

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 Lahore Electric Supply Company

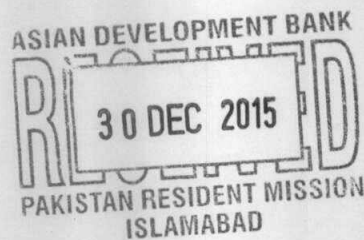
For the Asian Development Bank

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 Lahore Electric Supply Company.



**Financial Attest Audit Report on the
Accounts of Power Distribution Enhancement
Investment Program Tranche-III Lahore
Electric Supply Company Limited (LESCO),
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
AGP	Auditor General of Pakistan
DEV	Development
DHA	Defense Housing Authority
DISCO	Distribution Companies
GCC	General Conditions of Contract
GOP	Government of Pakistan
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
KV	Kilo volt
LC	Letter of Credit
LD	Liquidated Damages
LESCO	Lahore Electric Supply Company
MVA	Mega volt ampere
NTDC	National Transmission and Dispatch Company
PC-I	Planning Commission Proforma-I
PD	Project Director
PDEIP	Power Distribution Enhancement Investment Program
PEPCO	Pakistan Electric Power Company
PMU	Project Management Unit
SCC	Special Conditions of Contract
STG	Secondary Transmission Grid
WAPDA	Water and Power Development Authority

PREFACE

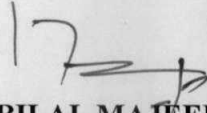
The Auditor-General conducts audit subject to Article 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with sections 8 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001. The Audit of Power Distribution Enhancement Investment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

The Directorate General Audit WAPDA conducted audit of the Power Distribution Enhancement Investment Program Tranche-III (LESCO) portion (ADB Loan-2972) during November, 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 (LESCO) 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 (LESCO) 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 (LESCO) 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 (LESCO 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)
Authority Responsible for:	
(a) Sponsoring	Asian Development Bank (ADB)
(b) Implementing	Lahore Electric Supply Company (LESCO)
Date of Signing of Loan Agreement	September 9, 2013
Date of Commencement:	February, 2014
Date of closing:	June 30, 2016
Total Project Cost as per PC-I	US \$ 24.96 Million
Amount allocated as per Loan Agreement	US \$ 21.91 Million
Counterpart Funds	US \$ 2.496 Million
Expenditure during 2014-15	US \$ 0.935 Million Rs.135.777 Million
Expenditure upto June 30, 2015	US \$ 0.935 Million Rs.135.777 Million

AUDITOR'S REPORT TO THE MANAGEMENT (AUDIT OPINION)

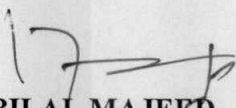
We have audited the accompanying financial statements of the Power Distribution Enhancement Investment Program Tranche-III, Lahore Electric Supply Company (LESCO) financed under the Asian Development Bank Loan No.2972 as of June 30, 2015, and for the year then ended.

These financial statements are the responsibility of the management of LESCO. 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 LESCO'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 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 previous years; (B) the LESCO 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 LESCO in accordance with the Loan Agreement; and no proceeds of the loan have been utilized for other purposes; and (C) the LESCO 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

Lahore Electric Supply Company Limited
Asian Development Bank, Distribution Enhancement Investment Program -
Tranche 3, Investment Project (ADB loan # 2972-PAK)
Statement of Cash Receipts and Payments
For the Financial Year ended on 30 June 2015

	Note	2014-15		2013-14	
		Receipts (Payments)	Payment by Third	Receipts (Payments)	Payment by Third
		Controlled by Project	Parties	Controlled by Project	Parties
Rupees					
External Assistance	5	-	95,130,000	-	0
Counterpart Funds	6	40,647,234	-	0	-
Total Receipts		40,647,234	95,130,000	0	0
Payments					
Turnkey Projects (5A)	5	-	-	-	0
Equipment (5B)	5	-	95,130,000.00	-	-
Civil work	6	5,483,038	-	-	-
Allocated overheads	6	18,938,029	-	-	-
Labour	6	11836268.3	-	-	-
Other expenses	6	4,389,898	-	-	-
Custom duties paid (non-refundable)	6	-	-	-	-
Total Payments		40,647,234	95,130,000	0	0
Increase (Decrease) in Cash		-	-	-	-
Cash at Beginning of Year		-	-	-	-
Cash at End of Year		-	-	-	-
Contingencies and Commitments		-	-	-	-

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

Inspected
INSPECTING
OFFICER.

