

Audited Project Financial Statements

Project Number: 38456-034
Loan Number: 2972
Period covered: 01 July 2014 to 30 June 2015

PAK: Power Distribution Enhancement Investment Program, Tranche 3

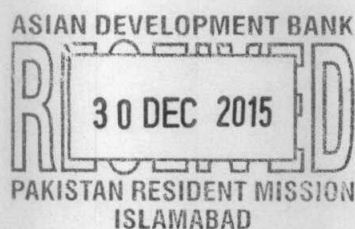
Prepared by Multan Electric Power Company

For the Asian Development Bank
Date received by ADB: 30 December 2015

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Public Communications Policy 2011 and as agreed between ADB and the Multan Electric Power Company.



**Financial Attest Audit Report on the
Accounts of Power Distribution Enhancement
Investment Program Tranche-III Multan
Electric Power Company Limited (MEPCO),
Asian Development Bank (ADB) Loan No.
2972-PAK
for the Financial Year 2014-15.**



Auditor General of Pakistan Islamabad

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
BOD	Board of Directors
GOP	Government of Pakisatn
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
MEPCO	Multan Electric Power Company
PC-I	Planning Commission Pro-forma-I
PDEIP	Power Distribution Enhancement Investment Program
PMU	Project Management Unit
WAPDA	Water and Power Development Authority

PREFACE

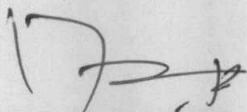
The Auditor General conducts audit subject to Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with sections 8 and 12 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001. The Audit of Power Distribution Enhancement Investment Program Tranche-III MEPCO portion (ADB loan 2972) was carried out accordingly.

The Directorate General Audit WAPDA conducted audit of the Power Distribution Enhancement Investment Program Tranche-III MEPCO portion (ADB loan 2972) during August 2015 for the financial year 2014-15 with a view to reporting significant findings to the stakeholders. Audit examined the economy, efficiency, and effectiveness aspects of the Power Distribution Enhancement Investment Program Tranche-III MEPCO portion (ADB loan 2972). In addition, Audit also assessed, on test check basis, whether the management complied with applicable laws, rules, and regulations in managing the Power Distribution Enhancement Investment Program Tranche-III MEPCO portion (ADB loan 2972). The Audit Report indicates specific actions that, if taken, will help the management to realize the objectives of the Power Distribution Enhancement Investment Program Tranche-III MEPCO portion (ADB loan 2972).

The Report consists of two parts. Part-I contains Auditor's Report (Audit Opinion) and Financial Statements. Part-II contains Executive Summary, Management Letter and Audit Findings.

The Report has been prepared for submission to the Asian Development Bank in terms of Loan Agreement 2972 (MEPCO Portion).

Dated:
Place: Lahore


BILAL MAJEED
DIRECTOR GENERAL
AUDIT WAPDA, LAHORE

PART-I

- 1. PROJECT OVERVIEW**
- 2. AUDITOR'S REPORT TO THE MANAGEMENT
(AUDIT OPINION)**
- 3. FINANCIAL STATEMENTS**

PROJECT OVERVIEW

Name of Project	Power Distribution Enhancement Investment Program Tranche-III MEPCO portion (ADB loan 2972)
(a) Sponsoring Authority	Asian Development Bank
(b) Implementing Authority	Multan Electric Power Company (MEPCO)
Date of Commencement	December 10, 2013
Date of closing	December 31, 2016
Total Project Cost as per PC-I	US\$ 35.180 million
Donor's Share	US \$ 30.930 million
Counterpart Funds	US \$ 4.250 million
Expenditure during the Year 2014-15	US \$ 8.599 million (Rs.870.901 million)
Progressive Expenditure up to June 30,2015	US \$ 8.599 million (Rs.870.901 million)

AUDITOR'S REPORT TO THE MANAGEMENT (AUDIT OPINION)

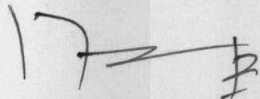
We have audited the accompanying financial statements of the Power Distribution Enhancement Investment Program Tranche-III Multan Electric Power Company Limited (MEPCO) financed under the Asian Development Bank Loan No.2972 as of June 30, 2015, and for the year then ended.

These financial statements are the responsibility of the management of Multan Electric Power Company Limited (MEPCO). Our responsibility is to express an opinion on the accompanying statements based on our audit.

We conducted our examination in accordance with International Standards of Supreme Audit Institutions. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of misstatement. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audit also includes assessing the accounting principles and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The MEPCO's policy is to prepare the accompanying statements in the format agreed between the Asian Development Bank and the Government of Pakistan as noted in the Minutes of Negotiations for the Loan, on a cash receipts and disbursements basis in which cash is recognized when received and expenses are recognized when paid, rather than when incurred.

