**39.00**	**12.34**	**64.87**

The above data indicated that company could recover 49.25% of their billed amount during the period 2019-20. The actual receipts of billed amount were Rs 30,359.50 million in 2019-20 and Rs 34,106.46 million in 2020-21 showing an increase of 12.34% yet accumulated losses rose to Rs. 413,372.89 million. The management of the Corporation was unable to achieve all the objectives for which it was established in April, 1998.

Audit is of the view that despite the increase in customers base by 2.98% and increase in sale of electricity by 8.10% and recovery by 64.87%, the Company's financial position is further deteriorated which needed to be looked into by implementing proper business plan and financial strategies in order to reduce heavy accumulation of losses.

The matter was taken up with the management in April, 2022. The management replied that a formal Business Plan was prepared and needed to be implemented by QESCO Management to curtail Line Losses for the betterment of the Company.

The DAC in its meeting held on June 09th, 2022 directed the management to submit action plan regarding minimizing losses and maximize recovery through its BOD within one week and implement the plan within one month and also submit position and progress to the Ministry and Audit authorities. Further progress was not reported till finalization of the report.

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

4.8 Overall Assessment

The performance audit of QESCO revealed that the management of the Company was unable to achieve all the objectives for which it was established. It is smallest in terms of consumers but largest as it covers 43 % area of Pakistan. QESCO system is under stress due to huge number of agriculture consumers contributing about 70-80% of power demand. Low voltage profile prevails due to long distances from generating sources, besides availability of single 220 KV sources from Guddu. The performance audit was focused on electricity distribution and other related aspects observed to judge the performance of the Company are as under: -

i) Effectiveness: To meet with the original objectives, the Company was required to enhance the consumer base, to collaborate with present demand of electricity for commercial and industrial consumers but the Audit has observed no effort was made by the Company to achieve the same.

ii) Efficiency: The management of QESCO was unable to achieve the recovery targets set by NEPRA. It could not recover the huge receivables from the agricultural tubewell consumers and other allied industries which resulted in compromising the financial position of the Company.

iii) Economy: The operational expenditure has followed an erratic trend with abnormal increases. The Corporation paid huge interest on the borrowed funds, which resulted in increase in operational cost. The management could not rationalize its number of employees in line with recommendations of Human Resource Study.

5. CONCLUSION

In the light of above narrated facts, it was concluded that:

- Although QESCO was providing better services to its stakeholders including Government of Pakistan, general public, and other private organizations yet there were no proper structures of Company's Commercial Department, Customer Services Department etc. with its defined functions as well as approved job description of key posts. This resulted in lack of proper business planning as well as the commercial activities to promote/expand their business.
- Public Sector Companies (Corporate Governance) rules 2013 were not implemented resultantly proper monitoring and evaluation system at each level could not be placed to ensure good governance.
- QESCO management failed to recover long outstanding receivables relating to Agricultural tube well, industrial consumers resultantly over the years it has accumulated a huge receivable which resulted in high interest payments.
- The Human Resource structure has not been rationalized in spite of Government instructions.
- Overall QESCO could not achieve NEPRA targets and standards as specified in Performance Standard (Distribution) Rules 2005. The data related to SAIFI and SAIDI was below standards; the same dissimilarity was also confirmed by the NEPRA professional. There was an urgent need to prepare proper data base system regarding recording of interruption and its duration.
- QESCO Management could not take action regarding high losses feeder for bifurcation as well as augmentation of distribution and power transformers running above 80% load.
- QESCO Management carried out unplanned village electrification without proper technical feasibility under People Works Programme, Pak Millennium Development Goals for Community Programme, Prime Minister Sustainable Development Goals.

