

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

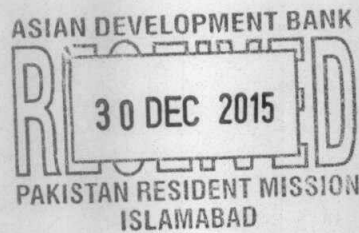
Prepared by Hyderabad Electric Supply Company

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 Hyderabad Electric Supply Company.



**Financial Attest Audit Report on the
Accounts of Power Distribution Enhancement
Investment Program Tranche-III Hyderabad
Electric Supply Company Limited (HESCO),
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
HESCO	Hyderabad Electric Supply Company
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
PC-I	Planning Commission Pro-forma-I
PDEIP	Power Distribution Enhancement Investment Program
PMU	Project Management Unit
WAPDA	Water and Power Development Authority

PREFACE

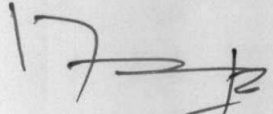
The Auditor General conducts audit subject to Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with sections 8 and 12 of the Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001. The Audit of Power Distribution Enhancement Investment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

The Directorate General Audit WAPDA conducted audit of the Power Distribution Enhancement Investment Program Tranche-III HESCO portion (ADB loan 2972) during October 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 HESCO 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 HESCO 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 HESCO 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 (HESCO 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 HESCO portion (ADB loan 2972)
(a) Sponsoring Authority	Asian Development Bank
(b) Implementing Authority	Hyderabad Electric Supply Company (HESCO)
Date of Commencement	December 10, 2013
Date of closing	December 31, 2016
Total Project Cost as per PC-I	US \$ 29.400 million
Donor's Share	US \$ 24.500 million
Counterpart Funds	US \$ 4.900 million
Expenditure during the Year 2014-15	US \$ 0.982 million (Rs.98.543 million)
Progressive Expenditure up to June 30,2015	US \$ 0.982 million (Rs.98.543 million)

AUDITOR'S REPORT TO THE MANAGEMENT (AUDIT OPINION)

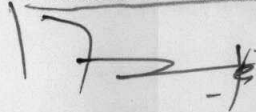
We have audited the accompanying financial statements of the Power Distribution Enhancement Investment Program Tranche-III Hyderabad Electric Supply Company Limited (HESCO) financed under the Asian Development Bank Loan No.2972 as of June 30, 2015, and for the year then ended.

These financial statements are the responsibility of the management of Hyderabad Electric Supply Company Limited (HESCO). 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 HESCO'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 Hyderabad Electric Supply Company Limited (HESCO) 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 HESCO 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 HESCO in accordance with the Loan Agreement; and no proceeds of the loan have been utilized for other purposes; and (C) the HESCO 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

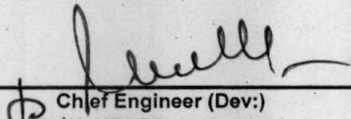
Hyderabad Electric Supply Company (HESCO)
 Power Distribution Enhancement Investment Program
 ADB Loan No. 2972-PAK (Tranche-III)
 Statement of Receipts and Payments
 For the year ended June 30, 2015

Rupees in million

	Note	2014-15		2013-14	
		Receipts (Payments) Controlled by Project	Payment by Third Parties	Receipts (Payments) Controlled by Project	Payment by Third Parties
Receipts					
External Assistance	5	-	89.828	-	-
Counterpart Funds	6	8.715	-	-	-
Total Receipts		8.715	89.828	-	-
Payments					
Consultancy Services	7	-	-	-	-
Operating Expenses	8	8.715	-	-	-
Supplies and Consumables	9	-	-	-	-
Purchase of Plant and Equipment		-	89.828	-	-
Civil Works		-	-	-	-
Training	10	-	-	-	-
Total Payments		8.715	89.828	-	-
Increase (Decrease In Cash					
Cash at Beginning of Year	12	-	-	-	-
Cash at End of Year	13	-	-	-	-

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

M. Hanjira
 (Inspector Officer)


 Chief Engineer (Dev.)
 PMU, HESCO, Hyderabad

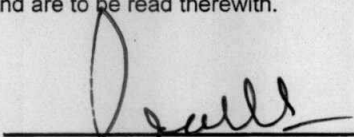
Hyderabad Electric Supply Company (HESCO)
 Power Distribution Enhancement Investment Program
 ADB Loan No. 2972-PAK (Tranche-III)
 Statement of Budget and Actual Expenditure
 For the year ended June 30, 2015

Rupees in million

	Note	2014-15			2013-14		
		Original Budget Amount	Revised Budget Amount	Actual Amount	Original Budget Amount	Revised Budget Amount	Actual Amount
Receipts							
External Assistance	5	89.828	89.828	89.828	-	-	-
Counterpart Funds	6	8.715	8.715	8.715	-	-	-
Total Receipts		98.543	98.543	98.543	-	-	-
Payments							
Consultancy Services	7	-	-	-	-	-	-
Operating Expenses	8	8.715	8.715	8.715	-	-	-
Supplies and Consumables	9	-	-	-	-	-	-
Purchase of Plant and Equipment		89.828	89.828	89.828	-	-	-
Civil Works		-	-	-	-	-	-
Training	10	-	-	-	-	-	-
Total Payments		98.543	98.543	98.543	-	-	-

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

M-Hanga
 (Inspecting officer)


 Chief Engineer (Dev.)
 PMU, HESCO, Hyderabad

Hyderabad Electric Supply Company Ltd

Notes to Financial statements

For the Year ended 30 June 2015.

