

Audited Project Financial Statements

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 Peshawar Electric Supply Company (PESCO)

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, 4th 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 nd Transmission-T1	ADB	3419-Pak (Col)

25.	MFF: 2 nd 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, Peshawar
Electric Supply Company Limited (PESCO),
Asian Development Bank (ADB), Loan
No.2972-PAK, for the Financial Year 2018-19**



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	5
Financial Statements	6
PART-II	17
MANAGEMENT LETTER	18
EXECUTIVE SUMMARY	19
1. Introduction	20
2. Audit Objectives	20
3. Audit Scope and Methodology	20
4. AUDIT FINDINGS & RECOMMENDATIONS	21
4.1 Financial Management	21
4.2 Monitoring and Evaluation	22
4.3 Overall Assessment	23
5. CONCLUSION	24
ACKNOWLEDGEMENT	26

Abbreviations and Acronyms

ADB	Asian Development Bank
AGP	Auditor General of Pakistan
DAC	Departmental Accounts Committee
DISCO	Distribution Companies
GCC	General Condition of Contract
GOP	Government of Pakistan
ICB	International Competitive Bidding
ISSAIs	International Standard of Supreme Audit Institutions
KV	Kilo Volt
LC	Letter of Credit
LD	Liquidated Damages
MTDF	Medium Term Development Framework
NTDC	National Transmission and Dispatch Company
PC-I	Planning Commission Performa-I
PD	Project Director
PDEIP	Power Distribution Enhancement Investment Program
PESCO	Peshawar Electric Supply Company
PMU	Project Management Unit
SCC	Special Condition of Contract
STG	Secondary Transmission Grid
WAPDA	Water and Power Development Authority

PREFACE

The Auditor General of Pakistan conducts audit 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 (PESCO Portion) was carried out accordingly.

The Directorate General Audit Power, Lahore conducted audit of the Power Distribution Enhancement Investment Program Tranche-III, ADB Loan-2972-PAK (PESCO Portion) during October, 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 (PESCO 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 (PESCO 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 (PESCO Portion).

The Report consists of two parts: Part-I contains Auditor's Report 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 term of Loan Agreement-2972-PAK (PESCO Portion).

Dated: 30.12.2019
Place: Lahore

HASSAN LATIF
DIRECTOR GENERAL
Audit Power 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 (ADB)
Executing Agency	Peshawar Electric Supply Company (PESCO)
Loan No:	2972-Pak
PC-I Cost:	US \$21.550 million
Loan Amount	US \$21.550 million
Date of Commencement:	December, 2013
Date of Completion (as per PC-I):	June, 2017
Loan Closing Date	June 30 th 2018
Revised Loan Closing Date	January 31 th 2019
Loan Utilization Status in F.Y 2018-19:	US \$3.217 million(Rs.424.796 million)
Progressive Expenditure upto F.Y 2017-18	US \$18.347 million (Rs.2,016.421 million)
Un-utilized Loan Amount	US \$ 3.203 million

AUDITOR'S REPORT TO THE MANAGEMENT


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

These financial statements are the responsibility of the management of Peshawar Electric Supply Company (PESCO). 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 PESCO's policy is to prepare the accompanying statements in the format agreed between the Asian Development Bank and the Government of Pakistan, on a 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, PESCO, hence, no bank reconciliation statements is 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 (PESCO Portion) as on June 30th 2019 and the results of its operations for the year ended on June 30th 2019, in conformity with International Public Sector Accounting Standards, applied on a basis consistent in all material respects with that of the previous year; (B) the PESCO 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 PESCO in accordance with Loan Agreement; and no proceeds of the loan have been utilized for other purposes; and (C) the PESCO 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

^{30/12}
Dated: December, 2019

FINANCIAL STATEMENTS

PESHAWAR ELECTRIC SUPPLY COMPANY (PESCO)

Statement of Receipts and Payments ADB Loan # 2972-PAK (Tr-III)

