

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 Faisalabad Electric Supply Company

For the Asian Development Bank

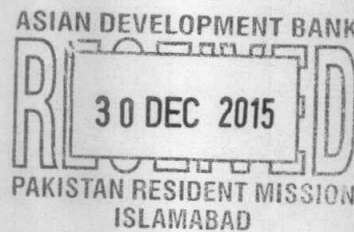
Date received by ADB: 30 December 2015

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 Faisalabad Electric Supply Company.



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

Loan 2972



Auditor General of Pakistan Islamabad

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PREFACE

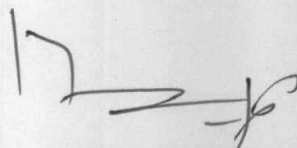
The Auditor-General conducts audit subject to Article 169 and 170 of the Constitution of the Islamic Republic of Pakistan 1973, read with sections 8 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance 2001. The Audit of Power Distribution Enhancement Investment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

The Directorate General Audit WAPDA conducted audit of the Power Distribution Enhancement Investment Program Tranche-III (FESCO) 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 (FESCO) 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 (FESCO) 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 (FESCO) 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 (FESCO 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	Faisalabad Electric Supply Company (FESCO)
Loan signing date:	September, 9 2013
Date of Commencement:	December, 10 2013
Date of closing:	January, 31 2018
Total Project Cost as per PC-I	US \$ 27.41 Million
Amount allocated as per Loan Agreement	US \$ 24.110 Million
Counterpart Funds	US \$ 3.300 Million
Expenditure during 2014-15	US \$ 0.603 Million, Rs.80.593 million
Expenditure upto June, 30 2015	US \$ 0.603 Million, Rs.80.593 million

AUDITOR'S REPORT TO THE MANAGEMENT (AUDIT OPINION)

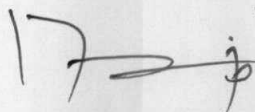
We have audited the accompanying financial statements of the Power Distribution Enhancement Investment Program Tranche-III, Faisalabad Electric Supply Company (FESCO) financed under the Asian Development Bank Loan No.2972 as of June 30, 2015, and for the year then ended.

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

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED

ADB LOAN NO. 2972-PAK (TRANCHE-III)

Statement of Receipts and Payments

For the Financial Year ended 30 June 2015.

	Note	2014-15		2013-14	
		Receipts (Payments) Controlled by Project	Payments by Third Parties	Receipts (Payments) Controlled by Project	Payment by Third Parties
(Rs. In million)					
Receipts					
External Assistance	5	-	61.332	-	-
Counterpart Funds	6	19.261	-	-	-
Total Receipts		19.261	61.332	-	-
Payments					
Consultancy Services	7	0.480	-	-	-
Operating Expenses	8	14.683	-	-	-
Supplies & Consumables	9	-	-	-	-
Purchase of Plant and Equip.	10	-	-	-	-
Turnkey Projects	11	3.730	61.332	-	-
Trainings	12	0.368	-	-	-
Total Payments		19.261	61.332	-	-
Increase (Decrease) in cash		-	-	-	-
Cash at Beginning of year		-	-	-	-
Cash at End of year		-	-	-	-

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

[Signature]
INSPECTING
OFFICER.

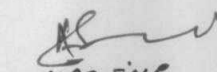
[Signature]
C.E (DEV) / PROJECT DIRECTOR
PMU, FESCO FAISALABAD.

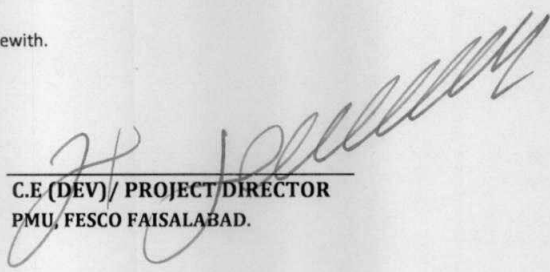
FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED**ADB LOAN NO. 2972-PAK (TRANCHE-III)**

Statement of Comparison of Budget and Actual Amounts
For the Financial Year ended 30 June 2015.

