



**Pakistan Institute
of Public Finance Accountants**

Model Solutions

Audit of Public Sector Power Generation, Transmission and Distribution

(Including NEPRA, CPGCL, NTDC, IPPS, CPPA etc) Companies

AGP

Summer Exam-2025

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Q.1. PRE-QUALIFICATION, QUALIFICATION AND DIS-QUALIFICATION OF SUPPLIERS AND CONTRACTORS

15. Pre-qualification of suppliers and contractors

- (1) A procuring agency, prior to the floating of tenders, invitation to proposals or offers in procurement proceedings, may engage in pre-qualification of bidders in case of services, civil works, turnkey projects and in case of procurement of expensive and technically complex equipment to ensure that only technically and financially capable firms having adequate managerial capability are invited to submit bids. Such pre-qualification shall solely be based upon the ability of the interested parties to perform that particular work satisfactorily.
- (2) A procuring agency while engaging in pre-qualification may take into consideration the following factors, namely:-
 - (a) relevant experience and past performance;
 - (b) capabilities with respect to personnel, equipment, and plant;
 - (c) financial position;
 - (d) appropriate managerial capability; and
 - (e) any other factor that a procuring agency may deem relevant, not inconsistent with these rules.

16. Pre-qualification process.-

- 1) The procuring agency engaging in pre-qualification shall announce, in the pre-qualification documents, all information required for pre-qualification including instructions for preparation and submission of the pre-qualification documents, evaluation criteria, list of documentary evidence required by suppliers or contractors to demonstrate their respective qualifications and any other information that the procuring agency deems necessary for prequalification.
- 2) The procuring agency shall provide a set of pre-qualification documents to any supplier or contractor, on request and subject to payment of price, if any. Explanation.- For the purposes of this sub-rule price means the cost of printing and providing the documents only.
- 3) The procuring agency shall promptly notify each supplier or contractor submitting an application to pre-qualify whether or not it has been pre-qualified and shall make available to any person directly involved in the pre-qualification process, upon request, the names of all suppliers or contractors who have been pre-qualified. Only suppliers or contractors who have been pre-qualified shall be entitled to participate further in the procurement proceedings.
- 4) The procuring agency shall communicate to those suppliers or contractors who have not been pre-qualified the reasons for not pre-qualifying them.

17. Qualification of suppliers and contractors.-

A procuring agency, at any stage of the procurement proceedings, having credible reasons for or prima facie evidence of any defect in supplier's or contractor's capacities, may require the suppliers or contractors to provide information concerning their professional, technical, financial, legal or managerial competence whether already pre-qualified or not: Provided that such qualification shall only be laid down after recording reasons therefor in writing. They shall form part of the records of that procurement proceeding.

Q.2. National Grid Company:-

- (1) The Authority may, subject to the provisions of this Act and after such enquiry as it may deem appropriate, grant a license authorizing the licensee to engage in the transmission of electric power subject to such conditions as it may impose: Provided that only one such licence shall be granted at any one time.
- (2) The licensee referred to in sub-section (1) shall have the exclusive right to provide transmission service in the [service]65 territory specified in such licence
- (3) The eligibility criteria for grant of licence as a national grid company shall be prescribed and shall include, without limitation,

- (a) minimum solvency requirements; and
- (b) minimum technical and human resource requirements.

Responsibilities of National Grid Company. —

- 1) The national grid company shall be responsible to operate and provide safe, reliable transmission and inter-connection services on a nondiscriminatory basis, including to a bulk-power consumer who proposes to become directly connected to its facilities.
- 2) Without prejudice to the foregoing responsibilities, the national grid company shall—
 - a) make available to the general public the tariff specifying the Authority's approved rates, charges and other terms and conditions for transmission and inter-connection services;
 - b) not levy any rate or charge or impose any condition for the transmission of electric power which has not been approved by the Authority as a tariff;
 - c) not cause a division or any associated undertaking to engage in generation and distribution: Provided that this clause shall not apply to KESC and WAPDA so long as their electric systems remain integrated;
 - d) develop, maintain and publicly make available, with the prior approval of the Authority, an investment program for satisfying its service obligations and acquiring and selling its assets; and
 - e) perform the functions of a system operator.

