

# Audited Project Financial Statements

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Project Number: 38456-034  
Loan/Grant Number: 2972  
Period covered: July 2018 to June 2019

## PAK: Power Transmission Enhancement Investment Program – Tranche 3

Prepared by the Lahore Electric Supply Company (LESCO)

For the Asian Development Bank  
Date received by ADB: 31 December 2019

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 Access to Information Policy and as agreed between ADB and the borrower.



Office of the  
**Auditor-General of Pakistan**  
Special Sectors Audit Wing  
Constitution Avenue  
Islamabad

005/2020

No. SSAW /FAP/POWER /F-38/ 404.

Dated: 31-12-2019

1. The Secretary,  
Economic Affairs Division,  
Pak Secretariat, Block "C",  
Islamabad.
- 2. Country Director,  
Pakistan Resident Mission Asian Development Bank,  
Level 8, North Wing, Serena Business Complex,  
Khayaban-e-Suharwardy, G-5, Islamabad.
3. Country Director,  
The World Bank 20-A,  
Shahrah-e-Jamhuriat, G-5/1, Islamabad.
4. JICA Pakistan Office, 4<sup>th</sup> Floor, Serena Office Complex,  
Plot No.17, Ramna-5, Khayaban-e-Suhrawardy,  
Islamabad.



Subject: **FINANCIAL ATTEST AUDIT REPORTS ON ACCOUNTS OF FOREIGN AIDED PROJECTS FOR THE FINANCIAL YEAR 2018-19 DUE ON 31-12-2019**

*The Financial Attest Audit of the following FAPs have been conducted by this office:*

S. #	Name of Foreign Aided Project	Dev. Partner	Loan No.
1.	Transmission Modernization I Project	World Bank	8814-PK
2.	CASA Electricity Transmission and Trade	World Bank	5409-PK
3.	Power Distribution Enhancement Investment Program-Project 1 PEPCO	ADB	2439-Pak (COL)
4.	MMF- Power Distribution Enhancement Investment Program-Tranche 2 GEPCO	ADB	2727-Pak
5.	MMF- Power Distribution Enhancement Investment Program-Tranche 2 MEPCO	ADB	2727-Pak
6.	MMF- Power Distribution Enhancement Investment Program-Tranche 2 LESCO	ADB	2727-Pak

7.	MMF- Power Distribution Enhancement Investment Program-Tranche 2 HESCO	ADB	2727-Pak
8.	MMF- Power Distribution Enhancement Investment Program-Tranche 3 FESCO	ADB	2972-Pak
9.	MMF- Power Distribution Enhancement Investment Program-Project 3 HESCO	ADB	2972-Pak
10.	MMF- Power Distribution Enhancement Investment Program-Project 3: IESCO	ADB	2972-Pak
11.	MMF- Power Distribution Enhancement Investment Program-Project 3 LESCO	ADB	2972-Pak
12.	MMF- Power Distribution Enhancement Investment Program-Project 3 MEPCO	ADB	2972-Pak
13.	MMF- Power Distribution Enhancement Investment Program-Project 3 PESCO	ADB	2972-Pak
14.	MMF- Power Distribution Enhancement Investment Program, Project 3 QESCO	ADB	2972-Pak
15.	MMF- Power Distribution Enhancement Investment Program, Project 3 GEPCO	ADB	2972-Pak
16.	MMF- Power Distribution Enhancement Investment Program-Tranche 4 MEPCO	ADB	3096-Pak
17.	MMF- Power Distribution Enhancement Investment Program-Tranche 4 PESCO	ADB	3096-Pak
18.	MMF- Power Distribution Enhancement Investment Program-Tranche 4 FESCO	ADB	3096-Pak
19.	MMF- Power Distribution Enhancement Investment Program-Tranche 4 IESCO	ADB	3096-Pak
20.	MMF- Power Distribution Enhancement Investment Program-Tranche 4 LESCO	ADB	3096-Pak
21.	MMF- Power Distribution Enhancement Investment Program-Tranche 4 HESCO	ADB	3096-Pak
22.	Jamshoro Power Generation Project	ADB	3090
23.	Jamshoro Power Generation Project	ADB	3092
24.	MFF: 2 <sup>nd</sup> Transmission-T1	ADB	3419-Pak (Col)