In our opinion, (A) the aforementioned financial statements and appended notes that were also subject of the audit, fairly present in all material respects the financial position of the Power Distribution Enhancement Investment Program Tranche-III Multan Electric Power Company Limited (MEPCO) as at June 30, 2015 and the results of its operations for the year ended June 30, 2015, in conformity with International Public Sector Accounting Standards, applied on a basis consistent in all material respects with that of the previous years; (B) the MEPCO has utilized all proceeds of the loan withdrawn from the Asian Development Bank only for purposes of the Project as agreed between the Asian Development Bank and MEPCO in accordance with the Loan Agreement; and no proceeds of the loan have been utilized for other purposes; and (C) the MEPCO was in compliance as at the date of the balance sheet of the year of audit with all financial covenants of the Loan Agreement.



BILAL MAJEED
DIRECTOR GENERAL
AUDIT WAPDA, LAHORE

Dated:

FINANCIAL STATEMENTS

Multan Electric Power Company

Asian Development Bank , Power Distribution Enhancement Investment Program (Tranch-III)

Loan No. 2972-Pak

Statement of Receipts and Payments

For the Period from December 10, 2013 to June 30, 2015

	NOTE	2014-15		2013-14	
		Receipts (Payments) controlled by Project	Payment by Third Parties	Receipts (Payments) controlled by Project	Payment by Third Parties
Rupees					
RECEIPTS					
EXTERNAL ASSISTANCE	5	-	822,976,035	-	-
COUNTERPART FUNDS	6	47,925,393	-	-	-
TOTAL RECEIPTS		47,925,393	822,976,035	-	-
PAYMENTS					
OPERATING EXPENSES	7	46,123,580	-	-	-
CONSULTANCY SERVICES	8	1,555,000	-	-	-
PURCHASE OF PLANT AND EQUIPMENT	9	-	791,914,834	-	-
CIVIL WORKS	10	246,813	31,061,201	-	-
TRANINGS	11	-	-	-	-
TOTAL PAYMNETS		47,925,393	822,976,035	-	-
INCREASE (DECREASE) IN CASH		0.000	0.000	0.000	0.000
CASH AT BEGINNING OF YEAR		0.000	0.000	0.000	0.000
CASH AT END OF YEAR		0.000	0.000	0.000	0.000

CONTINGENCIES AND COMMITMENTS

The accompanying notes form an integral part of these financial statements and are to be read therewith

M. Hangu
(Inspecting officer)

Praveen
Chief Engineer (Development)
PMU MEPCO Multan

Multan Electric Power Company

Asian Development Bank, Power Distribution Enhancement Investment Program (Tranch-III)

Loan No. 2972-Pak

Statement of Comparison of Budget and Actual Amounts

For the Period from December 10, 2013 to June 30, 2015

	NOTE	2014-15		2013-14	
		Budget Amount	Actual Amount	Budget Amount	Actual Amount
Rupees					
RECEIPTS					
EXTERNAL ASSISTANCE	5	700,000,000	822,976,035	-	-
COUNTERPART FUNDS	6	50,000,000	47,925,393	-	-
TOTAL RECEIPTS		750,000,000	870,901,428	-	-
PAYMENTS					
OPERATING EXPENSES	7	47,000,000	46,123,580	-	-
CONSULTANCY SERVICES	8	2,000,000	1,555,000	-	-
PURCHASE OF PLANT AND EQUIPMENT	9	650,000,000	791,914,834	-	-
CIVIL WORKS	10	51,000,000	31,308,014	-	-
TRANINGS	11	-	-	-	-
TOTAL PAYMNETS		750,000,000	870,901,428	-	-

The accompanying notes form an integral part of these financial statements and are to be read therewith

M. Haque
(Inspecting officer)

[Signature]
Chief Engineer (Development)
PMU MEPCO Multan

MULTAN ELECTRIC POWER COMPANY LIMITED
NOTES TO THE STATEMENT OF RECEIPTS AND PAYMENT
LOAN NO. 2972-PAK
For the Period from December 10, 2013 to June 30, 2015

1- Reporting Entity

The Financial Statements are for Multan Electric Power Company Limited (MEPCO) in respect of Asian Development Bank (ADB) Loan Agreement 2972-Pak. The Financial Statement encompasses the reporting entity as defined in the Financing Agreement between Islamic Republic of Pakistan & Asian Development Bank. The Financing Agreement was signed on 09/09/2013 for an amount of US\$ 30.930 million. The project became effective from 10/12/2013 with the closing date of 31/12/2016.

The objective of Multan Electric Power Company Limited Project is to increase the efficiency, reliability and quality of electric supply by strengthening of electricity distribution network to reduce losses and improvement in supply. The financing will cover improve power distribution infrastructure through augmentation, conversion and Constructing New 132 KV Grid Station and relieve the power system form distribution bottlenecks and constraints.

