

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 Islamabad Electric Supply Company

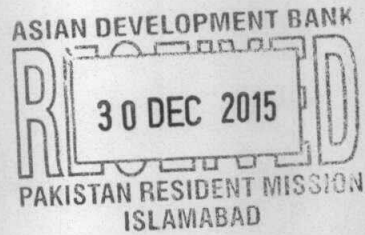
For the Asian Development Bank

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 Islamabad Electric Supply Company.



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



Auditor General of Pakistan Islamabad

TABLE OF CONTENTS

	Page No.
LIST OF ABBREVIATIONS	1
PREFACE	2
PART-I	3
PROJECT OVERVIEW	4
AUDITOR'S REPORT TO THE MANAGEMENT (AUDIT OPINION)	5
FINANCIAL STATEMENTS	6
PART-II	12
EXECUTIVE SUMMARY	13
MANAGEMENT LETTER	14
1 INTRODUCTION	15
2. AUDIT OBJECTIVES	16
3. AUDIT SCOPE AND METHODOLOGY	16
4. AUDIT FINDINGS & RECOMMENDATIONS	17
4.1 Construction & Works	17
4.2 Overall Assessment	19
4.3 Recommendations	19
5. CONCLUSION	19
ACKNOWLEDGEMENT	20

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
IESCO	Islamabad Electric Supply Company
ISSAI	International Standards of Supreme Audit Institutions
KV	Kilo volt
LC	Letter of Credit
LD	Liquidated Damages
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

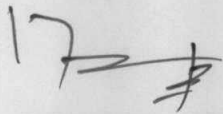
The Auditor-General conducts audit subject to Article 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with sections 8 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001. The Audit of Power Distribution Enhancement Investment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

The Directorate General Audit WAPDA conducted audit of the Power Distribution Enhancement Investment Program Tranche-III IESCO portion (ADB loan 2972) during September 2015 for the financial year 2014-15 with the 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 IESCO 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 IESCO 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 IESCO 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 (IESCO 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 (A.D.B)
(b) Implementing	Islamabad Electric Supply Company Limited (IESCO)
Date of Commencement:	10 December, 2013
Date of closing (Original):	31 December, 2016
Date of closing (Revised):	31 January, 2018
Estimated cost of Project:	Rs 2633.341 million
Estimated cost of Project:	US\$ 28.010 million
ADB Loan:	US\$ 24. 550 million
Counterpart funds	US\$ 0.029 million
Expenditure during the year 2014-15	US\$ 2.502 million Rs.255.229 million
Total Expenditure upto 30 June, 2015	US \$ 2.502 million Rs.255.229 million

AUDITOR'S REPORT TO THE MANAGEMENT (AUDIT OPINION)

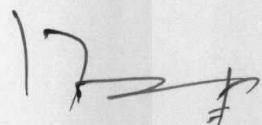
We have audited the accompanying financial statements of the Power Distribution Enhancement Investment Program Tranche-III (IESCO Portion) financed under the Asian Development Bank Loan No.2972 as of June 30, 2015, and for the year then ended.

These financial statements are the responsibility of the management of IESCO. Our responsibility is to express an opinion on the accompanying statements based on our audit.

We conduct our examination in accordance with International Standards on Auditing. 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 IESCO'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 to audit, fairly present in all material respects the financial position of the Power Distribution Enhancement Investment Program Tranche-III (IESCO Portion) as at 30 June, 2015 and the results of its operations for the year ended 2014-15, in conformity with international public sector accounting standards, applied on a basis consistent in all material respects with that of previous years; (B) the IESCO has utilized all proceeds of the loan withdrawn from the Asian Development Bank only for the purposes of the Project as agreed between the Asian Development Bank and IESCO in accordance with the Loan Agreement; and no proceeds of the loan have been utilized for other purposes; and (C) the IESCO was in compliance as at the date of the balance sheet of the year of the audit with all financial covenants of the Loan Agreement.



BILAL MAJEED
DIRECTOR GENERAL
Audit WAPDA Lahore
Dated:

FINANCIAL STATEMENTS

Islamabad Electric Supply Company Limited

Power Distribution Enhancement Investment Program - Tranche - III (ADB Loan # 2972-PAK)

Statement of Receipts and Payments

For the year ended 30 June 2015

	Note	2014-15		2013-14	
		Receipts (Payment) Controlled by Project	Payment by Third Parties	Receipts (Payment) Controlled by Project	Payment by Third Parties
		-----Rupees-----			
Receipts					
External Assistance	5		252,335,893		-
Counterpart Funds	6	2,893,634	-	-	-
		-	-		-
Total Receipts		2,893,634	252,335,893	-	-
Payments					
4A Turnkey	5		55,495,632		-
4B Equipment and Material	5		196,840,261		-
Counterpart Funds	6	2,893,634	-	-	-
Consultancy Services					
Operating Expenses					
Supplies & Consumables					
Civil Works					
Trainings					
Total Payments		2,893,634	252,335,893	-	-
Increase/Decrease in Cash		-	-	-	-
Cash at Beginning of Year		-	-	-	-
Cash at End of Year		-	-	-	-
Contingencies and Commitments		-	-	-	-

