

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 Quetta Electric Supply Company (QESCO)

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:

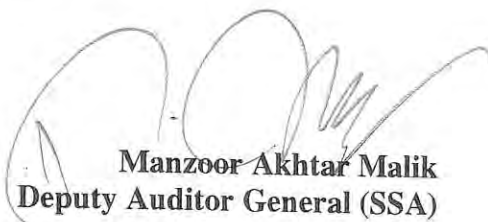
S. #	Name of Foreign Aided Project	Dev. Partner	Loan No.
1.	Transmission Modernization I Project	World Bank	8814-PK
2.	CASA Electricity Transmission and Trade	World Bank	5409-PK
3.	Power Distribution Enhancement Investment Program-Project 1 PEPCO	ADB	2439-Pak (COL)
4.	MMF- Power Distribution Enhancement 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, Quetta
Electric Supply Company Limited (QESCO),
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

ACSR	Aluminium Conductor Steel-reinforced
ADB	Asian Development Bank
AGP	Auditor General of Pakistan
BOD	Board of Directors
DAC	Departmental Accounts Committee
DISCO	Distribution Companies
GCC	General Conditions of Contract
GOP	Government of Pakistan
ICB	International Competitive Bidding
IPSAS	International Public Sector Accounting Standards
ISSAIs	International Standards of Supreme Audit Institutions
KVA	Kilo Volt Ampere
LC	Letter of Credit
MTDF	Medium Term Development Framework
MVA	Mega Volt Ampere
PC-I	Planning Commission Proforma-I
PDEIP	Power Distribution Enhancement Investment Program
PMU	Project Management Unit
QESCO	Quetta Electric Supply Company
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 (QESCO 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 (QESCO Portion) during September, 2019 for the financial years 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 (QESCO 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 (QESCO 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 (QESCO 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 terms of Loan Agreement 2972 - PAK (QESCO Portion).

Dated: 30th December, 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)
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Sponsoring Agency	Asian Development Bank (ADB)
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Executing Agency	Quetta Electric Supply Company Limited (QESCO)
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Loan No.	2972-PAK
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PC-I Cost	US\$ 92.90 million
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Loan Amount	US\$ 81.95 million
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Counter Part Fund	US \$ 10.95 million
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Date of Commencement	December 10 th 2013
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Loan Closing Date	June 30 th 2018
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Revised Loan Closing Date	January 31 th 2019
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Loan Utilization Status in F.Y 2018-19	US\$ 3.095 million (Rs.383.505 million)
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Progressive Expenditure up to last F.Y 2018-19	US\$ 74.263 million (Rs.7827.855 million)
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Un-utilized Loan Amount	US \$ 7.689 million
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AUDITOR'S REPORT TO THE MANAGEMENT

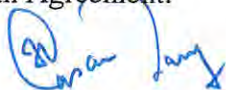
We have audited the accompanying financial statements of the Power Distribution Enhancement Investment Program Tranche-III, Quetta Electric Supply Company (QESCO) financed under the Asian Development Bank, Loan No.2972-PAK as of June 30th 2019 and for the year then ended.

These financial statements are the responsibility of the management of Quetta Electric Supply Company (QESCO). 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 QESCO'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, QESCO, 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 (QESCO 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 years; (B) the QESCO 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 QESCO in accordance with the Loan Agreement; and no proceeds of the loan have been utilized for other purposes; and (C) the QESCO 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

Quetta Electric Supply Company
ADB Loan No. 2972-Pak Tranche-3 (Power
Distribution Enhancement Investment Program)
Statement of Receipt and Payments
For the year ended 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				
Receipt				
External Assistance	5	-	383,505,411.22	-
Counterpart Funds	6	61,963,916.00	-	57,371,564.00
Total Receipts		61,963,916.00	383,505,411.22	57,371,564.00
Payments				
Supplies and consumables		-	-	-
Operating Expenses	7	61,963,916.00	-	-
Consultancy Services	8	-	57,371,564.00	-
Purchase of Plant and Equipment	9	110,479,631.92	-	676,835,066.54
Civil Works	10	273,025,779.30	-	793,003,862.39
Trainings	11	-	-	-
Total Payments		61,963,916.00	383,505,411.22	57,371,564.00
Increase (Decrease) in Cash				
Cash at Beginning of Year		-	-	-
Cash at End of Year	12	-	-	-
Contingencies and Commitments		-	-	-