25.	MFF: 2 <sup>nd</sup> Transmission-T1	ADB	3420-Pak (Col)
26.	Power Transmission Enhancement Investment Program Tranche 4 (AFD)	ADB	8311-Pak (Co Fin Part)
27.	Power Transmission Enhancement Investment Program	ADB	3577-Pak
28.	MFF-Energy Efficiency Investment Program, Tranche 1: MOE	ADB	2553-Pak (Col)
29.	Punjab Transmission Lines & Grid Stations Project	JICA	PK-P58
30.	National Transmission Lines And Grid Station Project	JICA	PK-P61

2. Financial Attest Audit Reports of the above mentioned projects are hereby forwarded to the Government and the concerned Development Partners as per requirements.

**Enclosures: As above**

  
**Manzoor Akhtar Malik**  
**Deputy Auditor General (SSA)**

Cc:

1. SPS to DAG (CA&E), Local.
2. DG Audit (Power), Lahore with the request to issue a copy of the above reports to the Project Management for their further necessary action.
3. Master File



**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 2018-19**



**Auditor General of Pakistan Islamabad**

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### **Abbreviations and Acronyms**

ADB	Asian Development Bank
AGP	Auditor General of Pakistan
DAC	Departmental Accounts Committee
DISCO	Distribution Companies
GCC	General conditions of contract
GOP	Government of Pakistan
ICB	International Competitive Bidding
ISSAI	International Standards of Supreme Audit Institutions
LESCO	Lahore Electric Supply Company
LC	Letter of Credit
LD	Liquidated Damages
MTDF	Medium Term Development Framework
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 of Pakistan conducts audit in terms of 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, ADB loan 2972-PAK (LESCO Portion) was carried out accordingly.

The Directorate General Audit (Power) conducted audit of the Power Distribution Enhancement Investment Program Tranche-III, ADB loan 2972-PAK (LESCO Portion) during November, 2019 for the financial year 2018-19 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, ADB loan 2972-PAK (LESCO Portion). 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, ADB loan 2972-PAK (LESCO Portion). The Audit Report indicates specific actions that, if taken, will help the management realize the objectives of the Power Distribution Enhancement Investment Program Tranche-III, ADB loan 2972-PAK (LESCO Portion).

The Report consists of two parts. Part-I contains Auditor's Report (Audit Opinion) and Financial Statements. Part-II contains Management Letter, Executive Summary and Audit Findings.

The Report has been prepared for submission to the Asian Development Bank in terms of Loan Agreement 2972-PAK (LESCO Portion).



**HASSAN LATIF**  
**DIRECTOR GENERAL**  
**Audit Power Lahore**

Dated: 30.12.2019  
Place: Lahore



## **PART-I**

- 1. PROJECT OVERVIEW**
- 2. AUDITOR'S REPORT TO THE MANAGEMENT**
- 3. FINANCIAL STATEMENTS**

## PROJECT OVERVIEW

Name of Project	Power Distribution Enhancement Investment Program Tranche-III
Sponsoring Agency	Asian Development Bank
Executing Agency	Lahore Electric Supply Company (LESCO)
Loan No.	2972-PAK
PC-I Cost	US \$ 24.96 million
Loan amount (Revised)	US \$ 21.91 million
Counter Part Fund	US \$ 3.05 million
Date of Commencement	February, 2014
Loan Closing Date	June 30 <sup>th</sup> 2018
Revised Loan Closing Date	January 31 <sup>th</sup> 2019
Loan utilization status in F.Y 2018-19	US \$ 1.10 million (Rs.147.35 million)
Progressive Expenditure up to F.Y 2018-19	US \$ 18.65 million (Rs.1,911.41 million)
Un-utilized Loan Amount	US \$ 4.26 million

## AUDITOR'S REPORT TO THE MANAGEMENT

We have audited the accompanying financial statements of the Power Distribution Enhancement Investment Program Tranche-III Lahore Electric Supply Company Limited (LESCO) financed under the Asian Development Bank Loan No.2972-PAK as of June 30<sup>th</sup> 2019, and for the year then ended.