1 Reporting Entity

The Financial Statements are for Hyderabad Electric Supply Company Limited (HESCO) in respect of Asian Development Bank Loan Agreement Tranche-III PAK 2972 between Islamic Republic of Pakistan & Asian Development Bank as well as Project Agreement signed between Hyderabad Electric Supply Company Limited (HESCO) & Asian Development Bank. These Agreements were signed on September 09, 2013 for US\$ 24.500 million. The project became effective from December 10, 2013 with the closing date of 31.12.2016.

The objective of Hyderabad Electric Supply 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 and extension of the existing 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 Bank, which would be repaid in 34 half yearly equal installment.

2 Certification by Project Management on Application of Funds.

The Hyderabad Electric Supply 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.

M. Hameed
(Inspector Officer)

J. S. Sultana
CHIEF ENGINEER (DEVELOPMENT)
PROJECT MANAGEMENT UNIT
HYDERABAD

**Hyderabad Electric Supply Company (HESCO)
Power Distribution Enhancement Investment Program Tranche-III
Statement of Receipts and Payments
For the year ended June 30, 2015**

All amounts in million

5 External Assistant

External Assistant was received in the form of Credit from the Asian Development Bank under financing agreement dated 09-09-2013 between the Government of Pakistan and ADB for the purpose of Power Distribution Enhancement Investment Program Tranche-III, Hyderabad Electric Supply Company (HESCO). The following amounts were received by the Project during the year.

		2014-15		2013-14	
		US\$	Pak Rs.	US\$	Pak Rs.
Statement of Expenditure	5.1	-	-	-	-
Direct Payment	5.2	0.895	89.828	-	-
		<u>0.895</u>	<u>89.828</u>	<u>0.000</u>	<u>0.000</u>

DETAIL OF LOAN EXPENDITURE DURING FY 2014-15

S.N O	WITHDRAWAL APPLICATION No. & DATED	NAME OF FIRMS	DATE OF PAYMENT RELEASED BY ADB	EQUILVALANT US\$	EQUILVALANT PAK RS.
1	H0001 05.12-2014	M/S CCCE-ETERN (JV) CHINA	22-12-14	0.375	37.625
2	H0002 09.12-2014	M/S CCCE-ETERN (JV) CHINA	19-12-14	0.520	52.203
		TOTAL		0.895	89.828

This represents funds transferred to the Power Distribution Enhancement Investment Program Tranche-III, Hyderabad Electric Supply Company (HESCO)'s designated US Dollar Bank Account by the ADB on the basis of withdrawal application submitted by the project.

5.2 Direct payment represent amount paid directly by the ADB on behalf of the project in respect of goods and services procured imported by the project. The payment made on the basis of withdrawal application by the project.

5.3 There has been no instance of non compliance with the terms and condition of the financing agreement between ADB and Government of Pakistan which have resulted in cancellation of credit.

5.4 Undrawn External Assistance

Undrawn credit reporting date represent amounts specified in the financing agreement between ADB and Government of Pakistan that the ADB disburse for Power Distribution Enhancement Investment Program Tranche-III, HESCO purposes.

	US \$
Amount of Loan	24.500
Amount surrendered	-
Committed Loan Amount	<u>24.500</u>
Disbursements upto June 30, 2014	-
Disbursements during the year.	<u>0.895</u>
Balance loan amount as at June 30, 2015	<u><u>23.605</u></u>

6 Counterpart Funds

		2014-15	2013-14
		Pak Rs.	Pak Rs.
Government of Pakistan	6.1	8.715	-
		<u>8.715</u>	<u>-</u>

6.1 This represents funding to the Power Distribution Enhancement Investment Program Tranche-III, HESCO at 20% of the total project cost by the Government of Pakistan (GoP) as agreed between ADB and GoP.

*M. Hanjra
(Inspection officer)*

[Signature]
Chief Engineer (Dev.)
PMU, HESCO, Hyderabad

**Hyderabad Electric Supply Company (HESCO)
 Power Distribution Enhancement Investment Program
 ADB Loan No. 2972-PAK (Tranche-III)
 Statement of Receipts and Payments
 For the year ended June 30, 2015**

All amount in million

8 Operating Expenses

Salaries, miscellaneous

2014-15 Pak Rs.	2013-14 Pak Rs.
8.715	-
8.715	0.000

9 Plant & Equipment

Plant and equipment

2014-15 Pak Rs.	2013-14 Pak Rs.
89.828	-
89.828	0.000

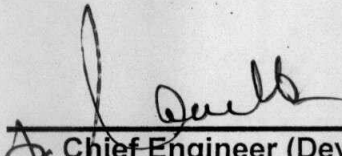
10 Authorizaton Expenses

These financial statement have been authorized for issue by the Chief Engineer(Dev:) on 11-12-2015

11 General

Figures have been rounded off to the nearest rupee.

M. Hanjra
 (Inspector Officer)


 Chief Engineer (Dev:)
 PMU, HESCO, Hyderabad

PART-III

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 HESCO portion (ADB loan 2972) during October 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:

- Advance payment to contractor– Rs. 89.828 million