The financing is made in the form of Credit based on Asian Development terms, which would be repaid in 40 half yearly equal installment

2- Certification by Project Management on Application of Funds

The Multan Electric Power Company Limited project management certified that the funds have been applied/expenditure have been incurred for the purposes intended in the loan/project.

3- Accounting Convention and Statement of compliance.

The financial statements have been prepared in accordance with Cash Basis IPSAS Financial Reporting under the Cash Basis of Accounting.

4- Signification accounting Policies

4.1 Foreign Currency Transaction

Cash receipts and payments arising from transactions in foreign currencies are recorded in Pak Rupee by applying to the foreign currency amount, the exchange rate between the Pak Rupee and the Foreign Currency at the date of the receipts and payments. Exchange differences arising on settlement of these transactions are recognized in the Statement of Receipts and Payments.

4.2 Reporting Currency

All amounts in the financial statements are in Pak Rupees.

4.3 Revenue Recognition

Revenue is recognized on the date of receipt of money by bank or clearance of cheque. Revenue is recognized on gross basis and any related costs are recorded separately.

4.4 Recognitions of Expenditure.

Expenditure is recognized on the date when payment is made or cheque is issued. Financial year to which the payments pertain is determined by the date on which a cheque or payment advice is issued.

4.5 Employee Terminal Benefits

Service benefits of government deputations employees are accounted for in their respective departments while no service terminal benefits are paid to the contractual employees.

5- External Assistance:

This Represents an External Assistance received in the form of credit from Asian Development Bank (ADB) under Loan No. 2972-Pak dated 09.09.2013 between the Govt. of Pakistan (GOP) and Asian Development Bank for Power Distribution Enhancement Investment Program (PDEIP) Tranche-III. The following amounts were received by the MEPCO during the period.

	Note	2014-15		2013-14	
		RUPEES	USD	RUPEES	USD
SOE Procedures	5.1	-	-	-	-
Direct Payment	5.2	298,816,341	2,978,056	-	-
Commitment Letter	5.3	524,159,694	5,149,665	-	-
		<u>822,976,035</u>	<u>8,127,721</u>	<u>-</u>	<u>-</u>

5.1 SOE Procedure:

No Funds Transferred in Designated US Dollar Revolving Fund Account by the Asian Development Bank on the basis of Withdrawal Application

5.2 Direct Payment:

The direct payment procedure is a disbursement procedure where the Asian Development Bank (ADB), at the borrower's request, pays a designated beneficiary (e.g., supplier, contractor, or consultant) directly.

2014-15					2013-14				
Sr. No.	Withdrawal Application No	Value Date	RUPEES	USD	Sr. No.	Withdrawal Application No	Value Date	RUPEES	USD
1	M0001	22-Jul-14	45,882,198	464,508				-	-
2	M0002	22-Jul-14	67,688,392	685,273				-	-
3	M0004	11-Aug-14	4,183,542	42,386				-	-
4	M0003	12-Aug-14	21,735,783	219,760				-	-
5	M0005	24-Oct-14	8,151,196	79,369				-	-
6	M0006	24-Oct-14	12,002,549	116,870				-	-
7	M0013	26-Nov-14	13,200,000	129,850				-	-
8	M0015	24-Feb-15	6,587,194	64,962				-	-
9	M0014	25-Feb-15	3,480,888	34,238				-	-
10	M0018	05-Mar-15	1,048,805	10,323				-	-
11	M0016	06-Mar-15	27,848,680	273,674				-	-
12	M0017	06-Mar-15	692,170	6,802				-	-
13	M0021	13-Apr-15	7,357,819	72,291				-	-
14	M0022	22-Apr-15	27,899,357	274,962				-	-
15	M0023	22-Apr-15	6,132,519	60,439				-	-
16	M0024	24-Apr-15	4,546,877	44,841				-	-
17	M0029	29-May-15	8,087,707	80,390				-	-
18	M0028	01-Jun-15	14,205,454	139,424				-	-
19	M0027	01-Jun-15	8,697,208	85,361				-	-
20	M0030	03-Jun-15	8,873,655	87,196				-	-
21	M0031	25-Jun-15	514,348	5,135				-	-
Total Direct Payment			<u>298,816,341</u>	<u>2,978,056</u>	Total Direct Payment				

5.3 Commitment Letters:

Under the commitment procedure, the Asian Development Bank (ADB), at the borrower's request, irrevocably agrees to reimburse a commercial bank for payments made or to be made to a supplier against a letter of credit (LC).