These financial statements are the responsibility of the management of Lahore Electric Supply Company Limited (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 (ISSAIs). Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether, the financial statements are free of any material 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, on cash receipts and disbursements basis in which cash is recognized when received and expenses are recognized when paid, rather than when incurred. Since, no imprest account is being maintained in PMU, LESCO, hence, no bank reconciliation statements are being prepared by management.

In our opinion, (A) the aforementioned financial statements and appended notes that were also the subject of the audit, fairly present in all material respects the financial position of the Power Distribution Enhancement Investment Program Tranche-III (LESCO Portion) as on June 30<sup>th</sup> 2019 and the results of its operations for the year ended on June 30<sup>th</sup> 2019, 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 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.



**HASSAN LATIF**  
**DIRECTOR GENERAL**  
**Audit Power, Lahore**

Dated: ~~30th~~ December, 2019

## **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 2019

	Note	2018-19		2017-18	
		Receipts (Payments) Controlled by Project	Payment by Third Parties	Receipts (Payments) Controlled by Project	Payment by Third Parties
Rupees					
<b>Receipts</b>					
External Assistance	5	-	147,349,194	-	681,350,432
Counterpart Funds	6	11,787,936	-	259,656,980	-
<b>Total Receipts</b>		<b>11,787,936</b>	<b>147,349,194</b>	<b>259,656,980</b>	<b>681,350,432</b>
<b>Payments</b>					
Turnkey Projects (5A)	5	-	147,349,194.07	-	681,350,432
Equipment (5B)	5	-	-	-	-
Civil work	6	-	-	9,870,862.00	-
Allocated overheads	6	11,787,936	-	17,225,012	-
Labour	6	-	-	6,066,671	-
Other expenses	6	-	-	3,663,982	-
Custom duties paid (non-refundable)	6	-	-	222,830,452	-
<b>Total Payments</b>		<b>11,787,936</b>	<b>147,349,194</b>	<b>259,656,980</b>	<b>681,350,432</b>
Increase (Decrease) in Cash		-	-	-	-
Cash at Beginning of Year		-	-	-	-
Cash at End of Year		-	-	-	-
<b>Contingencies and Commitments</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

  
Addl. Chief Financial Officer  
PMU LESCO LAHORE

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



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 2019

Note	2018-19		2017-18	
	Budget Amount	Actual Amount	Budget Amount	Actual Amount

Rupees

**Receipts**

External Assistance	5	200,000,000	147,349,194	700,000,000	681,350,432
Counterpart Funds	6	50,000,000	11,787,936	300,000,000	259,656,980

<b>Total Receipts</b>		<b>250,000,000</b>	<b>159,137,130</b>	<b>1,000,000,000</b>	<b>941,007,411</b>
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**Payments**

Civil work	6	2,500,000	-	15,000,000	9,870,862
Allocated overheads	6	20,000,000	11,787,936	30,000,000	17,225,012
Labour	6	1,250,000	-	7,500,000	6,066,671
Other expenses	6	1,250,000	-	7,500,000	3,663,982
Custom duties paid (non-refundable)	6	25,000,000	-	240,000,000	222,830,452
Equipment/Turnkey Projects	7	200,000,000	147,349,194	700,000,000	147,349,194

<b>Total Payments</b>		<b>250,000,000</b>	<b>159,137,130</b>	<b>1,000,000,000</b>	<b>407,006,174</b>
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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.

  
Addl. Chief Financial Officer  
PMU LESCO LAHORE

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



# 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-THI) 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 thired 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	2018-19		2017-18	
	US \$	Pak Rupees	US \$	Pak Rupees
SOE Procedure				
Direct Payment	7 1,095,068.88	147,349,194	6,179,039.48	681,350,431.60
Total	1,095,068.88	147,349,194	6,179,039	681,350,432

### 5.1 Assignment 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)

2018-19		2017-18	
US \$	Pak Rupees	US \$	Pak Rupees
1,095,069	147,349,194	6,179,039.48	681,350,431.60
-	-		
<b>1,095,069</b>	<b>147,349,194</b>	<b>6,179,039</b>	<b>681,350,432</b>

### 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\$ 17.646 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.