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

Manager Project Finance
PMU QESCO Quetta

General Manager (Development)
PMU QESCO Quetta

1 Payment categories should be based on caterogires in legal agreement

Quetta Electric Supply Company
ADB Loan No. 2972-Pak Tranche-3 (Power Distribution
Enhancement Investment Program)
Statement of Comparison of Budget and Actual Amount
For the year ended 30-06-2019

	Note	2018-19		2017-18	
		Budget Amount	Actual Amount	Budget Amount	Actual Amount
		Original		Original	
Receipt					
External Assistance	5	371,288,098.00	383,505,411.22	1,469,838,928.93	1,469,838,928.00
Counterpart Funds	6	100,000,000.00	61,963,916.00	300,000,000.00	57,371,564.00
Total Receipts		471,288,098.00	445,469,327.22	1,769,838,928.93	1,527,210,492.00
Payments					
Supplies and consumables		-	-		
Operating Expenses	7	100,000,000.00	61,963,916.00	300,000,000.00	57,371,564.00
Consultancy Services	8				
Purchase of Plant and Equipment	9	110,479,631.92	110,479,631.92	676,835,066.54	676,835,066.54
Civil Works	10	273,025,779.30	273,025,779.30	793,003,862.39	793,003,862.39
Trainings	11	-	-		
Total Payments		483,505,411.22	445,469,327.22	1,769,838,928.93	1,527,210,492.93

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

Manager (Project Finance)
PMU QESCO Quetta

General Manager (Development)
PMU QESCO Quetta

1 Payment categories should be based on caterogires in legal agreement

Quetta Electric Supply Company
Power Distribution Enhancement Investment Program –
Loan No.2972-PAK (Tranche-III)
Notes to the Financial Statements
For the Year ended 30 June 2019

1. Reporting Entity

The financial statements are for Power Distribution Enhancement Investment 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 PKR 8732 million, equivalent to US \$ 81.95 million. The project became effective from 10-12-2013 with the closing date of 30-06-2018. The project is implemented through ABC Division, GoP.

Financing

The financing is made in the form of Credit based on Asian Development Bank terms, with a maturity of 20 years, including a grace period of 05 years. The Financing Agreement No is Credit Cr 2972-PAK.

Responsible Agency

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

2. Certification by Project Management on Application of Funds

The Power Distribution Enhancement Investment project management certified that the funds have been applied/expenditure have been incurred for the purpose intended in the financing agreement.

3. Accounting Convention and Statement of Compliance

The financial statement have prepared in accordance with Cash Basis IPSAS Financing Reporting under the Cash Basis of Accounting.

The accounting policies have been applied consistently throughout the period.

4. Significant Accounting Policies

4.1 Foreign Currency Transaction

Cash receipts and payments arising from transactions in foreign currencies are recorded in Pak Rupee by applying to the foreign currency amount, the exchange rate between the Pak Rupee and the Foreign Currency at the date of the receipts and payments. Exchange differences arising on settlement of these transactions are recognized in the Statement of Receipts and Payments.

4.2 Reporting Currency

All amounts in the financial statements are in Pak Rupee.

4.3 Revenue Recognition

Revenue is recognized on the date of receipt of money by bank or clearance of cheque.

Revenue is recognized on gross basis and any related costs are recorded separately.

4.4 Recognition of Expenditure

Expenditure is recognized on the date when payment is made or cheque is issued. Financial year to which the payments pertain is determined by the date on which a cheque 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.

5. External Assistance

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

External assistance was received in the form of Credit from the Asian Development Bank under financing agreement dated 28-01-2011 between the Asian Development Bank and Government of Pakistan (GOP) for the purpose of the Power Distribution Enhancement Investment Project. The following amounts were received by the Project during the period.

Loan No. 2972-PAK (Ordinary operations)		<u>2018-19</u>		<u>2017-18</u>	
		US\$	Pak Rupees	US\$	Pak Rupees
SOE Procedures	5.1	-	-	-	-
Direct Payments	5.2	3,094,616.83	383,505,411.22	126,641,377.95	1,366,929,156.96
Commitment Letters		-	-	930,418.18	102,909,771.97
		<u>3,094,616.83</u>	<u>383,505,411.22</u>	<u>127,571,796.13</u>	<u>1,469,838,928.93</u>

5.1 SOE procedure:

No funds Transferred in designated US Dollar revolving fund account the Asian Development Bank on the basis of withdrawal application.

