

Gas Transmission Company Limited (GTCL)

(A Company of Petrobangla)

Red Crescent-Borak Tower (Level:3-6)

71-72 Old Elephant Road, Esakton, Dhaka-1000.

ANNUAL REPORT OF THE AUDIT & PROCUREMENT BOARD COMMITTEE TO THE BOARD OF DIRECTORS AND GENERAL PUBLIC

Pursuant to the requirement of the Loan Agreement signed between the Government of Bangladesh (GoB) and the International Development Agency (IDA) on 13th November 2008 in connection with financing of the 2x150 MW Siddhirgonj Peaking Power Project under the provisions of the Project Agreement signed between GTCL & IDA towards financing of the 30" dia x 60 km Bakhrabad- Siddhirganj Gas Transmission Pipeline Project, a Board Committee was formed by the GTCL Board of Directors in its 244th meeting held on 5-4-2009 with an Independent Director of the Board as the Chairperson of the Committee. An office order to this effect was subsequently issued by GTCL on 11-6-2009 together with the Terms of Reference (TOR) for the Committee.

The formation of the Committee was communicated to the IDA which later revised the TOR of the aforesaid Committee as well as the TOR of similar Committees erstwhile formed by two other loan recipient entities of GoB viz, Electricity Generation Company Bangladesh Ltd. (EGCB) and Power Grid Company Bangladesh Ltd. (PGCB) through a workshop held by them and attended by the Company Secretaries of GTCL, EGCB and PGCB. The TOR as well as a format to be used for reporting thus formulated was later communicated to all the three GoB entities which became the official TOR and the format for the relevant Committees.

It may be pertinently mentioned here that the first set of reports of the Audit and Procurement Committee was scheduled to be submitted to IDA within 30-9-2009, but none of the three companies could meet this schedule and pursuant to the discussions held with the IDA Mission during its visit from 27-9-2009 to 8-10-2009, the reports were re-scheduled to be submitted within 31-10-2009.

Accordingly, the GTCL Board Committee comprising Dr. Maglub Al Nur, Professor of BUET & Director, GTCL Board as the Chairperson; Mr. Shahidul Abedin, Director (Admin) of Petrobangla & Director, GTCL Board; Mr. Md. Aminur Rahman, Managing Director, GTCL & Director of GTCL Board and Mr. Md. Abdul Khaleque, Sr. General Manager (Accounts) of Petrobangla all as members and Mr. Mohammad Eunos, Company Secretary of GTCL as the Member secretary have now prepared this report for FY: 2008-2009 for the Board of Directors and General Public following the format appended with the finalized TOR as received from IDA as mentioned above.

The Committee discussed all the items mentioned in the aforementioned format, with relevant persons in the Company. The Committee feels that there was not sufficient time to go through or verify the information provided to them by the various organs of the Company. The Committee shall systematically go through and hope to provide a more comprehensive report in future.

The report dated 12-11-2009 comprising two parts, viz, Part A: Audit and Part B: Procurement, is now placed before the GTCL Board of Directors for its kind review and approval.

(Mohammad Eunos)
Company Secretary, GTCL
&
Member secretary, Audit &
Procurement Board Committee.

(Md. Abdul Khaleque)
Sr. General Manager (Accounts),
Petrobangla
&
Member, Audit & Procurement Board
Committee.

(Md. Aminur Rahman)
Managing Director, GTCL
&
Member, Audit & Procurement Board
Committee.

(Shahidul Abedin)
Director (Administration), Petrobangla
&
Member, Audit & Procurement Board
Committee.

(Dr. Maglub Al Nur)
Professor, BUET
&
Convenor, Audit & Procurement Board Committee.

PART-A: AUDIT

External Audit:

Selection Process, Appointment and Fees of External Auditor:

For selection of External Auditors, a short list of firms of Chartered Accountants was prepared from amongst the Chartered Accountants Firms who were engaged as Auditors in Petrobangla and its companies. The short list was then placed before the Annual General Meeting (AGM) of Shareholders of GTCL for appointment of External Auditors and fixation of their remunerations.

As per stipulations of the Memorandum and Articles of Association of the Company and the Companies Act, 1994, Clause 210, M/s. S.F Ahmed & Company (SFACO), Chartered Accountants, House No. 25, Road No. 13A, Block No. D, Banani, Dhaka-1213, was appointed as External Auditors of GTCL. The current External Auditors has been working in GTCL since FY 2004-2005 and a comparison of the Auditors projected and actual fees paid to them over the FY 2004-2005 to 2008-2009 is given below:

Financial Year	Projected Fees	Actually paid fees
2004-2005	Tk. 70,000.00	Tk. 65,000.00
2005-2006	Tk. 70,000.00	Tk. 65,000.00
2006-2007	Tk. 80,000.00	Tk. 75,000.00
2007-2008	Tk. 80,000.00	Tk. 80,000.00
2008-2009	Tk. 80,000.00	Tk. 80,000.00

After completion of financial year, a draft accounts is prepared following the Bangladesh Accounting Standard (BAS) and placed before the Board for its approval. On receipt of approval from the Board of Directors, the Draft Accounts of the relevant Financial Year (FY) is sent to the External Auditors for auditing. The External Auditors conduct audit of annual accounts in accordance with Bangladesh standards on Auditing. The External Auditors examine and check the relevant financial statements, books of accounts, registers, schedules and records of the relevant financial year and prepare an unified Financial Statement within the Companies under Petrobangla as per BERC's instructions. Thereafter the External Auditors prepare the Balance Sheet and the Income Statements along with Management Letter and a confidential Report to the Chairman of GTCL Board of Directors. During audit, the Auditors examine whether the accounting system, internal control, books of accounts, statutory books and other requisite records were properly maintained by the Company during the year.