	2018-19	2017-18
	US \$ in Mln	US \$ in Mln
Total Allocation as per loan agreement	21.90	21.90
Accumulated Disbursement	17.646	16.55
un disburse Balace	<b>4.25</b>	<b>5.35</b>

### 6 Counter part funding by LESCO

Civil Work  
Labour  
Allocated overheads  
Other expenses  
Tax and Duties

Note

2018-19	2017-18
Rupees	Rupees
0	9,870,862
0	6,066,671
11,787,936	17,225,012
0	3,663,982
0	222,830,452
<b>11,787,936</b>	<b>259,656,980</b>

### 7 Usage of loan proceeds

#### Direct to Supplier :

M/S CCCE -ETERN JV  
M/s Transmark LEEC for Turnkey Grid  
M/s LS CABLES Korea

Paid from Imprest

Rupees	Rupees
86,080,101.25	395,656,867
57,014,584.35	285,693,565
4,254,508.47	-
<b>- 147,349,194</b>	<b>681,350,432</b>
-	-
<b>147,349,194</b>	<b>681,350,432</b>

#### Counter part funding by LESCO

6

11,787,936	259,656,980
<b>159,137,130</b>	<b>941,007,411</b>

## 8 Withdrawal Applications (Direct payment)

W.A #	Dated	2018-19		2017-18	
		US \$	Eql. Pak Rupees	US \$	Eql. Pak Rupees
L0024	25-Aug-17	-	-	141,440.25	14,895,836.00
06402	30-Aug-17	-	-	208,027.44	21,917,417.43
L0026	13-Sep-17	-	-	126,930.00	13,366,998.30
L0025	15-Sep-17	-	-	87,876.82	9,254,431.00
L0027	15-Sep-17	-	-	113,988.93	12,004,334.00
06403	16-Oct-17	-	-	208,073.63	21,904,951.40
06404	17-Oct-17	-	-	382,259.00	40,098,969.10
L0032	27-Dec-17	-	-	62,775.56	6,930,798.00
do	27-Dec-17	-	-	151,643.06	16,742,304.00
L0030	3-Jan-18	-	-	18,888.00	2,090,901.60
do	3-Jan-18	-	-	4,804.00	531,802.80
do	3-Jan-18	-	-	24,928.00	2,759,529.60
do	3-Jan-18	-	-	12,795.00	1,416,406.50
do	3-Jan-18	-	-	22,416.00	2,481,451.20
do	3-Jan-18	-	-	157,048.00	17,385,213.60
L0031	12-Jan-18	-	-	102,055.98	11,273,420.00
06405	24-Jan-18	-	-	67,111.33	7,446,337.62
00048	2-Mar-18	-	-	413,677.33	45,736,165.60
00050	2-Mar-18	-	-	1,626,174.74	179,789,879.25
00047	12-Mar-18	-	-	743,110.26	82,306,892.40
06406	15-Mar-18	-	-	23,437.07	2,592,139.94
06407	15-Mar-18	-	-	947,112.02	104,750,589.41
217PK	16-Apr-18	-	-	35,903.14	4,147,239.84
L0033	16-May-18	-	-	81,164.09	9,375,816.00
do	16-May-18	-	-	50,475.87	5,830,811.00
718PK	28-Jun-18	-	-	364,923.96	44,319,796.00
34608	10-Jul-18	12,276.67	1,492,229.24	-	-
34609	10-Jul-18	758.00	92,134.90	-	-
L0038	11-Jul-18	34,975.74	4,254,508.47	-	-
L0034	13-Sep-18	65,324.00	8,035,178.62	-	-
L0035	19-Sep-18	175,979.15	21,849,377.00	-	-
L0036	12-Oct-18	21,015.31	2,810,369.00	-	-
018PK	17-Jan-19	19,605.77	2,719,073.00	-	-
118PK	17-Jan-19	11,864.16	1,645,410.00	-	-
218PK	17-Jan-19	91,912.06	12,747,045.00	-	-
718P1	17-Jan-19	121,642.02	16,870,215.00	-	-
34610	28-Jan-19	37,411.49	5,195,520.67	-	-
00014	11-Feb-19	15,237.00	2,105,677.22	-	-
00015	11-Feb-19	3,622.00	500,542.29	-	-
00031	11-Feb-19	73,491.00	10,156,088.75	-	-
L0037	14-Feb-19	3,371.97	467,600.00	-	-
do	14-Feb-19	3,371.97	467,600.00	-	-
do	14-Feb-19	22,778.52	3,158,761.00	-	-
do	14-Feb-19	22,778.52	3,158,761.00	-	-
do	14-Feb-19	7,499.67	1,040,000.00	-	-
do	14-Feb-19	4,929.24	683,551.00	-	-
do	14-Feb-19	61,370.34	8,510,400.00	-	-
L0039	14-Feb-19	3,395.00	471,327.85	-	-
do	14-Feb-19	1,576.00	218,796.08	-	-
do	14-Feb-19	13,905.00	1,930,431.15	-	-
do	14-Feb-19	36,667.00	5,090,479.61	-	-
do	14-Feb-19	8,870.00	1,231,422.10	-	-
do	14-Feb-19	54,840.00	7,613,437.20	-	-
do	14-Feb-19	37,709.00	5,235,140.47	-	-
do	14-Feb-19	24,162.00	3,354,410.46	-	-
L0040	20-Feb-19	2,696.83	373,920.00	-	-
do	20-Feb-19	16,677.33	2,312,337.00	-	-
do	20-Feb-19	26,753.34	3,709,390.00	-	-
do	20-Feb-19	16,671.50	2,311,529.00	-	-
do	20-Feb-19	2,293.19	317,954.00	-	-
do	20-Feb-19	1,182.22	163,916.00	-	-
do	20-Feb-19	11,117.26	1,541,425.00	-	-
do	20-Feb-19	25,338.61	3,513,236.00	-	-
		1,095,069	147,349,194	6,179,039	681,350,432