- QESCO Management could not resolve issues of consumers such as, over-billing, average billing, detection, theft of electricity, non-replacement of defective meters, installation of new connections, and redressal of complaints.
- The key reasons for high transmission and distribution losses in QESCO was the absence of any mechanism for tracking of electricity flow from the points of their electricity purchases down to the final consumers at each voltage level starting from 132 KV, 11 KV and 400/230 Volts, to eliminate theft, as well as to diagnose actual technical problems / losses. NEPRA has also directed to all DISCOs to install AMR and AMI at all each voltage level starting from 132 KV, 11 KV and 400/230 Volts upto June, 2016 but progress of QESCO was disappointed especially for the voltage level of 400/230.
- The theft of energy due to high unaffordable energy demand suppression tariff was also one of the major factors contributing towards loss of revenue attributed as line losses.
- QESCO failed to achieve its recovery to reduce its receivable for the purpose of bringing improvement in its liquidity and reducing the circular debt as recovery plays a key role in financial health of distribution companies.
- QESCO management failed to achieve the overall standard for safety as per licensing requirements of the regulators and failed to make the compliance of regulator regarding distribution margin.

6. ACKNOWLEDGEMENT

We express our appreciation to the management and staff of QESCO for the assistance and cooperation extended to the auditors during this assignment.

7. ANNEXES

Annex-I
Para no. 4.2.6

QUETTA ELECTRIC SUPPLY COMPANY LIMITED
Budget Vs Expenditure 2019-20
UNDER THE MAJOR HEAD
OPERATING EXPENSES ACCOUNT

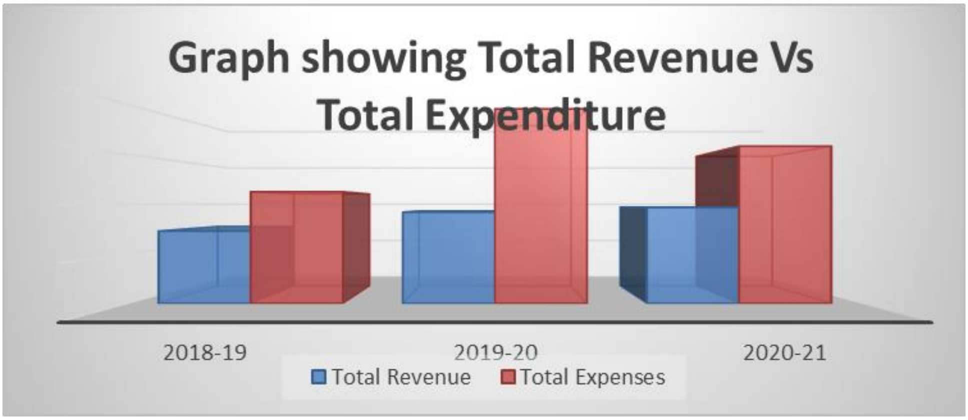
Rs. in million

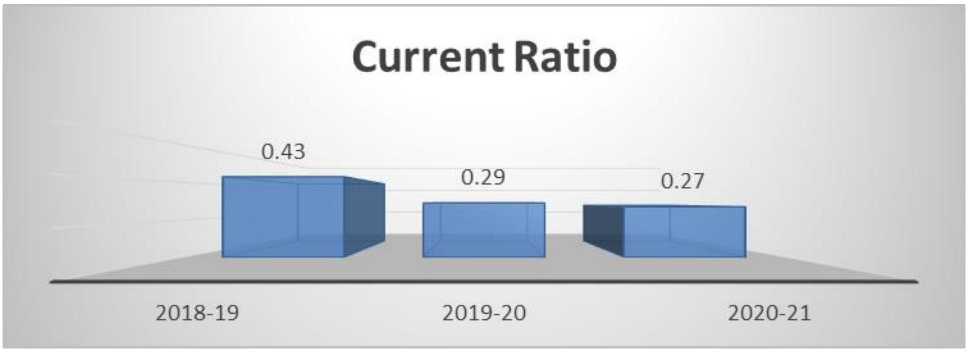
PARTICULARS	ACCOUNT CODE	Budget 2019-20	Expenditure	Excess over Budget
A) ESTABLISHMENT EXP:				
SALARIES WAGES & BENEFITS		-		
DAILY WAGES	520300	4.780	8.493	(3.71)
EMPLOYEES BENEFITS	520400	621.900	748.084	(126.18)
EMPLOYEES SHARE IN FUND	520501	842.160	1,324.762	(482.60)
RENT RATE & TAXES	560100	12.420	13.070	(0.65)
COMMUNICATION	580000	12.630	13.310	(0.68)
OFFICE SUPPLY & OTHER EXP:	590000	32.700	37.750	(5.05)
SUBSCRIPTION & PERIODICALS/NEWSPAPERS	620000	1.100	1.567	(0.47)
INJURIES AND DAMAGES	660000	40.420	42.356	(1.94)
COLLECTION EXPENSES	710000	20.510	23.889	(3.38)
PROFESSIONAL FEE	730000	50.430	124.125	(73.69)
MANAGEMENT FEES	750000	43.000	48.621	(5.62)
MISC.: EXPENSES	770000	25.700	31.265	(5.56)
TOTAL (ESTABLISHMENT)		**1,707.750**	**2,417.292**	**(709.54)**
MAINTENANCE EXPENSES				
R&M Civil Works.	530200	66.400	74.515	(8.11)
R&M Generation plant.	530400	50.000	51.598	(1.60)
R&M Dist: Plant.	530600	570.000	608.264	(38.26)
R&M General plant.	530700	25.210	39.527	(14.32)
VEHICLE EXPENSES	760000	243.350	266.032	(22.68)
G. TOTAL MAINTENANCE		**991.710**	**1,039.936**	**(84.23)**
Total		**2,699.460**	**3,457.228**	**(793.77)**