Signature
C.E (Dev) / Project Director
PMU-LESCO LAHORE
11/11/15

Lahore Electric Supply Company Limited
Asian Development Bank, Distribution Enhancement Investment Program -
Tranche 3, Investment Project (ADB loan # 2972-PAK)
Statement of Budget and Actual Expenditure
For the Financial Year ended on 30 June 2015

Note	2014-15		2013-14	
	Budget Amount	Actual Amount	Budget Amount	Actual Amount
Rupees				
Receipts				
External Assistance	5	200,000,000	95,130,000	9,000,000
Counterpart Funds	6	50,000,000	40,647,234	10,000,000
Total Receipts		250,000,000	135,777,234	19,000,000
Payments				
Civil work	6	30,000,000	5,483,038	6,000,000
Allocated overheads	6	7,500,000	18,938,029	1,500,000
Labour	6	500,000	11,836,268	100,000
Other expenses	6	4,500,000	4,389,898	900,000
Custom duties paid (non-refundable)	6	7,500,000	0	1,500,000
Equipment/Turnkey Projects	7	200,000,000	95,130,000	400,000,000
Total Payments		250,000,000	135,777,234	410,000,000
Increase (Decrease) in Cash		-	-	-
Cash at Beginning of Year		-	-	-
Cash at End of Year		-	-	-
Contingencies and Commitments		-	-	-

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

[Signature]
INSPECTING
OFFICER

[Signature]
C.E (Dev) / Project Director
PMU LESCO LAHORE
11/11/15

1 Introduction (Company Profile)

Lahore Electric Supply Company Limited ("the Company"), is a public limited Company incorporated in Pakistan. The Company was established to take over all the properties, rights, assets, obligations and liabilities of Lahore Area Electricity Board owned by Pakistan Water and Power Development Authority (WAPDA) and such other assets and liabilities as agreed. The Company was incorporated on 13 May 1998 and commenced commercial operation on 01 July 1998. The principal activity of the Company is the distribution of electricity within defined geographical territory.

Power Distribution Enhancement Investment Program (PDEIP-III) was agreed in between Islamic Republic of Pakistan and Asian Development Bank on 09 September 2013 for financing the support activities required for the preparation, implementation and monitoring of projects under the PDEIP to be financed under the facility.

2 Certification by Project Management on Application of Funds.

The LESCO's Project Management Unit (PMU) certified that the Funds have been applied/ Expenditure have been incurred for the purpose intended in the Financing agreement.

3 Accounting convention and Statement of compliance

The Statement has been prepared on cash receipts and disbursement basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Under the cash receipt and disbursement basis, remittances and other receipts are recognized when received rather than when due and expenses are recognized when paid rather than when incurred.

4 Significant accounting policies

4.1 Accounting convention

The Statement has been prepared under the cash basis of accounting which recognizes transactions and events only when cash is received or paid by the entity.

4.2 Foreign currencies

Foreign currency transactions are converted into Pak Rupees using the rates prevailing on the date of transaction.

4.3 Revenue Recognition

Revenue recognition 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 Recognizaion 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 payment advice is issued.

4.5 Employee Terminal Benefit.

service benefit of government deputations employee are accounted for in their repective departments while no service terminal benefit are paid to the contractual employee.

4.6 Payment by Third Party

The payments made by thired parties do not constitute cash receipts or payments controlled by the project but do benefit the Project as the Project does not receive cash (including cash equivalen directly from, or gain control of the bank accounts or similar facility established for its benefit by, the third parties. payment by thired parties, if any, are disclosed in the payments by thired parties column on the face statement of cash receipts and payments and noted to the financial.