9 Authorization for Issue

These Financial Statements have been authorized for issued by Project Director on 31 Oct. 2019.



Addl. Chief Financial Officer  
PMU LESCO LAHORE



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




**LAHORE ELECTRIC SUPPLY COMPANY LIMITED**  
Office of the Chief Engineer (Development) PMU LESCO  
132KV Qurtaba Grid Bahawalpur Road, Lahore  
Ph: 99214410 FAX: 99214412

No. 259 CE/Dev/FiN

Dated: 31/10/2019

**NON-IMPREST ACCOUNT CERTIFICATE**  
**ADB LOAN NO. 2972-PAK TRANCH-III**

It is certified that no Imprest Account regarding ADB Loan No. 2972-Pak Power Distribution Enhancement Investment program-Tranch-III is maintained in PMU, LESCO. Payment is made directly from ADB to Supplier/Contractor's accounts or through Letter of Credit.

  
(Engr. Bashir Ahmad)  
Chief Engineer (Dev)  
PMU LESCO

## **PART-II**

### **MANAGEMENT LETTER**

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## EXECUTIVE SUMMARY

The Directorate General Audit Power conducted audit of the Power Distribution Enhancement Investment Program Tranche-III, ADB loan 2972-PAK (LESCO Portion) during November, 2019 for the financial year ended on June 30<sup>th</sup> 2019. The main objectives of the audit were to express an opinion on financial statements of the project, to assess whether the project was managed with due regard to economy, efficiency and effectiveness, to review project performance against intended objectives and to review compliance with applicable rules, regulations and procedures. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

Following are the main audit findings: -

- Non-utilization of ADB loan - US \$ 4.26 million.
- Non-finalization of completion reports of ADB loan - US\$ 17.65 million

In order to ensure envisaged benefits from development partners program it is imperative that the loan amounts may be utilize in timely and efficient manner in the future. Moreover, the completion reports may be finalized at the earliest to assess the true picture of the projects.

