

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 Islamabad Electric Supply Company (IESCO)

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-Suhrawardy, 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, Islamabad Electric Supply
Company Limited (IESCO), 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
IESCO	Islamabad Electric Supply Company
ISSAI	International Standards of Supreme Audit Institutions
KVA	Kilo Volt Ampere
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 (IESCO 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 (IESCO Portion) during August, 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 (IESCO 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 (IESCO 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 (IESCO Portion). The audit findings have been finalized in the light of DAC meeting directives.

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 (IESCO 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	Islamabad Electric Supply Company Ltd. (IESCO)
Loan No.	2972-Pak
PC-I Cost	US\$ 28.010million
Loan amount	US \$ 24.550 million
Counter Part Fund	US \$ 3.46 million
Date of Commencement	December 10 th 2013
Actual Date of Commencement	December 10 th 2013
Loan Closing Date	June 30 th 2018
Revised Loan Closing Date	January 31 th 2019
Loan Utilization Status in F.Y 2018-19	US\$ 4.835 million (Pak Rs.659.245 million)
Progressive Expenditure upto last F.Y 2018-19	US\$ 20.215 million (Pak Rs.2275.875 million) .
Un-utilized Loan Amount	US \$ 4.335 million

AUDITOR'S REPORT TO THE MANAGEMENT

We have audited the accompanying financial statements of the Power Distribution Enhancement Investment Program Tranche-III, Islamabad Electric Supply Company (IESCO) financed by the Asian Development Bank under Loan 2972- PAK as on June 30th 2019 and for the year then ended.

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

Islamabad Electric Supply Company Limited

Power Distribution Enhancement Investment Program - Tranche - III (ADB Loan # 2972-PAK)

Statement of Receipts and Payments

For the year ended 30 June 2019

		2018-19		2017-18	
		Receipts/Payments Controlled by Project	Payment by Third Parties	Receipts/Payments Controlled by Project	Payment by Third Parties
Note		-----Rupees-----			
Receipts					
External Assistance	5		659,245,024		219,923,032
Counterpart Funds	6	174,339,683	-	163,643,912	-
Total Receipts		174,339,683	659,245,024	163,643,912	219,923,032
Payments					
4A Turnkey	5		650,341,001		219,923,032
4B Equipment and Material	5		8,904,023		-
Counterpart Funds	6	174,339,683		163,643,912	
Consultancy Services					
Operating Expenses					
Supplies & Consumables					
Civil Works					
Trainings					
Total Payments		174,339,683	659,245,024	163,643,912	219,923,032
Increase/Decrease in Cash		-	-	-	-
Cash at Beginning of Year		-	-	-	-
Cash at End of Year		-	-	-	-
Contingencies and Commitments		-	-	-	-

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


Manager Finance
 PMU IESCO Islamabad


Chief Engineer (Development)
 PMU IESCO Islamabad

Islamabad Electric Supply Company Limited

Power Distribution Enhancement Investment Program - Tranche - III (ADB Loan # 2972-PAK)

Statement of Comparison of Budget and Actual Amounts

For the year ended 30 June 2019

		2018-19			2017-18		
		Budget Amount		Actual Amount	Budget Amount		Actual Amount
		Original	Revised		Original	Revised	
Note		-----Rupees-----					
<u>Receipts</u>							
External Assistance	5	417,000,000	-	659,245,024	750,000,000	-	219,923,032
Counterpart Funds	6	150,000,000	-	174,339,683	150,000,000	-	163,643,912
			-	-		-	-
<u>Total Receipts</u>		567,000,000	-	833,584,707	900,000,000	-	383,566,944
<u>Payments</u>							
4A Turnkey	5	-	-	650,341,001	-	-	219,923,032
4B Equipment and Material	5	-	-	8,904,023	-	-	-
Counterpart Funds	6	-	-	174,339,683	-	-	163,643,912
Consultancy Services		-	-	-	-	-	-
Operating Expenses		-	-	-	-	-	-
Supplies & Consumables		-	-	-	-	-	-
Civil Works		-	-	-	-	-	-
Trainings		-	-	-	-	-	-
<u>Total Payments</u>		-	-	833,584,707	-	-	383,566,944

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


Manager Finance
 PMU IESCO Islamabad


Chief Engineer (Development)
 PMU IESCO Islamabad

Islamabad Electric Supply Company Limited

Power Distribution Enhancement Investment Program, Tranche - III (ADB Loan 2972 - PAK)

Notes to the Financial Statements

For the year ended 30 June 2019

1 Reporting Entity

The Financial Statements are for Power Distribution Enhancement Investment Program under ADB Loan 2972, Tranche-III. The Financial Statements 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 Under the loan agreement between IESCO & ADB amount of US\$ 24.550 million out of the total amount of US\$ 245 million were allocated to Company.