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

Manager Finance
PMU IESCO Islamabad

INSPECTING
OFFICER

Chief Engineer (Development)
PMU IESCO Islamabad

Islamabad Electric Supply Company Limited

Power Distribution Enhancement Investment Program - Tranche - III (ADB Loan # 2972-PAK)


Statement of Comparison of Budget and Actual Amounts

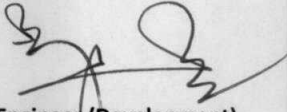
For the year ended 30 June 2015

	Note	2014-15			2013-14		
		Budget Amount		Actual Amount	Budget Amount		Actual Amount
		Original	Revised		Original	Revised	
-----Rupees-----							
Receipts							
External Assistance	5	250,000,000	-	252,335,893	-	-	-
Counterpart Funds	6	550,000,000	-	2,893,634	-	-	-
			-	-			-
Total Receipts		800,000,000	-	255,229,527	-	-	-
Payments							
4A Turnkey	5	-	-	55,495,632	-	-	-
4B Equipment and Material	5	-	-	196,840,261	-	-	-
Counterpart Funds	6	-	-	2,893,634	-	-	-
Consultancy Services		-	-	-	-	-	-
Operating Expenses		-	-	-	-	-	-
Supplies & Consumables		-	-	-	-	-	-
Civil Works		-	-	-	-	-	-
Trainings		-	-	-	-	-	-
Total Payments		-	-	255,229,527	-	-	-

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


Manager Finance
 PMU IESCO Islamabad


**INSPECTING
 OFFICER**


Chief Engineer (Development)
 PMU IESCO Islamabad

Islamabad Electric Supply Company Limited

Power Distribution Enhancement Investment Program, Tranche - III (ADB Loan 2972 - PAK)

Notes to the Financial Statements

For the year ended 30 June 2015

1 Reporting Entity

The Financial Statements are for Power Distribution Enhancement Investment Program under ADB Loan 2972, Tranche-III. The Financial Statements encompasses the reporting entity as defined in the Financing Agreement between the Islamic Republic of Pakistan and the Asian Development Bank. The Financing Agreement was signed on 09-09-2013 Under the loan agreement between IESCO & ADB amount of US\$ 24.550 million out of the total amount of US\$ 245 million were allocated to Company. As of 30 June 2015 the Company has received (including direct payments to suppliers) an amount of US\$ 2.503 million.

The Project became effective from 10 December 2013 with the closing dated of 31-01-2018.

The Project is implemented through Economic Affairs Division Islamabad GoP.

Financing

The Financing is made in the form of Credit based on Asian Development Bank terms, with a maturity of 20 years, including a grace period of 3 years. The Financing Agreement No is loan No 2972-PAK.

Responsible Agency

The primary responsibility for overall progress and management of the Additional Financing has been entrusted to Economic Affairs Division Islamabad, Government of Pakistan.

2 Certification by Project Management on Application of Funds

The Power Distribution Enhancement Investment Program management 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 Financial Statement have prepared in accordance with Cash Basis IPSAS Financing Reporting under the Cash Basis of Accounting.

The Accounting policies have been applied consistently throughout the period.

4 Significant 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 Rupee.

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 Recognition 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 Payments by Third Party

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

Islamabad Electric Supply Company Limited

Power Distribution Enhancement Investment Program, Tranche - III (ADB Loan 2972 - PAK)

Notes to the Financial Statements

For the year ended 30 June 2015

5 External Assistance

External Assistance was received in the form of Credit from the Asian Development Bank under financing agreement dated 28 January 2011 between the Asian Development Bank and Government of Pakistan (GoP) for the purpose of the Power Distribution Enhancement Investment Program. The following amounts were received by the Project during the period.