## **1. INTRODUCTION**

The Directorate General Audit Power conducted an audit of the Power Distribution Enhancement Investment Program Tranche-III, ADB Loan No.2972-PAK (LESCO portion) during November, 2019 for the financial year ended June 30<sup>th</sup> 2019.

The project was an integral part of the Investment Program aimed to enhance the efficiency of the overall power distribution system and provide an adequate and reliable power supply to a greater number of industrial, commercial and residential customers.

The proposed project would improve power distribution infrastructure through rehabilitation, augmentation and expansion of the secondary transmission network, and relieve the power system from distribution bottlenecks and constraints. The project provided for improving the secondary transmission facilities with the establishment of new grid stations and enhancing the capacity of the existing ones, expansion of the power distribution network and reduction in energy losses with the objective to realize optimum benefits from the available power.

The Project comprised of physical investments in 17 subprojects covering STG expansion, augmentation, extension and rehabilitation STG transmission lines and energy loss reduction through installation of capacitors. These projects included addition of 4 new substations, 4 D/C transmission lines and 9 subprojects for extensions and augmentations of Power transformers, with the objective to meet the growing power demand in the country by enhancement in the capacity of the distribution system through rehabilitation, extension, augmentation and expansion of existing distribution network of LESCO. The total amount of the loan was US \$ 245 Million, out of which US \$ 21.910 Million were allocated to LESCO under Tranche-III program.

## **2. AUDIT OBJECTIVES**

The major objectives of the audit were to:

- i. Express opinion on loan related financial statements comprising statement of receipts & payments and statement of comparison of budget & actual amounts
- ii. Review project's performance against intended objectives
- iii. Assess whether project was managed with due regard to economy, efficiency and effectiveness
- iv. Review compliance with applicable rules, regulations and procedures.

### **3. AUDIT SCOPE AND METHODOLOGY**

The Directorate General Audit Power conducted audit of the Power Distribution Enhancement Investment Program Tranche-III, ADB loan 2972-PAK (LESCO Portion) for the financial year 2018-19.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs).

The assignment was a financial attest audit. The audit was conducted on sample basis. The samples from all areas of expenditure and transactions were selected to ascertain compliance of rules. The overall methodology was as follows: -

- i) Interview and discussion with the management
- ii) Examination of Financial Statement and note accompanied together.
- iii) Examination of contract agreements of supply & procurement of material and execution of works
- iv) Checking of compliance of rules and regulation.
- v) Examination of withdrawal application.
- vi) Examination of imprest account, if any.

The results of examination are given under the heading "Audit Findings".

### **4. AUDIT FINDINGS AND RECOMMENDATIONS**

#### **4.1 Financial Management**

##### **4.1.1 Non-utilization of ADB loan - US \$ 4.26 million**

An agreement of US\$ 21.91 million has been signed between ADB and LESCO Loan No.2972-PAK for Power Distribution Enhancement Investment Program Tranche-III on February, 2014.

In Chief Engineer (Development) PMU LESCO, the management could not acquire and utilize US\$ 4.26 million which was 19.44% of total loan amount. This clearly reflected that envisaged benefits from the loan as per agreement could not be achieved. The development partner agreements were undertaken after great deliberation for well specified benefits. Hence,

significant under-utilization of loan was a major shortcoming and poor performance by the management.

Non-adherence to the agreement clause resulted in non-utilization of loan amounting US \$ 4.26 million during the year 2018-19.

The matter was reported to the management during November, 2019. It was replied that that out of total amount of loan i.e. US\$ 21.910 million an amount of US\$ 17.65 million has been utilized leaving a balance of US\$ 4.26 million. The loan remained unutilized due to some unforeseen conditions arise during execution of contracts which were beyond control of LESCO management i.e, due to right of way issue, 10% payment retained as part of L/D till the decision of extension of time claim and non-issuance of NOC by ADB for tender ADB-02(S)-2017-R.