For the Year ended 30 June 2019

For the Year ended 30 June 2019		Note	2018-19		2017-18		(Amounts in Million)
			Receipts (Payments) Controlled by Project	Payment by Third Parties	Receipts (Payments) Controlled by Project	Payment by Third Parties	
Rupees							
<u>Receipts</u>							
External Assistance	5		-	424,796	-	464,627	
Counterpart Funds	6		77,821	-	76,558	-	
<u>Total Receipts</u>			<u>77,821</u>	<u>424,796</u>	<u>76,558</u>	<u>464,627</u>	
<u>Payments</u>							
Consultancy Service			-	-	-	-	
Operating Expenses CPF + duties			-	-	-	-	
Supplies and Consumables ADB Bank Loan			-	-	-	-	
Purchase of Plant and Equipment (Direct Payments + Commitment Letters)			-	424,796	-	464,627	
GST Payments & Taxes etc (CounterPart)	7		77,821	-	76,558	-	
Civil Works			-	-	-	-	
Trainings			-	-	-	-	
<u>Total Payments</u>			<u>77,821</u>	<u>424,796</u>	<u>76,558</u>	<u>464,627</u>	
INCREASE (DECREASE) IN CASH			0,000	0,000	0,000	0,000	
CASH AT BEGINNING OF YEAR			0,000	0,000	0,000	0,000	
CASH AT END OF THE YEAR			<u>0,000</u>	<u>0,000</u>	<u>0,000</u>	<u>0,000</u>	

CONTINGENCIES AND COMMITMENTS

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

Chief Engineer (Development)
PMU PESCO, Peshawar

PESHAWAR ELECTRIC SUPPLY COMPANY (PESCO)

Statement of Comparison of Budget and Actual Amounts

ADB Loan # 2972-PAK (Tr-III)

For the Year ended 30 June 2019

(Amounts in Million)

	Note	2018-19		2017-18	
		Budget Amount	Actual Amount	Budget Amount	Actual Amount
		rupees			
<u>Receipts</u>					
External Assistance	5	167.910	424.796	600.00	464.627
Counterpart Funds	6	14.542	77.821	200.00	76.558
<u>Total Receipts</u>		<u>182.45</u>	<u>502.617</u>	<u>800.00</u>	<u>541.185</u>
<u>Payments</u>					
Consultancy Service		-	-	-	-
Operating Expenses CPF + duties		-	-	-	-
Supplies and Consumables ADB Bank Loan		-	-	-	-
Purchase of Plant and Equipment (Direct Payments)	7	-	424.796	-	464.627
GST Payments & Taxes etc (CounterPart)	8	-	77.821	-	76.558
Civil Works		-	-	-	-
Trainings		-	-	-	-
<u>Total Payments</u>		<u>-</u>	<u>502.617</u>	<u>-</u>	<u>541.185</u>

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

Chief Engineer (Development)
PMU PESCO, Peshawar

Peshawar Electric Supply Company (PESCO)

Notes to the Financial Statements

ADB Loan # 2972-PAK (Tr-III)

For the year ended 30 June, 201۶

1 Reporting Entity

The Financial Statements are for (PESCO) Project. The Financial Statement 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** for an amount of **USD 21.550 Million**. The Project became effective from **10.12.2013** with the closing date of **31.12.2016**. (**Revised Closing date 31.01.2018/30.06.2018**)

The Project is implemented through Economic Affairs Division, Government of Pakistan.

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 **05 years**. The Financing Agreement now is Credit **US\$: 18.347 Million** Equivalent to **PKR: 2016.421 Million**.

Responsible Agency

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

2 Certification by Project Management on Application of Funds

The PESCO Project Management Certified that the funds have been applied / expenditure has been incurred for the purposes 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 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. Payments by third parties, if any, are disclosed in the payments by the third parties column on the face of Statement of Cash Receipts and Payments and notes to the financial

5 External Assistance

[ADB-financed projects in Pakistan are normally funded by two different sources. One is called Ordinary operations and one is special operation]

External assistance was received in the form of Credit from the Asian Development Bank under financing agreement dated **July-2008** between the Asian Development Bank and Government of Pakistan (GoP) for the purpose of the Power Distribution Enhancement Investment Program Tranche-III. The following amounts were received by the Project during the period.