5.2 Direct Payment:

The direct payment procedure is the disbursement procedure where the Asian Development Bank (ADB) at the borrowers request pays designated beneficiary (e.g- Supplier Contractor or Consultant) Directly.

Detail of Cash Withdrawal 2018-19

S.No	WA No.	Date	Claim	
			US\$	PKR
1	QS193	9/7/2018	379,762.85	46,125,616.00
2	QS194	5/7/2018	262,582.21	31,892,972.64
3	QS195	5/7/2018	34,660.61	4,209,851.00
4	QS196	5/7/2018	29,749.03	3,613,287.43
5	QS197	2/8/2018	40,211.62	4,986,209.00

101/c

6	QS198	2/8/2018	162,555.36	20,156,734.00
7	QS199	4/9/2018	210,468.90	26,126,052.00
8	QS200	6/9/2018	221,989.39	27,556,208.95
9	QS201	4/9/2018	33,852.18	4,202,159.00
10	QS202	6/9/2018	38,150.84	4,735,778.22
11	QS203	4/9/2018	8,396.46	1,042,274.00
12	QS204	6/9/2018	9,973.92	1,238,092.61
13	QS205	4/9/2018	270,666.25	33,598,505.00
14	QS206	6/9/2018	143,056.84	17,758,074.72
15	QS207	19/09/2018	7,893.11	980,000.00
16	QS208	4/9/2018	321,852.54	39,952,393.00
17	QS209	6/9/2018	377,280.79	46,832,996.31
18	QS210	4/9/2018	13,722.72	1,703,442.40
19	QS211	4/9/2018	241,670.43	29,999,179.00
20	QS212	6/9/2018	145,319.90	18,038,995.15
21	QS213	6/9/2018	1,990.00	247,024.67
22	QS214	5/9/2018	3,570.97	443,321.16
23	QS215	4/9/2018	27,200.78	3,376,503.00
24	QS216	6/9/2018	19,917.58	2,472,428.96
25	QS217	13/02/2019	34,977.42	4,849,325.00
26	QS218	13/02/2019	53,144.13	7,367,988.00
Total:			3,094,616.83	383,505,411.22

5.3 This represents funds transferred to the Power Distribution Enhancement Investment Project's Designated US Dollar Bank Account by the Asian Development Bank on the basis of Withdrawal Applications submitted by the Project.

5.4 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.

5.5 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.

5.6 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 Power Distribution Enhancement Investment Project purposes.

6 Counterpart Funds

This represents funding to the Power Distribution Enhancement Investment project at 20 % of the total Project Cost by the Government of Pakistan as agreed between the Asian Development Bank and GoP.

		2018-19	2017-18
		Pak Rupees	Pak Rupees
Government of Pakistan (GoP)	6.1	<u>61,963,916.00</u>	<u>57,371,564.00</u>

7-	Operating Expenses	2018-19	2017-18
	Allocated Overhead & Other Taxes And Duties	Amounts in Pak Rupees 61,963,916.00	57,371,564.00
		61,963,916.00	57,371,564.00
8-	Consultancy Services	2018-19	2017-18
	Individual	-	-
		-	-
9-	Plant And Equipment	2018-19	2017-18
	QESCO-2 M/s NEIE	Amounts in Pak Rupees 4,209,851.00	13,962,032.85
	QESCO-2 M/s NEIE	3,613,287.43	52,019,434.39
	QESCO-2 M/s NEIE	26,126,052.00	388,395,774.30
	QESCO-2 M/s NEIE	27,556,208.95	39,627,819.00
	QESCO-2 M/s NEIE	1,703,442.40	22,990,506.00
	QESCO-3 M/s NEIE	4,202,159.00	96,896,400.00
	QESCO-3 M/s NEIE	4,735,778.22	37,728,600.00
	QESCO-3 M/s NEIE	1,042,274.00	15,509,500.00
	QESCO-3 M/s NEIE	1,238,092.61	9,702,000.00
	QESCO-3 M/s NEIE	16,863,158.00	
	QESCO-3 M/s NEIE	18,209,328.31	
	M/s AYK	980,000.00	
		110,479,631.92	676,832,066.54
10-	Civil Work	2018-19	2017-18
	civil M/s Zarif	Amounts in Pak Rupees 4,986,209.00	195,066,720.34
	civil M/s Hashim	20,156,734.00	340,666,902.74
	QESCO-2 M/s NEIE	33,598,505.00	170,814,554.31
	QESCO-2 M/s NEIE	17,758,074.72	32,285,966.00
	QESCO-2 M/s NEIE	247,024.67	54,169,719.00
	QESCO-2 M/s NEIE	443,321.16	
	QESCO-3 M/s NEIE	46,125,616.00	
	QESCO-3 M/s NEIE	31,892,972.64	
	QESCO-3 M/s NEIE	23089235.00	
	QESCO-3 M/s NEIE	28623668.00	
	QESCO-3 M/s NEIE	29,999,179.00	
	QESCO-3 M/s NEIE	18,038,995.15	
	QESCO-3 M/s NEIE	3,376,503.00	
	QESCO-3 M/s NEIE	2,472,428.96	
	Civil- M/s Zarif	4,849,325.00	
	Civil- M/s Hashim	7,367,988.00	
		273,025,779.30	793,003,862.39
11-	Training	2018-19	2017-18
		-	-
		NIL	NIL
12-	Cash and Bank		
	No Funds Transferred in Designated US Dollar Revolving Fund Account by Asian development Bank under Loan No. 2972-PAK	2018-19	2017-18
	cash in Hand	Nil	Nil
	Cash at Bank	Nil	Nil
		Nil	Nil