As of 30 June 2019 the Company has received (including direct payments to suppliers) an amount of US\$ 20.221 (m). The Project became effective from 10 December 2013 with the closing dated of 31-01-2018. However on 20 September 2017 ADB approved the extension in the loan closing date from 31 January 2018 to 30 June 2018 with subject to "Approval of Minor Change to the Project, Reallocation of Loan Proceeds and Extension of the Loan Closing Date". After the closing of loan, a grace period of 7 months was awarded by ADB to clear the payments of work already completed before the loan closing date. The Project is implemented through Economic Affairs Division Islamabad GoP.

1.1 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 3 years. The Financing Agreement No is loan No 2972-PAK.

1.2 Responsible Agency

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

2 Certification by Project Management on Application of Funds

The Power Distribution Enhancement Investment Program 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 payment advice is issued.

4.5 Payments by Third Party

The payments made by third parties do not constitute cash receipts or payments controlled by the project but do benefits 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 third parties column on the face of statement of Cash Receipts and Payments and notes to the financial.

5 External Assistance

External Assistance was received in the form of Credit from the Asian Development Bank under financing agreement dated 28 January 2011 between the Asian Development Bank and Government of Pakistan (GoP) for the purpose of the Power Distribution Enhancement Investment Program. The following amounts were received by the Project

during the period.

Islamabad Electric Supply Company Limited

Power Distribution Enhancement Investment Program, Tranche - III (ADB Loan 2972 - PAK)

Notes to the Financial Statements

For the year ended 30 June 2019

Loan No. 2972 - PAK (Ordinary Operation)		2018-19		2017-18	
		US\$	Pak Rupee	US\$	Pak Rupee
Direct Payment	5.1	4,835,339	659,245,024	1,168,573	136,608,027
Commitment Letter	5.2	-	-	754,254	83,315,005
		4,835,339	659,245,024	1,922,827	219,923,032

Direct Payments 2018-19

S/No	Date	W/A No	Supplier/Contractor	US\$	Pak Rupee
1	07-08-2018	I0093	M/S ICC PVT LIMITED LAHORE	275,434	34,220,030
2	31-07-2018	I0094	M/S ICC PVT LIMITED LAHORE	42,625	5,293,514
3	18-09-2018	I0095	M/S ICC PVT LIMITED LAHORE	89,487	11,110,521
4	18-09-2018	I0096	M/S ICC PVT LIMITED LAHORE	25,202	3,129,079
5	18-09-2018	I0097	M/S ICC PVT LIMITED LAHORE	205,320	25,510,702
6	18-09-2018	I0098	M/S ICC PVT LIMITED LAHORE	57,824	7,184,545
7	17-09-2018	I0099	M/S ICC PVT LIMITED LAHORE	38,837	4,821,923
8	19-09-2018	I0100	M/S SA-RA ENERJI CONSTRUCTION TURKEY	49,040	6,093,078
9	03-10-2018	I0101	M/S ICC PVT LIMITED LAHORE	7,670	953,030
10	04-10-2018	I0102	M/S ICC PVT LIMITED LAHORE	14,459	1,795,109
11	31-10-2018	I0103	M/S ICC PVT LIMITED LAHORE	3,577	474,393
12	30-10-2018	I0104	M/S ICC PVT LIMITED LAHORE	2,026	268,681
13	31-10-2018	I0105	M/S ICC PVT LIMITED LAHORE	34,330	4,553,387
14	30-10-2018	I0106	M/S ICC PVT LIMITED LAHORE	19,455	2,580,050
15	20-11-2018	I0107	M/S ICC PVT LIMITED LAHORE	17,625	2,359,974
16	19-11-2018	I0108	M/S ICC PVT LIMITED LAHORE	10,083	1,351,072
17	16-11-2018	I0109	M/S ICC PVT LIMITED LAHORE	19,669	2,633,322
18	21-11-2018	I0110	M/S ICC PVT LIMITED LAHORE	11,251	1,507,597
19	30-11-2018	I0111	M/S ICC PVT LIMITED LAHORE	3,998	535,416
20	26-12-2018	I0112	M/S SINO STEEL CHINA PVT LTD.	267,576	37,114,582
21	15-01-2019	I0114	M/S SINO STEEL CHINA PVT LTD.	2,829,435	393,016,791
22	28-01-2019	I0115	M/S SINO STEEL CHINA PVT LTD.	86,053	11,929,932
23	25-01-2019	I0116	M/S SINO STEEL CHINA PVT LTD.	62,440	8,658,565
24	25-01-2019	I0117	M/S ICC PVT LIMITED LAHORE	13,414	1,860,046
25	23-01-2019	I0118	M/S ICC PVT LIMITED LAHORE	7,949	1,104,374
26	15-02-2019	I0119	M/S ICC PVT LIMITED LAHORE	42,625	5,917,701
27	19-02-2019	I0120	M/S ICC PVT LIMITED LAHORE	57,824	7,998,204
28	19-02-2019	I0121	M/S ICC PVT LIMITED LAHORE	22,622	3,129,079
29	19-02-2019	I0122	M/S ICC PVT LIMITED LAHORE	5,124	708,713
30	19-02-2019	I0123	M/S ICC PVT LIMITED LAHORE	10,171	1,406,851