		(Amounts in Million)			
Loan No. 2972-PAK (Ordinary Operation)		2018-19		2017-18	
		US \$	Pak Rupees	US \$	Pak Rupees
SOE Procedures	5.1	-	-	-	-
Direct Payment	5.2	3.089	407.482	2.221	246.860
Commitment Letter	5.3	0.128	17.314	1.953	217.767
		<u>3.217</u>	<u>424.796</u>	<u>4.174</u>	<u>464.627</u>
Loan No. xxxx-PAK (Special Operation)		2018-19		2017-18	
		US \$	Pak Rupees	US \$	Pak Rupees
SOE Procedures	5.1	-	-	-	-
Direct Payment	5.2	-	-	-	-
Commitment Letter		-	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

- 5.1 This represents funds transferred to the (PESCO) Project's Designated US Dollar Bank Account by the Asian Development Bank on the basis of Withdrawal Applications submitted by the Project.
- 5.2 Direct payments 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.
- 5.3 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.
- 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 Asian Development Bank will disburse for (PESCO) Project Purposes.

(Amounts in Million)					
		2018-19		2017-18	
		Amounts in US \$			
Closing Balance		3.203		6.421	
		3.203		6.421	
6 Counterpart Funds					
		2018-19		2017-18	
		US \$	Pak Rupees	US \$	Pak Rupees
Government of Pakistan (GoP)		0.599	77.821	0.622	76.558
		0.599	77.821	0.622	76.558
6.1 This represents funding to the (PESCO) Project at ____ % of the total Project Cost by the Government of Pakistan as agreed between the Asian Development Bank and GoP					
		2018-19		2017-18	
		US \$	Pak Rupees	US \$	Pak Rupees
7 Purchase of Plant & Equipments (Direct Payment + Commitment letters)		3.217	424.796	4.174	464.627
		3.217	424.796	4.174	464.627
8 GST + Taxes					
		2018-19		2017-18	
		US \$	Pak Rupees	US \$	Pak Rupees
		0.599	77.821	0.622	76.558
		0.599	77.821	0.622	76.558

	(Amounts in Million)	
Workshops		
	-	-
	-	-
[A brief description of trainings and workshops conducted during the period]		
Unrealized Exchange Gain (Loss)		
	2018-19	2017-18
	Amounts in Pak Rupees	
Balance as per Books of Project as at Year end	-	-
Closing Balance before Conversion as at Year end	-	-
Closing Balance After Conversion as at Year end	-	-
	-	-

This represents notional (loss)/gain on dollar amounts shown in the bank statement. The resultant (loss)/gain do not accrue to the Project. Unrealized Gain (Loss) will be settled at the completion of the Project. The unspent dollar balance, if any, will be refunded to [Donor/Lender] at the end of the Project.

Cash and Bank		
Loan No. xxxx	2018-19	2017-18
	Amounts in Pak Rupees	
Cash in Hand	-	-
Cash in Bank	-	-
	-	-

Loan No. yyyy	2018-19	2017-18
	Amounts in Pak Rupees	
Cash in Hand	-	-
Cash in Bank	-	-
	-	-

Commitments		
	2018-19	2017-18
	Amounts in Pak Rupees	
Contractor Liabilities	-	-
Obligation under Contract	-	-
Pending Litigation and Claims	-	-
	-	-

(Amounts in Million)

Operating Expenses

	Note	2018-19	2017-18
		Amounts in Pak Rupees	
Remuneration and Salaries		-	-
General Operating Expenditures		-	-
		<u>-</u>	<u>-</u>

		2018-19	2017-18
		Amounts in Pak Rupees	
Salaries - Officer		-	-
Salaries - Staff		-	-
		<u>-</u>	<u>-</u>

		2018-19	2017-18
		Amounts in Pak Rupees	
Telephone		-	-
Advertisement and Publicity		-	-
Office Maintenance		-	-
POL, Repair & Maintenance		-	-
Stationery		-	-
Travelling		-	-
Other Expenses		-	-
		<u>-</u>	<u>-</u>

Supplies and Consumables

		2018-19	2017-18
		Amounts in Pak Rupees	
Vehicles		-	-
Furniture & Fixtures		-	-
Office Equipment		-	-
		<u>-</u>	<u>-</u>

Trainings

		2018-19	2017-18
		Amounts in Pak Rupees	
		-	-
		<u>-</u>	<u>-</u>

No revalving fund account was opened for this loan.

The direct payment procedure is a disbursement procedure where the Asian Development Bank (ADB), at the borrower's request Pays a designated beneficiary (e.g. Supplier, Contractor, or Consultant) directly.