This represents the funding to the Power Distribution Enhancement Investment project at 80% of the total Project cost by the Asian Development Bank as agreed between the G.o.P.

[A brief description of trainings and workshops conducted during the period]

95/12

QUETTA ELECTRIC SUPPLY COMPANY
7.1 Power Distribution & Enhancement Investment Programme (Tranche-III)
Loan No. 2972-PAK
Detail Of Counterpart Funding During Year 2018-19

	2018-19
	Rupees
Allocated Overhead	57,565,666.00
Civil Works & Right of Way	4,398,250.00

61,963,916.00

7.2 Allocated Overhead

	PKR
Expenses Amounting to Rs.57,565,666.00	57,565,666.00
is charged to Asian Development Bank	
Tranche-III Works on Account of our total	
expenditure of salaries and wages, POL, TA/DA	
Telephone Bills, Office Supplies, Employee	
Benefits, etc.	

57,565,666.00

13/12

QUETTA ELECTRIC SUPPLY COMPANY
Power Distribution & Enhancement Investment Programme (Tranche-III)
Loan No. 2972-PAK
Detail Of Operating During Year 2018-19

Allocated Overhead	Payment Made By QESCO PKR
Expenses Amounting to Rs.57,565,666.00 is charged to Asian Development Bank Tranche-III Works on Account of our total expenditure of salaries and wages, POL, TA/DA Telephone Bills, Office Supplies, Employee Benefits, etc.	57,565,666.00
	<u><u>57,565,666.00</u></u>

13. Authorization for Issue

These financial statements have been authorized for issued by the Project Director on 10-09-2017.

14. General

Figures have been rounded off to the nearest rupee.

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


Manager (Project Finance)
PMU QESCO Quetta


General Manager (Dev)
PMU QESCO Quetta

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.



QUETTA ELECTRIC SUPPLY COMPANY

Tel. No: 081-9201750

Fax: 081-9201641

Email: qescocedev@gmail.com

HEAD QUARTER ZARGHOON ROAD QUETTA

OFFICE OF THE

GENERAL MANAGER (DEV) PMU QESCO


No.PMU/QESCO/GM(Dev)/ 1069

Dated: 09/10/2019

DG (Audit) Power,
Sunny View Kashmir Road,
Lahore.

Subject: IMPREST ACCOUNT CERTIFICATE IN RESPECT OF ADB
LOAN NO. 2972-PAK (TRANCHE-III).

It is certified that no Imprest Account is being maintained by PMU QESCO for ADB Loan No. 2972-PAK (tranche-III). Hence, no Bank Reconciliation Statement is prepared in the subject case.


Manager (Project Finance)
PMU QESCO, Quetta.

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 Construction and Works**
- 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 (QESCO Portion) during September, 2019 for the financial year ended on June 30th 2019. The main objectives of the audit were to express an opinion on the 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:

- Loss on account of commitment charges - Rs.1.375 million
- Non utilization of loan – US \$ 7.687 million
- Non-capitalization of turnkey projects - Rs. 9188.75 million

In order to ensure envisaged benefits from development partners 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, ADB Loan 2972-PAK (QESCO Portion) during September, 2019 for the financial years ended on June 30th 2019.