- Q.3.** (1) The Authority shall, in the determination, modification or revision of rates, charges and terms and conditions for the provision of electric power services, be guided by the national electricity policy, the national electricity plan and such guidelines as may be issued by the Federal Government in order to give effect to the national electricity policy and national electricity plan.
- (2) The Authority, in the determination, modification or revision of rates, charges and terms and conditions for the provision of electric power services shall keep in view
- (a) The protection of consumers against monopolistic and oligopolistic prices;
 - (b) The research, development and capital investment programme costs of licensees;
 - (c) The encouragement of efficiency in licensees, operations and quality of service;
 - (d) The encouragement of economic efficiency in the electric power industry;
 - (e) The economic and social policy objectives of the Federal Government; and
 - (f) The elimination of exploitation and minimization of economic distortions
- (3) Without prejudice to the generality of the sub-section (2), the following general guidelines shall be applicable to the Authority in the determination, modification or revision of rates, charges and terms and conditions for provision of electric power services:—
- a) Tariffs should allow licensees the recovery of any and all cost prudently incurred to meet the demonstrated needs of their customers: Provided that assessments of licensees' prudence may not be required where tariffs are set on other than cost of service basis, such as formula based tariffs that are designed to be in place for more than one year;
 - b) Tariffs should generally be calculated by including a depreciation charge and a rate of return on the capital investment of each licensee commensurate to that earned by other investments of comparable risk;
 - c) Tariffs should allow licensees a rate of return which promotes continued reasonable investment in equipment and facilities for improved and efficient service;
 - d) Tariffs should include a mechanism to allow licensees a benefit from and penalties for failure to achieve the efficiencies in the cost of providing the service and the quality of service;
 - e) Tariffs should reflect marginal cost principles to the extent feasible, keeping in view the financial stability of the sector;

- f) The Authority shall have a preference for competition rather than regulation and shall adopt policies and establish tariffs towards that end;
- g) Tariffs may be set below the level of cost of providing the service to consumers categories consuming electric power below such consumption levels as may be prescribed, as long as such tariffs are financially sustainable;
- h) Tariffs should, to the extent feasible, reflect the full cost of service to consumer categories with similar service requirements
- i) Tariffs should seek to provide stability and predictability for customers; and
- j) Tariffs should be comprehensible, free of misinterpretation and shall state explicitly each component thereof. Provided that the Authority shall strike a balance to the extent possible, among the general guidelines in order to optimize the benefits to all persons likely to be affected by the determination, modification or revision of rates, charges and terms and conditions.

(4) Subject to sub-sections (2) and (3), the Authority shall, in the public consumer interest, determine a uniform tariff for distribution licensees wholly owned and controlled by a common shareholder, on the basis of their consolidated accounts.

(5) The Authority may specify procedures for the determination, modification or revision of rates, charges and terms and conditions for the provision of electric power services, including without limitation, – (a) time frame for decisions by the Authority on tariff applications;

(b) opportunity for customers and other interested parties to participate meaningfully in the tariff approval process; and

(c) protection for refund, if any, to customers while tariff decisions are pending.

(6) The time frame for determination by the Authority on tariff petition shall not exceed four months after the date of admission of the tariff petition Provided that this time frame shall commence after the applicant has complied with all requirements of rules and regulations and the Authority has admitted the tariff petitionions for the supply of electric power services by generation, transmission and distribution companies shall be made by the Federal Government in the official Gazette, within fifteen days of intimation of the final tariff by the Authority Provided that the Authority may, on a monthly basis and not later than a period of seven days, make adjustments in the approved tariff on account of any variations in the fuel charges and policy guidelines as the Federal Government may issue and notify the tariff so adjusted in the official Gazette.¹¹⁴ 32. Investment and power acquisition programmes.