Islamabad Electric Supply Company Limited

Power Distribution Enhancement Investment Program, Tranche - III (ADB Loan 2972 - PAK)

Notes to the Financial Statements

For the year ended 30 June 2019

31	20-02-2019	I0124	M/S ICC PVT LIMITED LAHORE	49,958	6,926,712
32	19-02-2019	I0125	M/S ICC PVT LIMITED LAHORE	23,321	3,225,756
33	14-02-2019	I0136	M/S ICC PVT LIMITED LAHORE	8,772	1,216,382
34	13-02-2019	I0137	M/S ICC PVT LIMITED LAHORE	5,198	722,195
35	21-02-2019	I0138	M/S ICC PVT LIMITED LAHORE	17,613	2,442,053
36	25-02-2019	I0139	M/S ICC PVT LIMITED LAHORE	29,760	4,118,778
37	21-02-2019	I0140	M/S SINO STEEL CHINA PVT LTD.	7,187	996,450
38	25-02-2019	I0141	M/S ICC PVT LIMITED LAHORE	78,935	10,924,688
39	28-02-2019	I0142	M/S ICC PVT LIMITED LAHORE	46,702	6,483,237
40	04-03-2019	I0126	M/S THANH LONG J.S CO. VIETNAM	20,269	2,810,945
41	01-04-2019	I0127	M/S ICC PVT LIMITED LAHORE	138,495	19,460,494
42	29-03-2019	I0128	M/S ICC PVT LIMITED LAHORE	75,984	10,697,073
			Total:-	4,835,339	659,245,024

Commitment Letter 2018-19

S/No	Date	W/A No	Supplier/Contractor	US\$	Pak Rupee
1			NIL	-	-
			Total:-	-	-

Direct Payments 2017-18

S/No	Date	W/A No	Supplier/Contractor	US\$	Pak Rupee
1	01-08-2017.	I0068	M/S ICC PVT LIMITED LAHORE	32,169	3,388,474
2	26-07-2017	I0069	M/S ICC PVT LIMITED LAHORE	14,478	1,525,210
3	25-09-2017	I0071	M/S ICC PVT LIMITED LAHORE	27,462	2,895,096
4	29-09-2017	I0070	M/S ICC PVT LIMITED LAHORE	61,016	6,427,590
5	13-11-2017	I0072	M/S ICC PVT LIMITED LAHORE	85,796	9,038,875
6	10-11-2017	I0073	M/S ICC PVT LIMITED LAHORE	38,619	4,070,840
7	14-11-2017	I0074	M/S ICC PVT LIMITED LAHORE	6,473	681,893
8	13-11-2017	I0075	M/S ICC PVT LIMITED LAHORE	2,914	307,000
9	08-03-2018.	I0075	M/S ICC PVT LIMITED LAHORE	20,116	2,222,582
10	21-05-2018	I0079	M/S ICC PVT LIMITED LAHORE	22,691	2,621,268
11	17-05-2018	I0081	M/S ICC PVT LIMITED LAHORE	43,028	4,970,822
12	18-05-2018	I0082	M/S ICC PVT LIMITED LAHORE	21,237	2,454,834
13	21-05-2018	I0083	M/S ICC PVT LIMITED LAHORE	9,496	1,097,909
14	25-05-2018	I0084	M/S ICC PVT LIMITED LAHORE	37,614	4,348,882
15	19-06-2018	I0088	M/S ICC PVT LIMITED LAHORE	5,884	708,712
16	22-06-2018	I0089	M/S ICC PVT LIMITED LAHORE	300,553	36,518,903
17	28-06-2018	I0090	M/S ICC PVT LIMITED LAHORE	23,576	2,863,345
18	22-06-2018	I0091	M/S ICC PVT LIMITED LAHORE	10,171	1,235,834
19	29-06-2018	I0092	M/S SINO STEEL CHINA PVT LTD	405,280	49,229,958
			Total:-	1,168,573	136,608,027