The DAC in its meeting held on 2<sup>nd</sup> December, 2019 directed the management to reconcile the amount of loan and submit revised reply with justification to audit for verification. No further progress was intimated.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

## **4.2 Construction and Works**

### **4.2.1 Non-preparation/non-submission of project completion report for the projects funded by Foreign Loan ADB No.2972-PAK amounting to US \$ 17.65 million**

As per Project Agreement, Article-II particular covenants Section 2.08 (C) of contract of Loan Agreement No.2972-PAK-Power Distribution Enhancement Investment Programme-Tranche-III "Promptly after physical completion of the Project, but in any event not later than 3 months thereafter or such later date as ADB may agree for this purpose, each DISCO shall prepare and furnish through PEPCO to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the project, including its cost, the performance by the DISCO of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan."

In Chief Engineer (Development) PMU, LESCO out of the total amount of the ADB Loan No.2972-PAK amounting to US\$ 21.91 million an amount of US\$ 17.65 million has been utilized up to the closing date of June 30<sup>th</sup> 2018. As per Loan Agreement on the execution and initial operation of the project the completion reports along with its cost and performance were required to be prepared and submitted to the ADB through PEPCO. But this was not forthcoming from the PMU record. It seems that the same has not been prepared yet.

Non-adherence to the agreement clause resulted in non-preparation of completion report amounting to US \$ 17.65 million.

The matter was reported to the management during November, 2019. It was replied that that the completion reports of ADB Tranche-I, II and III have been prepared by SMEC (the consultant) hired by ADB), and have been received in this office. Record is ready for verification.

The DAC in its meeting held on 2<sup>nd</sup> December, 2019 directed the management to produced relevant documents in support of reply to audit for verification. No further progress was intimated.

Audit recommends that the management needs to implement DAC's directives besides fixing responsibility.

#### **4.3 Overall Assessment:**

The overall assessment was limited to review of operations and business functions relevant to loan disbursements/management. Management was unable to utilize the loan properly due to lack of planning and monitoring activities. The overall assessment of Tranche-III project under ADB loan-2972-PAK (LESCO Portion) with regards to its deliverance to the intended purposes is based upon the following major elements.

##### **i) Relevance:**

The Tranche-III project (LESCO Portion) remained in line with overall Medium Term Development Framework (MTDF) and the government's sectoral policies.

**ii) Efficacy and Effectiveness:**

The loan could not be fully utilized hence efficacy and effectiveness could not be achieved to the envisaged extent.

**iii) Efficiency:**

The procurement was made within the loan execution period. The loan remained available for disbursement according to the release requests, but the release requests could not be submitted by the management well in time which resulted non utilization of loan according to the allocation.

**iv) Economy:**

The bidding process for the procurement of goods, under Tranche-III project, was on competitive rates and based on International Competitive Bidding (ICB).

**v) Compliance with Rules:**

No serious non-compliance with rules was involved in execution of project, however, issues like non-utilization of ADB loan and non-finalization of completion reports were highlighted in audit observations.

**vi) Performance Rating of Project:**

The performance of the project to the extent of expended amount was satisfactory.

**vii) Risk Rating of Project:**

The risk rating of the project was low.

## **5. CONCLUSION**

The closing date of loan was June 30<sup>th</sup> 2018, however, the date was extended upto January 31<sup>th</sup> 2019. In the financial year 2018-19 management as per agreed terms with the development partner utilized funds for clearance of pending liabilities instead of undertaking more works. Due to unsatisfactory planning and execution, full loan amounts could not be utilized and works could not be completed and capitalized timely. However, the loan was used for the purpose for which was granted.

### **5.1 Key Issues for the Future**

PC II, PC I and the allied documents may be prepared well in advance by the management before receipt of loan in order to ensure smooth and timely execution of the projects.



## **5.2 Lessons Identified**

Less-utilization of loan within the loan period can largely be attributed towards Contract and Procurement management issues. Success to any project is based on timely decision making and implementation within stipulated time frame of the Project. Upon receipt of loan, well defined SOPs may be notified and adopted for bidding & technical evaluation of bids besides ensuring active monitoring of project activities along predefined project benchmarks. Such measures would ensure greater efficiency in project activities.

## **ACKNOWLEDGEMENT**

We wish to express our appreciation to the Management and staff of LESCO for the assistance and cooperation extended to the auditors during this assignment.