QUETTA ELECTRIC SUPPLY COMPANY LIMITED
Budget Vs Expenditure 2020-21
UNDER THE MAJOR HEAD
OPERATING EXPENSES ACCOUNT **(Rs. In million)**

PARTICULARS	ACCOUNT CODE	Budget 2020-21	EXPENDITURE	Excess over Budget
A) Establishment Exp:			0	
Salaries Wages & Benefits			0	
Daily Wages	520300	8.000	11.015	(3.01)
Employees Share in Fund	520501	1,000.000	1,539.939	(539.94)
Power Light & Water	570000	45.000	47.634	(2.63)
Travelling Expenses	650000	261.000	284.446	(23.45)
Collection Expenses	710000	11.500	24.735	(13.23)
Professional Fee	730000	45.000	66.394	(21.39)
Management Fees	750000	60.000	148.687	(88.69)
Total Establishment		**1,430.500**	**2,122.849**	**(692.35)**
B) Maintenance Expenses				
R&M Civil Works.	530200	100.000	111.696	(11.70)
R&M General plant.	530700	27.000	53.782	(26.78)
Vehicle Expenses	760000	250.000	263.949	(13.95)
G. Total (Maintenance)		**377.000**	**429.426**	**(52.43)**
Total		**1,807.500**	**2,552.275**	**(744.77)**

Annex-II
Para no. 4.2.7





	Gross Profit/ (Loss) Ratio (%)	Operating Profit/ (Loss) Ratio (%)	Net Profit/ (Loss) Ratio (%)
2018-19	-10.45	-50.78	-57.56
2019-20	-2.97	-115.26	-125.43
2020-21	10.40	-46.64	-53.69

Annex-III

Para no. 4.3.1

Details of QESCO Procurment made on higher rates during the financial Year 2020-21