Islamabad Electric Supply Company Limited

Power Distribution Enhancement Investment Program, Tranche - III (ADB Loan 2972 - PAK)

Notes to the Financial Statements

For the year ended 30 June 2019

Commitment Letter		2017-18			
S/No	Date	W/A No	Supplier/Contractor	US\$	Pak Rupee
1	25-01-2018.	05569	M/S ICC PVT LIMITED LAHORE	400,727	44,264,144
2	14-02-2018.	80381	M/S ICC PVT LIMITED LAHORE	288,221	31,835,536
3	16-03-2018.	81110	M/S ICC PVT LIMITED LAHORE	65,306	7,215,325
			Total:-	754,254	83,315,005

- 5.1 Direct payment 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.
- 5.2 This represent payments made to Suppliers on dates against contract agreement through Commitment Letter.
- 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.

6 Counterpart Funds		2018-19		2017-18	
		US\$	Pak Rupee	US\$	Pak Rupee
Government of Pakistan	6.1	1,518,407	174,339,683	1,548,283	163,643,912
(IESCO Own Resources)					
		1,518,407	174,339,683	1,548,283	163,643,912

- 6.1 This represent funding to the Power Distribution Enhancement Investment Program at 20% of the total project cost by the GoP (IESCO Own Resources) as agreed between the Asian Development Bank and GoP (IESCO).

7 Authorization of Issue

These financial statements have been authorized for issued by the Chief Engineer (Development) Management Unit IESCO, Islamabad on 29th August 2019.

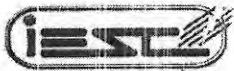
8 General

Figures have been rounded to nearest Rupee.

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


Manager Finance
 PMU IESCO Islamabad


Chief Engineer (Development)
 PMU IESCO Islamabad



ISLAMABAD ELECTRIC SUPPLY COMPANY LIMITED

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Office of
CHIEF ENGINEER (DEV)
PMU IESCO Head Office,
Street 40 G-7/4, Islamabad

No. 690 /IESCO/PMU/MF

Date: 17. 10. 2019

TO WHOM IT MAY CONCERN

It is certified that No Imprest Account has been maintained by PMU IESCO against ADB Loan No 2972 – PAK (Tranche-III). All payment has been made through direct payment and commitment letter procedure. No bank reconciliation statement is required regarding the matter.


Manager Finance
Management Unit IESCO
Islamabad



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PART-II

MANAGEMENT LETTER

EXECUTIVE SUMMARY

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ACKNOWLEDGEMENT

EXECUTIVE SUMMARY

The Directorate General Audit Power conducted audit of the Power Distribution Enhancement Investment Program Tranche-III IESCO portion (ADB Loan 2972) during August, 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 on unutilized loan-Rs 1.01 million
- Non-recovery of LD charges from contractor – Rs.49.37
- Non-utilization of the loan - US \$ 4.335 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. Moreover, efforts need to be made to clear all obstacles such as right of way before the commencement of the project.

1. INTRODUCTION

The Directorate General Audit Power conducted an audit of the Power Distribution Enhancement Investment Program Tranche-III, ADB loan 2972-PAK (IESCO Portion) during August 2019 for the financial year ended on June 30th 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 was aimed at improving power distribution infrastructure through rehabilitation, augmentation and expansion of the distribution network, and relieve the power system from distribution bottlenecks and constraints. The Project provided for the 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 with the objective to realize optimum benefits from the available power.

The project (IESCO Portion) comprised 24 sub projects which included 03 new grid stations, 06 new D/C Transmission lines, 01 S/C T/Line, 01 additional S/C transmission line, 09 augmentations and 04 extensions of power transformers. Total loan amount was US\$ 245 million, out of which US \$ 24.550 million was allocated to IESCO.

