



28th June 2012

Mr. Muhammad Ali,
Chairman,
Securities and Exchange Commission of Pakistan,
National Insurance Corporation Building,
Jinnah Avenue,
Islamabad-44000,

Sub: Complaint on fictitious loading of production cost by KESC & IPPs and Fertilizer Manufactures-Reported overcharging of Rs 1,000 billion in 10 Years

Dear Sir,

Transparency International Pakistan has received complaint that private power producing companies like KESC & IPPs and Fertilizer Manufactures Companies are alleged to be involved in fictitious loading of production cost, to avail additional income, as their final prices are determined by regulatory authorities, on cost plus basis, structured on their productions costs.

It is reported that more than 50 IPPs and Fertilizer Manufactures have been involved in this malpractice, and have been availing additional benefits in connivance with the regulatory authorities since last Ten years of over Rs 100 billion per year. The sale prices are determined by the relevant regulatory authorities based on the productions costs submitted by these firms.

Following acts and manipulations are being done by these firms to artificially inflate the production costs have been quoted by the complainant;

1. Furnace Oil is procured with additional 3% to 5% mark up paid to guarantee cover. The seller has back to back agreement to refund it back to procurers after retaining 0.5% of this amount.
2. Operation and Maintenance costs are exaggerated.
3. Monthly fee charges paid for Technical Services and Consultancy costs.
4. Over invoicing the cost of material and goods procured.
5. Exaggerated input consumptions.
6. Subcontracting various operations at inflated costs, and back to back arrangements with subcontractors to refund 90% of extra payments made.
7. Fictitious contracts, and material/goods purchase billings.

SECP is requested to kindly confirm whether this complaint deserve detailed audits to be performed by SECP.

It is also stated by the complainant that SECP which is required to conduct cost audit of IPPs and Fertilizer Manufactures under Companies Cost Accounting Records (General Order), 2008, but has been reluctant to perform its obligations.



Transparency International Pakistan requests SECP to please conduct audit of the accounts of all KESC & IPPs and Fertilizer Manufactures, so that the additional costs charged by these firms if any, are determined, and the nation gets the relief by depositing in the national exchequer account all such overpayments claimed from public and those found involved in this malpractice are taken to task under the laws of land.

Transparency International Pakistan is striving for across the board application of Rule of Law, which is the only way to stop corruption.

With Regards,


Syed Adil Gilani
Adviser

Copies forwarded for the information and necessary action as per Law to:

1. Chairman, Public Accounts Committee, Islamabad.
2. Registrar, Supreme Court, Islamabad .
3. Minister of Finance, Islamabad.
4. Minister of Petroleum, Islamabad
5. Minister of Water & Power, Islamabad
6. Chairman, NAB, Islamabad.