2017-18

[illegible]

2018-19

2017-18

1	LC	19.10.2017	30,961,666	287,480.65
2	LC-2	13.12.2017	5,602,308	50,448.52
3	LC-4	14.12.2017	18,724,632	169,581.52
	LC-3	13.12.2017	41,737,587	375,845.00
	LC-4	27.12.2017	8,034,027	72,768.02
	LC-3	26.12.2017	20,163,126	181,568.00
	LC-4	30.01.2018	6,002,890	54,340.93
	LC-2	30.01.2018	885,486	7,995.00
	LC	24.01.2018	33,161,322	298,871.81
	LC	18.04.2018	49,155,999	425,335.29
	LC	09.05.2018	3,338,412	28,874.00
TOTAL Commitment Letters			217,767,455	1,953,108.74

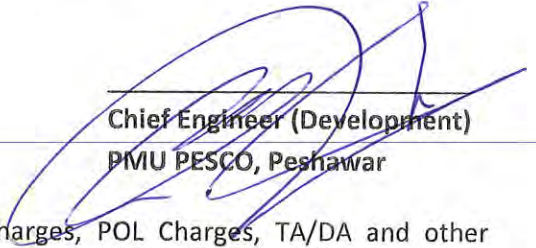
464,627,433.21	4,173,857.12
----------------	--------------

These financing statements have been authorized for issued by the Project Director on /10/2019.

10. General

Figures have been rounded off to the nearest rupee.

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




Chief Engineer (Development)
PMU PESCO, Peshawar

Note: Operating expenses, such as Salaries, Telephone Charges, POL Charges, TA/DA and other expenses of PMU Office are being debited to office of PD (GSC) PESCO on monthly basis and the same are distributed by (GSC) on ADB/PSDP works as overhead Charges.

CERIFICATE FOR (SOE) AND (BRS) AGAINST ADB LOAN NO. 2972-PAK

It is certified that Statement of Expenditure (SOE) relates to Imprest Account and PESCO has not availed the facility of Imprest Account under the ADB Loan No. 2972-PAK so that No statement of expenditure and Bank Reconciliation Statement are maintained.


Chief Engineer (Development)
PMU PESCO Peshawar
18/11/19

PART-II

MANAGEMENT LETTER

EXECUTIVE SUMMARY

1. INTRODUCTION

2. AUDIT OBJECTIVES

3. AUDIT SCOPE AND METHODOLOGY

4. AUDIT FINDINGS AND RECOMMENDATIONS

4.1 Financial Management

4.2 Monitoring and Evaluation

4.3 Overall Assessment

5. CONCLUSION

ACKNOWLEDGEMENT

EXECUTIVE SUMMARY

The Directorate General Audit Power conducted audit of the Power Distribution Enhancement Investment Program Tranche-III, ADB Loan 2972-PAK (PESCO Portion) during October, 2019 for the financial year ended on June 30th 2019. The main objectives of the audit were to express an opinion on financial statements of the project, to assess whether project was managed with due regards to economy, efficiency and effectiveness, 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:

- Loss due to levy of commitment charges due to non-utilization of ADB Loan No.2972 PAK Tranche –III - US\$ 4,804.50
- Non utilization of loan - US \$ 3.203 million
- Non-preparation/non-submission of project completion report, amounting to US\$18.347 million

In order to ensure envisaged benefits from development partner program it is imperative that loan amounts are utilized in timely and efficient manner in the future.

1. INTRODUCTION

The Directorate General Audit Power conducted audit of the Power Distribution Enhancement Investment Program Tranche-III, Peshawar Electric Supply Company, ADB Loan-2972-PAK (PESCO Portion) during October, 2019 for the financial year ended on June 30th 2019.

The project is 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 great number of industrial, commercial and residential customers. The proposed investment project will improve power distribution infrastructure through rehabilitation, augmentation & expansion of the distribution network and relieve the power system from distribution bottlenecks and constraints.

The project (PESCO portion) comprises construction of two (02) 132 KV new substations, two (02) conversions of 66 KV to 132 KV substations and associated transmission lines, eight (08) extensions and five (05) augmentation sub-projects. Total loan amount was US \$245 million, out of which US \$21.550 million was allocated to Peshawar Electric Supply Company (PESCO).