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, ADB Loan-2972-PAK (IESCO 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 unutilized loan-Rs 1.01 million

According to the loan agreement, “the borrower shall pay commitment charges of 0.15% per annum. Such charges shall be accrue on the full amount of loan lee amount withdrawn from time to time commencing sixty days after the date of loan agreement”.

In Chief Engineer, PMU, IESCO, an of amount of Rs. 1.01 million was incurred on account of commitment charges due to non-utilization of loan amount as per loan agreement. Due to poor planning to utilize loan in time, the company sustained a loss of said amount which require justification from the management.

Non-adherence to the loan agreement resulted in loss of Rs. 1.01 million due to incurrence of commitment charges during the financial year 2018-19.

The matter was taken up with the management during August, 2019. It was replied that that:

- Amounts not payable included LD deductions and contract balance due to the increase in rate of US\$.
- Amounts payable included which could not be paid during loan and grace period.

It takes more than 60 days time to process the pre-requisites for utilization of loan. Hence, loan is spent after due process and commitment charges are paid being part of agreement. IESCO PMU cannot disburse the whole loan at once without contract completion, PMU disburse the loan as and when the contract payments are due.

The DAC in its meeting held on 2nd 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.

4.1.2 Non-recovery of LD charges from contractor – Rs.49.37 million

As per Section 8 Clause 26.2 Special Condition of Contract, the rate of Liquidated Damages would be 0.5% of the contract price per week or part thereof upto maximum deduction of 10% of the contract price.

In Chief Engineer, PMU, IESCO, a work for construction of new 132 KV double circuit transmission line was awarded to ICC (Pvt) Limited. The commencement date of the contract was 17 June, 2015 which was required to be completed within 400 days. Five times extensions of accumulated 1,356 days was granted but the said work is still incomplete. The said work was initiated to reduce distribution losses, improve the efficiency of transmission / operational system and extend the electricity facility to the people of respective areas. Due to non-completion of work, desired benefits could not be achieved. Further, the contractor could not complete the works within the stipulated period, hence, contractor was liable to pay the liquidated damages of Rs.49.37 million but the same were not recovered.

Non-adherence to WAPDA Distribution Rehabilitation Guidelines resulted in non-recovery of liquidated damages amounting to Rs.49.37 million from the contractors up to the financial year 2018-19.

The matter was taken up with the management during August, 2019. It was replied that that the Competent Authority granted approval for Extension of Time. Justifications are mentioned below:

- 132KV Sangjaani-Zero Point completed on 27-03-2017,
- Feed for Sangjani II & and feed for Bharakahu Grid Stations completed on 26.05.2019,
- Interconnection line I-16 to Chakri Road completed on 10.10.2019.

- Now the Right of way with Army Welfare Trust (AWT) has been resolved and the last 132 kV line feed for 132kV Chakri Road Grid Station is likely to be completed on 10.12.2019.

The priority is not to deduct LD from contractor by giving him financial loss but to execute the project for completion and capitalization. IESCO is vigilant to deduct LD in the contract in case the contractor at fault.

The DAC in its meeting held on 2nd December, 2019 directed the management to expedite the process of EOT with full justification and get it verified from audit within two weeks. No further progress was intimated.

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

4.1.3 Non-utilization of loan of US \$ 4.335 million

According to agreement signed on December 10th 2013 Loan No.2972-PK amounting of US \$ 24.550 million between ADB and IESCO for Power Distribution Enhancement Investment Program Tranche-III was allocated to IESCO

In Chief Engineer (Dev) PMU IESCO, Islamabad the management could not acquire and utilize US \$ 4.335 million which was 17.658 % 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 August, 2019. It was replied that due to severe ROW problem in turn key projects the works could not be completed during loan disbursement period. Consequently, the disbursement up to the limit of allocation could not be achieved. The right of ways/ court cases caused hindrance for timely utilization of loan.

The DAC in its meeting held on 2nd December, 2019 directed the management to submit the revised reply with full 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 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 (IESCO portion) with regards to its deliverance to the intended purposes is based upon the following major elements.

i. Relevance:

The Tranche-III project (IESCO 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 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 for 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, the issues like slow progress on the works of transmission lines 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 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 multiple time extensions were given for work indicating operational management issues. 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

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