Sr	Tender		Purchase Order		Material	Unit	Qty	Rate (Rs)	Rate Comparision			GST (17%)	Grand Total
No	No	Date	No	Date					Low	Diff	Total		
1	1384	30.01.2020	1665	04.08.2020	11 KV Steel X Arm	No	5,393	3,799	3,799	-	-	-	-
2	1410	12.05.2020	1676	08.09.2020	11 KV Steel X Arm	No	5,400	3,940	3,799	141	761,400	129,438.00	890,838.00
3	1409	12.05.2020	1683	09.10.2020	11 KV Steel X Arm DFM	No	918	2,500	2,219	281	257,958	43,852.86	301,810.86
4	1483	02.11.2020	1709	09.03.2021	11 KV Steel X Arm DFM	No	2,000	2,219	2,219	-	-	-	-
5	1465	28.10.2020	1704	12.02.2021	200 KVA Distrubution Transformer	No	76	435,500	435,500	-	-	-	-
6	1373	27.01.2020	1655	08.07.2020	200 KVA Distrubution Transformer	No	39	462,757	435,500	27,257	1,063,023	180,713.91	1,243,736.91
7	1458	27.10.2020	1698	21.01.2021	AAC Wasp Conductor	K.M	334	106,948	106,948	-	-	-	-
8	1445	27.07.2020	1693	03.11.2020	AAC Wasp Conductor	K.M	561	107,786	106,948	838	470,118	79,920.06	550,038.06
9	1499	02.12.2020	1742	24.05.2021	Adjustable Wrench 200 MM	No	916	265	265	-	-	-	-
10	1391	28.01.2020	1659	06.07.2020	Adjustable Wrench 200 MM	No	30	300	265	35	1,050	178.50	1,228.50
11	1499	02.12.2020	1742	24.05.2021	Adjustable Wrench 300 MM	No	254	410	400	10	2,540	431.80	2,971.80
12	1391	28.01.2020	1659	06.07.2020	Adjustable Wrench 300 MM	No	30	400	400	-	-	-	-
13	1393	28.01.2020	1660	06.07.2020	Earthing Set	No	102	22,900	21,313	1,587	161,874	27,518.58	189,392.58
14	1495	01.12.2020	1741	24.05.2021	Earthing Set	No	72	21,313	21,313	-	-	-	-
15	1489	03.11.2020	1701	29.01.2021	Eye nut	No	8,808	84	84	-	-	-	-
16	1428	17.06.2020	1678	22.09.2020	Eye nut	No	23,814	97	84	13	309,582	52,628.94	362,210.94
17	1460	27.10.2020	1702	29.01.2021	G.S.Wire 10 MM 2	K.G	54,687	182	182	-	-	-	-
18	1415	13.05.2020	1673	24.08.2020	G.S.Wire 10 MM2	K.G	201,632	196	182	14	2,822,848	479,884.16	3,302,732.16
19	1454	26.10.2020	1705	12.02.2021	H.T Steel Structure 34.8'	No	1,936	39,909	38,980	929	1,798,544	305,752.48	2,104,296.48
20	1440	20.07.2020	1682	07.10.2020	H.T Steel Structure 34.8'	No	3,674	38,980	38,980	-	-	-	-
21	1455	26.10.2020	1733	29.04.2021	HT Steel Structure 45'	No	924	98,990	95,500	3,490	3,224,760	548,209.20	3,772,969.20
22	1441	27.07.2020	1688	19.10.2020	HT Steel Structure 45'	No	663	95,500	95,500	-	-	-	-
Total (Rs)											**10,873,697**	**1,848,528.49**	**12,722,225.49**

Annex-IV
Para no. 4.3.2

Details of Single Bidders Purchase Orders where Bid Rates were changed later on during the Financial Year 2019-20												
Sr	Tender		Purchase Order		Material	Unit	Quantity	Bid Rate	Revised	Value (Rs)	GST(17%)	Grand Total
No	No	Date	No	Date				(Rs)	Rate (Rs)		(Rs)	(Rs)
1	1433	22.07.2020	1686	09.10.2020	100 KVA Distribution Tranformer	No	500	304,700	301,800	150,900,000	25,653,000	176,553,000
2	1466	28.10.2020	1720	14.04.2021	34.5/11.5 KV 04 MVA Power Transformer	No	4	7,250,000	6,900,000	27,600,000	4,692,000	32,292,000
3	1480	02.11.2020	1717	04.04.2021	11 Pin Insulator Normal	No	24,401	433	413	10,077,613	1,713,194	11,790,807
4	1417	13.05.2020	1675	07.09.2020	L.T Spool Insulator Strain type	No	5,900	188	174	1,026,600	174,522	1,201,122
5	1417	13.05.2020	1675	07.09.2020	11 K.V Pin Insulator Normal	No	11,670	430	413	4,819,710	819,351	5,639,061
Total (Rs)										**194,423,923**	**33,052,067**	**227,475,990**