2. AUDIT OBJECTIVES

The main 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, Peshawar Electric Supply Company, ADB Loan-2972-PAK (PESCO 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 Loss due to levy of commitment charges due to non-utilization of ADB Loan No.2972 PAK TRANCHE-III - US\$ 4,804.50

As per Article-II, Section 2.03 of the Loan agreement with ADB, "the borrower shall pay commitment charges of 0.15% per annum. Such charges shall accrue on the full amount of the loan (less amounts withdrawn from time to time), commencing sixty (60) days after the date of this loan agreement".

In Chief Engineer (Dev) PMU, PESCO, an amount of US\$ 4,804.50 (detail below) is payable on account of commitment charges due to non-utilization of loan amounting to US\$ 3.203 million. Had the loan proceeds utilized within the scheduled period and amount of US \$ 4,804.50 can be saved.

Loan No.	Amount (US\$ in millions)			Commitment Charges	
	Loan	Utilized	Balance	Rate	Amount
2972-PAK	21.550	18.347	3.203	0.15%	US\$ 4,804.50

Non-adherence to the contract clause resulted into loss due to levy of commitment charges amounting to US \$ 4,804.50

The matter was reported to the management during October, 2019. It was replied that no commitment charges are payable by PESCO. However, the difference between the full amount of loan and total expenditures incurred under the loan is mainly due to the reasons of savings in the loan emerged on account of increase in Dollar exchange rate as some payments for the local material and turnkey project were made in Pak Rupees and Savings in the loan was also due to fewer payments on account of recovery of Liquidity damages (LD) worth Rs. 0.912 Million from different firms on account of delay in execution of contracts.

The DAC in its meeting held on 2nd December, 2019 directed the management to produced relevant document 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.

4.1.2 Non-utilization of loan - US \$ 3.203 million

According to agreement signed on December, 2013 loan No. 2972 - PAK amounting of US \$ 21.550 million between ADB and PESCO for Power Distribution Enhancement Investment Program Tranche-III, allocated to PESCO.

In Chief Engineer (Dev) PMU, PESCO Peshawar, the management could not acquire and utilize US \$ 3.203 million which was 14.86 % age 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.

The matter was reported to the management during October, 2019. It was replied that saving in loan amounting to Rs. 3.203 million was due to fluctuation in exchange rate and recovery of Liquidated Charges.

The DAC in its meeting held on 2nd December, 2019 directed to submit revised reply regarding non-utilization of loan and get it verified from audit. No further progress was intimated.

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

4.2 Monitoring and Evaluation

4.2.1 Non-preparation/non-submission of project completion report amounting to US \$18.347 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 the Chief Engineer (Dev) PMU, PESCO ADB Loan No.2972-PAK amounting to US\$ 18.347 million was utilized on the period up to the June 30th 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. In absence of the project completion report the efficient usefulness and effectiveness of the loan/project cannot be assessed.

Non-adherence to the contract clause resulted into loss due to non-preparation of project completion report amounting to US\$ 18.347 million

The matter was reported to the management during October, 2019. It was replied this office has submitted physical progress to ADB through PEPCO on a regular basis. Progress report of October, 2018 sent to PEPCO through email for ready reference. As far as the Financial progress is concerned the same has been updated regularly on ADB Website. The final statement of ADB is available for verification being evidence.

The DAC in its meeting held on 2nd December, 2019 directed the management to produced relevant document 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 disbursement / management. Management was unable to utilize the loan properly due lack of planning and monitoring activities. The overall assessment of Tranche-III Project (PESCO Portion) under ADB Loan-2972 PAK with regard to its deliverance to the intended purpose is based upon the following major elements.

i. Relevance

The Tranche-III Project (PESCO 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 Works, under tranche-III project, was for competitive rates and based on international competitive bidding (ICB).

v. Compliance with rules

No serious non-compliance with rules was observed in execution of the project. However, levy of commitment charges due to non-utilized loan and non-preparation of completion report was highlighted in the audit observation.

vi. Performance rating of Project

The performance of the project to the extent of expanded 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 30th 2018, however, the date was extended upto January 31th 2019. In the financial year 2018-19 management as per agreed terms with the development partner utilized fund 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 Lesson Identified

Less utilization of loan within the loan period can largely be attributed to poor Contract and Procurement management issues. Success of 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 PESCO for the assistance and cooperation extended to the auditors during this assignment.