2014-15					2013-14				
Sr. No.	Commitment Letter NO.	Value Date	RUPEES	USD	Sr. No.	Commitment Letter NO.	Value Date	RUPEES	USD
1	CL No. 01	09-Mar-15	153,082,244	1,504,781				-	-
2	CL No. 02	02-Apr-15	220,744,238	2,167,393				-	-
3	CL No. 01	08-Apr-15	47,857,751	469,856				-	-
4	CL No. 02	04-May-15	37,064,711	364,606				-	-
5	CL No. 01	08-May-15	25,032,396	246,232				-	-
6	CL No. 02	29-May-15	4,534,421	44,504				-	-
7	CL No. 01	29-May-15	3,079,431	30,224				-	-
8	CL NO. 08	08-Jun-15	9,267,429	91,026				-	-
9	CL No. 04	22-Jun-15	9,503,560	93,447				-	-
10	CL No. 03	30-Jun-15	13,993,513	137,596				-	-
Total Commitment Letter			<u>524,159,694</u>	<u>5,149,665</u>	Total Commitment Letter				

6- COUNTER PART FUNDING

This represents Funding made by Multan Electric Power Company (MEPCO) at Power Distribution Enhancement Investment Program (PDEIP) Loan No. 2972-Pak (Tranche-III) as per Project requirement.

	2014-15	2013-14
	Rupees	
ALLOCATED OVERHEADS	46,123,580	-
CIVIL WORKS	246,813	-
TAXES AND DUTIES PAID	-	-
CONSULTANCY SERVICES	1,555,000	-
PURCHASE OF LAND	-	-
OTHER EXPENSES	-	-
TOTAL	<u>47,925,393</u>	<u>-</u>

7- OPERATING EXPENSES

	2014-15	2013-14
	Rupees	
ALLOCATED OVERHEADS	46,123,580	-
TAXES AND DUTIES PAID	-	-
OTHER EXPENSES	-	-
TOTAL	46,123,580	-

8- CONSULTANCY SERVICES

	2014-15	2013-14
	Rupees	
8.1 Individual	-	-
M/S. En-Masse	-	-
8.2 Consultancy Services	1,555,000	-
TOTAL	1,555,000	-

9- Plant and Equipment

	2014-15	2013-14
	Rupees	
132KVA Power Transformer	13,200,000	-
Material for G/S Chak 83-12/L and Dharanwala	292,588,776	-
Material for G/S Faqir Wali, Fort Abbas and S. S. Din	356,027,823	-
Material for T/ L for Chak 83-12/L, Dharanwala, Faqirwali, Fort Abbass & Shah Sadar Din	74,844,491	-
Material for G/S Mubarak Pur	32,446,234	-
Material for G/S Chunawala	22,807,509	-
TOTAL	791,914,833	-

10- Civil Work

	2014-15	2013-14
	Rupees	
66 - 132 KV G/S Chak 83-12/L & Dharanwala	14,829,727	-
66-132 KV Faqirwali, Fort Abbas, S.S. Din	16,231,474	-
132KV G/S Mubarak Pur	-	-
132KV G/S Chunawala	-	-
132KV SDT T/L Chak 83-12/L, Dharanwala, F. wali, F. Abbass, S.S. Din	-	-
Other GSC Work	246,813	-
	31,308,014	-

11- TRAINING

NAME	DESCRIPTION	2014-15	2013-14
		Rupees	
		NIL	NIL

12- Cash and Bank

No Funds Transferred in Designated US Dollar Revolving Fund Account by the Asian Development Bank under Loan No. 2972-Pak.

	2014-15	2013-14
	Rupees	
Cash in hand	NIL	NIL
Cash in Bank	NIL	NIL
	NIL	NIL

13- Authorization for Issue

These Financial Statements have been approved by Board of Director, MEPCO on 05.10.2015 and authorized for issued on 26.10.2015 by 107th Annual General Meeting.

14- General

Figures have been rounded off to the nearest Rupee.

M. Hameed
(I.O.)

Chief Engineer (Development)
PMU MEPCO Multan

PART-II

EXECUTIVE SUMMARY

MANAGEMENT LETTER

1. INTRODUCTION
2. AUDIT OBJECTIVES
3. AUDIT SCOPE AND METHODOLOGY
4. AUDIT FINDINGS AND RECOMMENDATIONS
 - 4.1 Construction & Works
 - 4.2 Overall Assessment
 - 4.3 Recommendations
5. CONCLUSION

ACKNOWLEDGEMENT

EXECUTIVE SUMMARY

The Directorate General Audit WAPDA conducted audit of the Power Distribution Enhancement Investment Program Tranche-III MEPCO portion (ADB loan 2972) during August 2015 for the financial year ended June 30, 2015. The main objectives of the audit were to express an opinion on the Statement of Receipts and Payments of the project, to review project performance against intended objectives, to review compliance with applicable rules, regulations and procedures. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI).

Key Audit Finding:

- Non recovery of liquidated damages –Rs. 4.62 million