	Note	2014-15		2013-14	
		Budget Amount	Actual Amount	Budget Amount	Actual Amount
(Rs. In Million)					
Receipts					
External Assistance	5	300.000	61.332	-	-
Counterpart Funds	6	100.000	19.261	-	-
Total Receipts		400.000	80.593	-	-
Payments					
Consultancy Services	7	0.528	0.480	-	-
Operating Expenses	8	18.900	14.683	-	-
Supplie & Consumeables	9	-	-	-	-
Purchase of Plant and Equip.	10	-	-	-	-
Turnkey Projects	11	380.000	65.062	-	-
Training	12	0.572	0.368	-	-
Total Payments		400.000	80.593	-	-

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


INSPECTING
OFFICER.


C.E (DEV)/ PROJECT DIRECTOR
PMU, FESCO FAISALABAD.

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED

ADB LOAN NO. 2972-PAK (TRANCHE-III)

Notes to the Financial Statements

For the Financial Year ended 30 June 2015

1 Reporting Entity

The Financial Statements are for Faisalabad Electric Supply Company Limited (FESCO) in respect of Asian Development Bank (ADB) Loan No. 2972-Pak (Tranche-III). The Financial Statement encompasses the reporting entity as defined in the Loan Agreement between Islamic Republic of Pakistan & Asian Development Bank as well as Project Agreement signed between Faisalabad Electric Supply Company Limited & Asian Development Bank. These Agreements were signed on 09/09/2013 for US\$ 24.110 million. The project became effective from 10/12/2013 with the closing date of 31/01/2018.

The objective of Faisalabad 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 conversion the existing 66KV to 132 KV Grid Station and construction of new Grid Stations and associated transmission lines to relieve the power system from distribution bottlenecks and constraints.

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

2 Certification by Project Management on Application of Funds.

The Faisalabad 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.

The accounting policies have been applied consistency 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 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.

4.6 Payments by Third Party

The payments made by third 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 equivalents) directly from, or gain control of the bank accounts or similar facility established for its benefit by, the third parties. Payment 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.

Notes to the Financial Statements

5 External Assistance.

External assistance was received in the form of Credit from ADB under ADB Loan No. 2972-Pak (Tranche-III) as per Loan Agreement between Islamic Republic of Pakistan & Asian Development Bank as well as Project Agreement signed between Faisalabad Electric Supply Company Limited & Asian Development Bank. The following amounts were received and paid by the project during the period.

Loan No. 2972-Pak (Ordinary Operations)		2014-15		2013-14	
		US \$ in million	Rs. in million	US \$ in million	Rs. in million
SOE Procedures	5.1	-	-	-	-
Direct payment	5.2	0.603	61.332	-	-
		0.603	61.332	-	-

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

5.2 Direct payments represent amount paid directly by the 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 WAs submitted by the Project.

5.3 There has been no instance of non compliance with the terms and conditions of the financing agreement between Asian Development Bank and GoP which have resulted in cancellation of Credit.

5.4 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 FESCO project purposes.

	2014-15		2013-14	
	Amounts in US \$			
Closing Balance	23.507		24.110	
	23.507		24.110	