- (1) The Authority shall, within eighteen months from the commencement of this Act, [specify]¹¹⁵ procedures and standards for the Authority's prior approval of the transmission companies' and distribution companies' investment and power acquisition programmes.
- (2) Any procedures [specified]¹¹⁶ by the Authority under this section shall advance the goal of minimizing regulatory oversight of contracts entered into by the national grid company the provincial grid companies]¹¹⁷ and distribution companies.
- (3) Any investment programme or power acquisition programme, approved by the Authority under this section shall take into account the national energy plans issued by the Federal Government.
- (4) Upon the Authority's approval of an investment programmes or a power acquisition programme, the Authority shall, subject to such terms and conditions, including rates and charges of electric power, permit the distribution company to enter into long term contracts for power purchases.'

Q.4. Formation of Board Committees

- (1) The Board shall set up the following committees to support it in performing its functions efficiently, and for seeking assistance in the decision making process, namely:-
 - a. audit committee, for an efficient and effective internal and external financial reporting mechanism;
 - b. risk management committee, in case of Public Sector Companies either in the financial sector or those having assets of five billion rupees or more, to effectively review the risk function;
 - c. human resources committee, to deal with all employee related matters including recruitment, training, remuneration, performance evaluation, succession planning, and measures for effective utilization of the employees of the Public Sector Company;
 - d. procurement committee, to ensure transparency in procurement transactions and in dealing with the suppliers; and
 - e. nomination committee, to identify, evaluate and recommend candidates for vacant positions, including casual vacancies, on the Board, including the candidates recommended by the Government for consideration of shareholders or in case of casual vacancy to the board of directors after examining their skills and characteristics that are needed in such candidates:

Provided that the nomination committee shall submit its proposal within thirty days of a vacancy arising or on a (e) nomination committee, to identify, evaluate and recommend candidates for vacant positions, including casual vacancies, on the Board, including the candidates recommended by the Government for consideration of shareholders or in case of casual vacancy to the board of directors after examining their skills and characteristics that are needed in such candidates:

Provided that the nomination committee shall submit its proposal within thirty days of a vacancy arising or on a recommendation made by the Government as the case may be.

- (2) The Board committees shall be chaired by non-executive directors. However, the independent directors in the committees shall not be less than their proportionate strength. The existence of such committees shall not absolve the Board from its collective responsibility for all matters. Such committees shall have written terms of reference that define their duties, authority and composition, and shall report to the full Board. The minutes of their meetings shall be circulated to all Board members.
- (3) The Board shall concern itself with policy formulation and oversight and not the approval of individual transactions except which are of an extraordinary nature or involve materially large amount.

Q.5. External Auditors

- (1) Every Public Sector Company shall ensure that its annual accounts are audited by external auditors, as envisaged under section 246 of the Act. When carrying out audit of a Public Sector Company, the external auditors shall take into account the specific requirements of any other relevant regulations, ordinances or ministerial directives which affect the audit mandate and any special auditing requirements.
- (2) In assessing materiality, the external auditor must, in addition to exercising professional judgment, consider any legislation or regulation which may impact that assessment.
- (3) The external auditors shall independently report to the shareholders in accordance with statutory and professional requirements. They shall also report to the Board and audit committee the matters of audit interest, as laid down in the International Standards on Auditing.

- (4) No Public Sector Company shall appoint as external auditors a firm of auditors which firm or a partner of which firm is non-compliant with the International Federation of Accountants' (IFAC) Guidelines on Code of Ethics, as applicable in Pakistan.
- (5) The external auditors shall observe applicable guidelines issued by the International Federation of Accountants with regard to restriction of non-audit services. The audit committee shall also ensure that the external auditors do not perform management functions or make management decisions, responsibility for which remains with the Board and management of the Public Sector Company.
- (6) Every Public Sector Company in the financial sector shall change its external auditors every five years. Financial sector, for this purpose, means banks, non-banking finance companies, mutual funds, modarabas, takaful companies and insurance companies. Every Public Sector Company other than those in the financial sector shall, at a minimum, rotate the engagement partner after every five years.
- (7) No Public Sector Company shall appoint a person as its chief executive, chief financial officer, chief internal auditor or director who was a partner of the firm of its external auditors (or an employee involved in the audit of the Public Sector Company) at any time during the two years preceding such appointment.
- (8) Every Public Sector Company shall require external auditors to furnish a management letter to its Board not later than thirty days from the date of audit report.