Loan No. 2972 - PAK (Ordinary Operation)		2014-15		2013-14	
		US\$	Pak Rupee	US\$	Pak Rupee
Direct Payment	5.1	2,227,566	224,334,548	-	-
Commitment Letter	5.2	274,992	28,001,346	-	-
		2,502,558	252,335,893	-	-

Direct Payments 2014-15

S/No	Date	W/A No	Supplier/Contractor	US\$	Pak Rupee
1	08-07-2014.	I0001	M/S NEWAGE CABLES (PVT) LIMITED	456,750	45,082,732
2	08-07-2014.	I0002	M/S NEWAGE CABLES (PVT) LIMITED	284,033	28,035,000
3	12-09-2014.	I0003	M/S PAK ELECTRON (PEL) LTD	62,647	6,390,000
4	26-11-2014.	I0004	M/S NEWAGE CABLES (PVT) LIMITED	43,911	4,463,784
5	12-11-2014.	I0005	M/S NEWAGE CABLES (PVT) LIMITED	73,386	7,471,686
6	12-11-2014.	I0006	M/S QINGDAO-QIANGLI STEEL STRUCTURE CO LIMITED CHINA	34,259	3,488,026
7	24-02-2015.	I0008	M/S PAK ELECTRON (PEL) LTD	447,565	45,494,400
8	24-02-2015.	I0010	M/S NEWAGE CABLES (PVT) LIMITED	58,903	5,987,413
9	25-02-2015.	I0009	M/S NEWAGE CABLES (PVT) LIMITED	35,517	3,610,976
10	12-03-2015.	I0014	M/S ICC PVT LIMITED LAHORE	80,572	8,189,727
11	13-03-2015.	I0013	M/S ICC PVT LIMITED LAHORE	183,661	18,668,323
12	19-03-2015.	I0012	M/S ICC PVT LIMITED LAHORE	92,835	9,441,021
13	19-03-2015.	I0015	M/S PAK ELECTRON (PEL) LTD	55,317	5,625,600
14	19-03-2015.	I0015	M/S PAK ELECTRON (PEL) LTD	62,834	6,390,000
15	19-03-2015.	I0018	M/S ICC PVT LIMITED LAHORE	16,164	1,643,782
16	20-03-2015.	I0011	M/S ICC PVT LIMITED LAHORE	49,343	5,023,656
17	20-03-2015.	I0016	M/S ICC PVT LIMITED LAHORE	112,444	11,447,998
18	20-03-2015.	I0017	M/S ICC PVT LIMITED LAHORE	10,619	1,081,125
19	17-06-2015.	I0020	M/S PINGGAO-POTENTIAL (J.V) LAHORE	17,768	1,808,610
20	18-06-2015.	I0021	M/S PINGGAO-POTENTIAL (J.V) LAHORE	49,040	4,990,688
			Total:-	2,227,566	224,334,548

Islamabad Electric Supply Company Limited

Power Distribution Enhancement Investment Program, Tranche - III (ADB Loan 2972 - PAK)

Notes to the Financial Statements

For the year ended 30 June 2015

Commitment Letter 2014-15

S/No	Date	W/A No	Supplier/Contractor	US\$	Pak Rupee
1	27-04-2015	I0007	M/S QINGDAO QIANGLI STEEL STRUCTURE CO	274,992	28,001,346

Direct Payments 2013-14

S/No	Date	W/A No	Supplier/Contractor	US\$	Pak Rupee
1				-	-

Commitment Letter 2013-14

S/No	Date	W/A No	Supplier/Contractor	US\$	Pak Rupee
1				-	-

- 5.1 Direct payment represent amount paid directly by the Asian Development Bank 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 project.
- 5.2 This represent payments made to Suppliers on dates against contract agreement through Commitment Letter.
- 5.3 There has been no instance of non compliance with the terms and conditions of the financing agreement between the Asian Development Bank and GoP which have resulted in cancellation of Credit.

6 Counterpart Funds

2014-15

2013-14

		US\$	Pak Rupee	US\$	Pak Rupee
Government of Pakistan	6.1	28,521	2,893,634	-	-
(IESCO Own Resources)					
		<u>28,521</u>	<u>2,893,634</u>	<u>-</u>	<u>-</u>

- 6.1 This represent funding to the Power Distribution Enhancement Investment Program at 20% of the total project cost by the GoP (IESCO Own Resources) as agreed between the Asian Development Bank and GoP (IESCO).

7 Authorization of Issue

These financial statements have been authorized for issued by the Chief Engineer (Development) Management Unit IESCO, Islamabad on 24-11-2015.

8 General

Figures have been rounded to nearest Rupee.

Comparative figures have been rearranged where necessary for the purpose of comparison.

Manager Finance
PMU IESCI Islamabad

Chief Engineer (Development)
PMU IESCO Islamabad

PART-II

EXECUTIVE SUMMARY

MANAGEMENT LETTER

1. INTRODUCTION

2. AUDIT OBJECTIVES

3. AUDIT SCOPE AND METHODOLOGY

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Procurement of Material

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 IESCO portion (ADB loan 2972) during September 2015 for the financial year 2014-15. 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 deduction of liquidated damages amounting to Rs.1.752 million from supplier under ADB Loan # 2972
- Inordinate delay in awarding contracts of work under ADB-Tranche III
- Loss due to levy of commitment charges on un-utilized loan Rs.5.624 million