5 External Assistance

External assistance was received in the form of credit from ADB under loan no 2972-Pak (Trache-II) as par loan agreement between Islamic Republic of Pakistan & Asian Development Bank as well as Project agreement signed between Lahore Electric Supply company limited & Asian Development Bank. The following amounts were received and paid by the project during the period.

Loan No 2972-Pak	2014-15		2013-14	
	US \$	Pak Rupees	US \$	Pak Rupees
SOE Procedure	0	0	0	0
Direct Payment	7 935,835.32	95,130,000		
Total	935,835.32	95,130,000	-	-

5.1 Assignement Account

No Assignment Account is being operated under ADB Loan #2972-PAK. Therefore expenditure against SOE Procedures have not been incurred

- 5.2 Direct Payment represent amount paid directly by Asian Development Bank (ADB) on behalf of the project in respect of goods and services procured/imported by the project. The payments were made on the basis of withdrawal application submitted by the LESCO

5.3 Category Wise Usage of Funds (As per loan agreement)

Payments made for

Turnkey Grid Stations (Category 05-A)
Equipment's and materials (Category 05-B)

2014-15		2013-14	
US \$	Pak Rupees	US \$	Pak Rupees
935,835.32	95,130,000	0	
935,835.32	95,130,000	-	-

5.4 Loan proceeds

This represents a re-lent portion of loan obtained by Government of Pakistan (GOP) from Asian Development Bank (ADB) for Distribution Enhancement Investment Program which is secured against the guarantee by GOP. Pursuant to the re-lent agreement between GOP and the Company, the facility amount of US\$.936 million out of total amount of US\$ 21.90 million has been transferred to the Company. This facility carries interest rate of 15% inclusive of relending interest of 8.2 + ERC free of 6.8% which shall be charged both on principal amount and interest amount separately. Repayment should be made within maximum period of 17 years excluding a grace period of 3 years.

5.5 Undrawn External Assistance

Undrawn credit at reporting date represent amounts specified in the financing agreement between the Asian Development Bank and GoP that the ADB will disburse for LESCO Project purposes.

	2014-15	2013-14
	US \$ in Mln	US \$ in Mln
Total Allocation as per loan agreement	21.90	21.90
Accumulated Disbursement	0.936	
un disburse Balace	20.964	21.9

Note

6 Counter part funding by LESCO

Civil Work
Labour
Allocated overheads
Other expenses

2014-15	2013-14
Rupees	Rupees
5,483,038	
11,836,268	
18,938,029	
4,389,898	
40,647,234	-

7 Usage of loan proceeds

Direct to Supplier :

M/S Siddque Sons for Penals

Rupees	Rupees
95,130,000	
95,130,000	-
-	-
95,130,000	-

Paid from Imprest

Counter part funding by LESCO

6

6

2014-15	2013-14
Rupees	Rupees
40,647,234	-
135,777,234	-

8 Withdrawal Applications (Direct payment)

W.A #	Dated	2014-15	2013-14
		US \$	Eql. Pak Rupees
L001	17-Mar-15	935,835.32	95,130,000.00

9 Authorization for Issue

These Financial Statements have been authorized for issued by Project Director on 30 Nov 2015

Signature
INSPECTING
OFFICER.

Signature
C.E (Dev) / Project Director
PMU LESCO LAHORE
11/11/15

PART-II

EXECUTIVE SUMMARY

MANAGEMENT LETTER

1. INTRODUCTION
 2. AUDIT OBJECTIVES
 3. AUDIT SCOPE AND METHODOLOGY
 4. AUDIT FINDINGS AND RECOMMENDATIONS
 - 4.1 Construction and 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 LESCO portion (ADB Loan 2972) during November, 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 Findings:

- Non coverage of insurance cover on Turnkey project under Tranche-III amounting to US \$ 5.61 Million (approximate)
- Non implementation of time schedule of the Project on turnkey basis amounting to US \$ 5.61million (approximate) under ADB Loan 2972 Tranche-III
- Loss due to levy of commitment charges -Rs.3.144 million due to non utilization of loan under Tranche-III