

FINANCIAL MANAGEMENT ASSESSMENT

A. Introduction

1. Power Grid Company of Bangladesh Ltd. (PGCB) is a public limited company was incorporated in 1996, as defined by the Companies Act 1994. The Company has an annual turnover of about Tk. 5929.63 Million (2009-2010) and a Net Profit before Tax figure of Tk 2,227,000.03. The Company has over 2000 employees.
2. PGCB's present customers are
 - A. Bangladesh Power Development Board (BPDB)
 - B. Dhaka Power Distribution Company Ltd. (DPDC)
 - C. Dhaka Electric Supply Company Ltd. (DESCO)
 - D. West Zone Power Distribution Company Ltd (WZPDCO)
 - E. Palli Biddyt Samities of Rural Electrification Board (REB)
3. PGCB is listed on the Dhaka Stock exchange and the Chittagong Stock Exchange
4. It is the Executing Agency responsible for the Bangladesh India Electrical Grid Interconnection Project.

B. Financial Management Assessment of PGCB

5. A Financial Management Assessment was administered in 2010 and re-administered in 2012 during evaluation of PGCB for ADB lending support. A review of PGCB audited accounts was carried out in 2013 that indicated no major changes from the previously administered FMAs. The completed Form is given as an Annexure to this Appendix. PGCB is generally compliant with the financial covenants proposed in the original loan. Its operating ratio is below 85%, accounts receivables are about 2.0 months and debt service coverage ratio is above 1.2. Its debt equity ratio has slightly worsened. PGCB recorded an after tax profit of 1.2 billion Taka in 2012.
6. The audited project financial statements for PGCB were received on time for 2011 and 2012. Observations raised by FAPAD for 2011 were cleared by PGCB in 2012 while observations raised in 2012 are being resolved by PGCB. Audited project financial statement observations that pertain to deposit of IDC and taxes and update of the development project proposal (DPP) were resolved by PGCB.

C. Accounting and Financial Management

7. The Company's accounting system allows for the proper recording of transactions, and the allocation of all relevant expenditures as required by the respective components, disbursement categories and sources of funds. The Company has a Chart of Accounts, which the Management feels is adequate for the recording of all transactions.

Basis of Accounting and Accounting Policies

8. The accounts of PGCB are prepared on the accruals basis. The Company prepares its accounts in line with Bangladesh Accounting Standards (BAS) and other applicable Accounting

standards of the Institute of Chartered Accountants' of Bangladesh. These accounts are audited annually by a firm of Chartered Accountants.

9. **Financial Accounting System.** The Financial accounting system allows for the generation of timely reports, which allows the Company's Management to get regular and accurate feedbacks on all aspects of the Company's finances.

a. Segregation of Functions and Duties

10. The Company's Accounts and Finance Department spends, records and reports all transactions incurred by the Company. There are well set out guidelines outlining authorization to execute a transaction and its recording. These are carried out by different employees of the Department.

11. The executing of a transaction and its subsequent recording are carried out by different employees as per delegation of powers defined and approved by the Management of the Company. All accounting documents are duly signed and authorized by delegated personnel. Clear lines of functional responsibilities are present in the system to ensure that the functions mentioned are carried out by different persons.

12. Authorization to execute a transaction, the recording of the transaction and the custody of the Company's assets all lie with different employees/personnel of the Company

b. Payroll Accounting and Human Resource Systems

13. The Company has an effective Payroll System. The Payroll system ensures confidentiality. The Payroll is prepared by employees authorized by the Management of the Company. Employees of PGCB receive their salaries by cheques which are then deposited by them into their personal accounts. The Organization is yet to computerize its Human Resources function. The Finance and Accounting work is done by suitably qualified and experienced personnel.

14. The Human Resources function of PGCB is under the Department of Personnel and Administration.

15. The Organization has a formal structure, highlighting the different functions and their lines of reporting. The Payroll system ensures confidentiality; integrity and all aspects of the work are carried out by authorized personnel only.

c. Fixed Assets and Stocks

16. PGCB presently maintains its Fixed Assets Recording System manually. Subsidiary records of Fixed Assets and Stocks are reconciled and updated regularly with the relevant general ledger accounts. There are safeguards in the system to protect the Assets from fraud, waste and misuse. Assets can be moved only with relevant authorization / documentation. External auditor report indicates the requirement for fixed asset registers and physical verification of assets. PGCB is undertaking the required studies in 2013 and the identified issues will be addressed. The assets of PGCB are covered by insurance.

17. **Bank Reconciliations.** PGCB bank accounts are reconciled each month. There are adequate controls in place to ensure that all receipts are banked in punctually. The

outstanding items of bank reconciliation are reviewed and appropriate action is taken within reasonable time, with final reconciliation done at the end of the financial period. The Company also maintains an up to date Cashbook, recording all cash transactions as they occur.

18. Financial Reporting PGCB prepares its accounts in line with Bangladesh Accounting Standards (BAS) and other applicable Accounting standards of the Institute of Chartered Accountants' of Bangladesh, to comply with the provisions of the Companies Act 1994. Accounts are tallied and a Trial Balance extracted regularly. Financial Statements are prepared annually and audited by a firm of Chartered Accountants.

19. Budgeting. Budgets are prepared which include both physical and financial targets. All project plans and budgets of activities are based on realistic assumptions and the process is carried out by employees with knowledge on the matter. The budgets include all significant activities in sufficient details, so as to facilitate meaningful comparisons with actual results. Approvals of all expenditures in excess of the Budget must be obtained on a prior basis. All actual results are compared with budgets, and major variances explained. PGCB has well laid out procedures and processes in place to collect information from the individual units and incorporate them in the budget. PGCB's budgets are prepared by the Organization's Director Finance and approved by Company's Board of Directors.

6. External & Internal Auditing

a. Government Auditor

20. There are Government Auditors for the Company's projects. In addition to this, there are also relevant Government Audits for foreign-aided projects.

b. Company External Audit

21. The Financial Statements of PGCB are audited by a firm of Chartered Accountants. The Audit is carried out in accordance with the International Standards of Auditing (ISA), as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB). This is as per requirements of the Companies Act 1994. The auditor's appointment is given by the Board of PGCB, under approval from the Ministry of Power, Government of Bangladesh. Some of the issues highlighted by the Auditors are under consideration of the Company's Management for implementation.

22. The Terms of Reference for Annual Audits are prepared as per requirements of the Government's Audit Code.

c. Internal Audit

23. PGCB has an Internal Audit Department, which reports to the Managing Director of the Company. The employees of the Department are qualified professionals and have experience in the work of the Company. Internal Audit carries out regular checks on the utilization of the Company's resources. All projects undertaken will come under the purview of the Internal Audit Dept. The Management takes an active role to ensure that all audit issues / findings are properly addressed.

24. **Appointment of External Directors.** The Company has Directors belonging to different professional bodies of the country. This is in addition to the Directors from the Government.

25. **Project Implementation and Monitoring.** All projects are under the overall supervision of PGCB Head Office. Reports are prepared giving details of physical progress and financial expenditures, comparing actual results with the project's budgets. These Reports are reviewed by the Company's Management. Progress on each project is reviewed regularly by the concerned officers of the Company.

26. **Insurance.** All assets of PGCB are adequately covered by insurance

E. Conclusion

27. Power Grid Company of Bangladesh was incorporated in 1996 and is listed on the Dhaka Stock Exchange. Its main business is the transmission of power. The senior personnel of PGCB are professionally qualified and are well conversant with foreign donor requirements in terms of procedures and reports.