The project was an integral part of the Investment Program aimed at enhancing the efficiency of the overall power distribution system and providing an adequate and reliable power supply to a greater number of industrial, commercial and residential consumers. The project was envisaged to improve power distribution infrastructure through rehabilitation, augmentation & expansion of distribution network, and relieve the power system from distribution bottlenecks and constraints. The project provided for improving 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.

The Project (QESCO Portion) was comprised of physical investments in three (03) subprojects covering STG expansion, augmentation, extension works. Installation of 132 KV Double Circuit Transmission Lines on ACSR Rail Conductor (267 KM), along with associated 14 Line Bay to Loralai-Muslim Bagh-Khanozai and Pishin-Yaru-Quetta Industrial Grid Stations. Total loan amount was US\$ 245.00 million, out of which US\$ 81.950 million was allocated to Quetta Electric Supply Company (QESCO).

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 (QESCO 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 on the ADB Loan - Rs. 1.375 Million

According to section (C) of Ministry of Economic Affairs letter dated 30-03-2009 the Borrower shall pay commitment charges @ Rs. 0.15% per annum, on the balance of undisbursed loan.

In Chief Engineer (Dev) PMU, QESCO Quetta, Rs. 1.375 million were paid to the ADB on account of commitment charges on late utilization and un-disbursed balance of the loan.

Non-adherence to instructions of the authority, resulted in loss of commitment charges Rs 1.375 million during 2018-19.

The matter was taken up with the management during September, 2019. It was replied that commitment charges are part of Loan Agreement made between Government of Pakistan through Ministry of Economic Affairs Division and Asian Development Bank. Invariably all the donors start levying commitment charges right from the date of loan effectiveness, obviously on account of funds reservation. As no ADB funds can be withdrawn without maturity of tenders and proper receipt of material in store, hence payment of commitment charges is legal and unavoidable as per terms & conditions of loan agreement and cannot be taken as loss.

The DAC in its meeting held on 2nd December, 2019 directed the management to submit the revised comprehensive reply along with documentary evidence 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 \$ 7.687 million

An agreement of US \$ 81.950 million has been signed between ADB and QESCO Loan No.2972-PK for Power Distribution Enhancement Investment Program Tranche-III on December 10th 2013.

In Chief Engineer (Dev) PMU, QESCO Quetta, the management could not acquire and utilize US \$ 7.687 million which was 9.38% 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 September, 2019. It was replied that the winding up period of ADB loan is 31-01-2019. 3 x Projects were 100 % completed against loan No.ADB-2972-PAK and after completion, an amount of USD 7.687 Million turned surplus / savings which was accordingly surrendered to PEPCO.

The DAC in its meeting held on 2nd December, 2019 directed the management to produce the relevant record in support of reply to audit for verification within two weeks. 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-capitalization of turnkey projects completed under ADB loan-2972 trench-III – Rs. 9188.75 million

According to DISCOs accounting manual A-90 form (completion report) prepared by the Deputy Manager (construction)/GSC is certified by the consultants and forwarded to Project directors for capitalization.

In Chief Engineer (Dev) PMU, QESCO Quetta, an expenditure of US \$ 73.51 million were incurred against transmission lines under ADB loan-2972 trench-III on turnkey basis. The works were completed in various dates but completion reports/ A-90 in actual built in cost vetted by the consultant were not prepared. In the absence of approved revised estimates, completion reports / A-90 reports, handing taking over papers, closed job cards and capitalization of the expenditure incurred the envisaged benefits could not be achieved.

Non-adherence to DISCOs Accounting Manual resulted in non-capitalization of electrification works of Rs. 9188.75 million during the financial year 2018-19.

The matter was taken up with the management during September, 2019. It was replied that that sub-project wise of capitalization of Trench-III ADB Loan 2972 PAK are being prepared which will be completed within a weeks' time and record will be produced accordingly.

The DAC in its meeting held on 2nd December, 2019 directed the management to expedite the completion and capitalization of the work and get it verified by audit. 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 (QESCO 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 (QESCO Portion) remained in line with overall Medium Term Development Framework (MTDF) and the Government's sectoral policies.

ii) Efficacy & Effectiveness:

The loan could not be fully utilized hence efficacy and effectiveness could not 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 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, the involve loss due to levy of commitment charges and non-capitalization of assets were 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

Non-capitalization and 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

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