Notes to the Financial Statements

6	Counter Part Funds			2014-15	2013-14
				(Amounts in Pak Rupees)	
	Government of Pakistan (GoP)	6.1		19.261	-
				19.261	-
6.1 This represents funds received from GoP to the project as agreed between ADB and GoP.					
7	Consultancy Services			2014-15	2013-14
				(Amounts in Pak Rupees)	
	Consultancy Services provide by local consultant for social safeguard			0.480	-
				0.480	-
8	Operating Expenses			2014-15	2013-14
				(Amounts in Pak Rupees)	
	Remuneration and Salaries	8.1		9.934	-
	General Operating Expenditures	8.2		4.749	-
				14.683	-
8.1				2014-15	2013-14
				(Amounts in Pak Rupees)	
	Salaries-Officers			7.451	-
	Salaries-Staff			2.484	-
				9.934	-
8.2				2014-15	2013-14
				(Amounts in Pak Rupees)	
	Telephone			0.106	-
	Advertisement and Publicity			0.172	-
	POL, Repair and Maintenance			1.248	-
	Stationery			0.062	-
	Travelling			0.707	-
	Other Expenses			2.454	-
				4.749	-
11	Turnkey Projects			2014-15	2013-14
				(Amounts in Pak Rupees)	
	Payments against contracts of Turnkey Projects through Loan			61.332	-
	Taxes paid to Tax authorities through own sources			3.730	-
				65.062	-

Notes to the Financial Statements

12 Trainings

	2014-15	2013-14
(Amounts in Pak Rupees)		
12.1 Trainings /Workshops/Seminars	0.368	-
	0.368	-

This represents Trainings/ Workshops/Seminars attended by the Project authorities at different institutions on 12.1 account of capacity building.

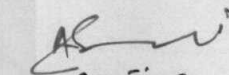
Authorization for Issue

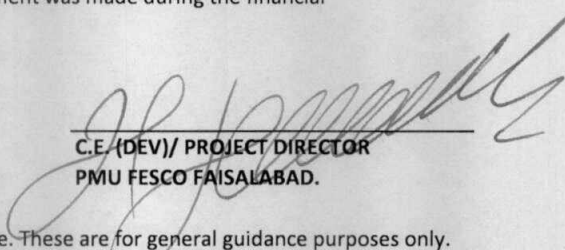
These financial statements have been authorized for issued by the Project Director on 23/11/2015.

General

Figures have been rounded off to the nearest rupee.

No comparative figures have been provided because no payment was made during the financial year 2013-14.


INSPECTING
OFFICER.


C.E. (DEV)/ PROJECT DIRECTOR
PMU FESCO FAISALABAD.

NOTE: The above breakups and disclosures are not exhaustive. These are for general guidance purposes only. The management may include breakups and disclosures tailored to Project's nature of activities.

FAISALABAD ELECTRIC SUPPLY COMPANY LIMITED

ADB LOAN NO. 2972-PAK (TRANCHE-III)

Statement of Withdrawals from ADB Loan (Direct Payment)

For the Financial Year ended 30 June 2015.

2014-15

Sr#	WA#	Name of Contractor/ Supplier	Contract No.	Value Date	Accounting Month	Amount (US\$)	Amount (PKR)
1	F0001	M/s Potential-TBEA JV Lahore	0016	20-Mar-15	201503	293,189.66	29,849,962.00
2	F0002	M/c ICC (Pvt) Limited Lahore	0017	22-Apr-15	201504	146,753.32	14,890,516.00
3	F0003	M/s Newage Cables (Pvt) Ltd. Lahore	0017	18-May-15	201505	85,639.55	8,718,106.19
4	F0004	M/s Newage Cables (Pvt) Ltd. Lahore	0017	19-May-15	201505	48,425.31	4,934,264.00
5	F0005	M/c ICC (Pvt) Limited Lahore	0017	22-May-15	201505	23,173.80	2,359,092.84
6	F0007	M/s EMCO Industries Limited Lahore	0017	1-Jun-15	201506	5,682.20	579,300.00
						<u>602,863.84</u>	<u>61,331,241.03</u>

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 Procurement

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 FESCO 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 Findings:

- Non inspection of material costing to Rs.132.194 million & US \$ 0.807 million under ADB Tranche III
- Non coverage of insurance cover on Turnkey projects under Tranche III amounting to Rs.1096.448 million
- Non Procurement of material amounting to Rs.224.944 million & US \$ 0.936 million under turnkey project ADB Tranche III
- Non implementation of time schedule of the Projects on turnkey basis under ADB Loan 2972 Tranche III