Q.6. Financial Reporting Framework Every Public Sector Company shall adopt International Financial Reporting Standards, as are notified by the Commission under sub-section (1) of section 225 of the Act.

17. Directors' report to the Shareholders

1. The Board shall submit an annual report to the shareholders
2. The Board shall make the following statements and provide the following information in their report to the shareholders, prepared under section 227 of the Act, namely:-
 - (a) The Board has complied with the relevant principles of corporate governance, and has identified the rules that have not been complied with, the period in which such non-compliance continued, and reasons for such non-compliance;
 - (b) The financial statements, prepared by the management of the Public Sector Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
 - (c) Proper books of account of the Public Sector Company have been maintained; appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
 - (d) They recognize their responsibility to establish and maintain sound system of internal control, which is regularly reviewed and monitored; and
 - (e) The appointment of chairman and other members of Board and the terms of their appointment along with the remuneration policy adopted are in the best interests of the Public Sector Company as well as in line with the best practices.
3. The disclosure of an Executive's remuneration is an important aspect for a Public Sector Company. The annual report of a Public Sector Company shall contain a statement on the remuneration policy and details of the remuneration of members of the Board. Separate figures need to be shown for salary, fees, other benefits and other performance-related elements.

4. The directors' report of a Public Sector Company shall also include the following, where applicable, namely:-
- a. Where the Public Sector Company is reliant on a subsidy or other financial support from the Government, a detailed disclosure of the fact;
 - b. Significant deviations from last year in operating results of the Public Sector Company shall be highlighted and reasons thereof shall be explained;
 - c. Key operating and financial data of last six years shall be summarized;
 - d. Key performance indicators of the Public Sector Company relating to its social objectives and outcomes which significantly reflect the work and impact of Public Sector Company 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
 - i. And adherence to the principles of environmental and corporate social responsibilities;
 - e. Where any statutory payment on account of taxes, duties, levies and charges is overdue or outstanding, the amount together with a brief description and reasons for the same shall be disclosed;
 - f. Significant plans and decisions, such as corporate restructuring, business expansion and discontinuance of operations, shall be outlined along with future prospects, risks and uncertainties surrounding the Public Sector Company;
 - g. A statement as to the value of investments of provident, gratuity and pension funds, based on their respective audited accounts, shall be included;
 - h. The number of Board meetings held during the year and attendance by each director shall be disclosed.

Q.7. The main tasks performed by the company are as follows:

1. Perform the business of billing and settlement
2. Procurement of electric power on behalf of the DISCOs, including import of power from other countries. Also perform the demand aggregation function
3. Generation invoice verification on the basis of meter reading or dispatch scheduling report and terms of the respective Power Purchase Agreements
4. Billing to the DISCOs, based on the meter readings at Common Delivery Points as per the procedure defined in the Commercial Code
5. Collection from the DISCOs and settlement to the Market Participants as per the Commercial Code
6. Management of cash flow, treasury management of cash flow, treasury management and other relevant banking functions for the purposes of collection and disbursement as per the Commercial Code
7. Updating, implementing, administering and enforcing the Commercial Code in relation to the Market Rules.
8. Administering the development of and amendments to the Commercial Code for submission to NEPRA for approval.
9. Collecting information and statistics and publishing reports and information relating to the performance of the Market
10. Operator administered market.
10. Developing and implementing competitive power markets based on policies guidelines of the Federal Government and/or requirements of NEPRA.
11. Liaising with other bodies having market functions similar to the Market Operator or administering competitive power markets
12. Other functions as per provisions under the Commercial Code