Commentary on the Audit services provided:

- During examinations and review of Company's Audited Accounts (Balance Sheet, Income Statements) and the Management Report on the conducting of external audit for the subject financial year, the Audit and Procurement Committee observed that the Company's External Auditors audited the accounts in accordance with Bangladesh Standards on Auditing. An audit includes examining, on a test basis, the evidence supporting amounts and disclosures in the financial statements.
- Significant deficiencies/material weaknesses identified by the External Audit or actions taken or being taken by the Management are as follows:

SL	Auditors' Observations	Management Response	Comments of Board Committee
1.	<p><u>Sales Agreement with Distribution Companies.</u> <u>Observation, implication and recommendation:</u> As reported in previous year's management report, GTCL transports gas and condensate through its transmission lines to distribution companies of Petrobangla but there is no sales agreement in place detailing the payment procedure, time of payment, consequence of non-payment on time, method of escalation in service charge, etc. Moreover, disputes are likely to occur and make their resolutions tougher without a written contract in place.</p> <p>We recommend to have a detailed agreement with each of the distribution companies, which both parties could adhere to and have smooth running of operations.</p>	<p>On several occasions, discussions were made regarding Sales Agreement with Distribution Companies but no conclusive decision was made. However, GTCL will communicate the issue to the controlling authority Petrobangla.</p>	<p>Sales agreements have so far not been signed between GTCL and gas distribution companies because the fact of the matter is that the conventional terms of such agreements as highlighted in auditor's observations can not really work in a non-commercial business environment prevailing in general in the energy sector of Bangladesh. The matter therefore needs serious review at the policy in terms of gradual commercialization of the GoB entities in the energy sector.</p>
2.	<p><u>Trade Receivables</u> <u>Observation, implication and recommendation:</u> Outstanding trade receivable has worsened from 5.09 to 5.87 months during the year. Though the Company depends on external financing, its liquidity is to be improved by bringing down the credit time allowed to an acceptable level.</p>	<p>Persuasion was made to reduce accounts receivables through communications and the issue was raised in various meetings with Petrobangla and the Ministry.</p>	<p>-Ditto-</p>
3.	<p><u>Unadjusted Amount of Goods-in-Transit.</u> <u>Observation, implication and recommendation:</u> As reported in previous year's management report, an amount of Tk. 4,188,254 is being carried forward as goods-in-transit since the goods were below the required qualitative standard and short in number. Provision should be made in the accounts for the same.</p>	<p>There is a lawsuit pending in the court. Unless a decision is made by the court, this may not be prudent to make any provision in the accounts in this regard.</p>	<p>The committee recommends to pursue the matter seriously to resolve the long pending case in the court at the earliest. The committee however intends to examine the conditions of the materials together with competent company officials as well as to review the status of the case by examining the relevant and to thereafter report to the Board with recommendations in due course of time.</p>

SL	Auditors' Observations	Management Response	Comments of Board Committee
4.	<p><u>Internal Audit Function</u> <u>Observation, implication and recommendation:</u></p> <p>As mentioned in previous year's management report, the internal audit department has no written plan of the internal audit work to be conducted by them. The department plays a vital role in checking the adherence to organizational policies and in keeping the policies in line with changes in the mode of operation of the organization that requires detailed planning and follow up.</p> <p>Steps to be taken to strengthen the role of internal audit and to make it more effective.</p>	<p>Scope of work of Internal Audit Department has been expanded last year by inclusion of bills & vouchers under pre-audit.</p> <p>Recently, as the requirement of the World Bank loan agreement for Bakhrabad-Shiddirganj Pipeline Project, an Audit and Procurement Committee has been constituted by the Board. A comprehensive work plan for audit activities in GTCL will soon be formulated.</p>	<p>This committee realizes the need for elaborate internal audit work plan/system if not already in place in GTCL. The committee therefore suggest the Company Management to immediately, preferably within the next three months, to draw an elaborate internal audit work plan/ system consistent with recognized professional standards practiced in the country.</p>
5.	<p><u>Unrealised amount of Taka 100,818,800 of Petrobangla.</u> <u>Observation, implication and recommendation:</u></p> <p>Inter company balance of Taka 100,818,000 remained unreconciled as on 30 June 2009. Moreover a balance in the current account with Petrobangla is being carried forward since long and adjusted only to the extent of inter company balance owed by GTCL.</p> <p>Balance confirmation certificate should be collected with proper reconciliation.</p>	<p>Reconciliation has been made. For realizing the PIU dissolution account balance GTCL is endeavouring hard through correspondence and personal communication.</p>	<p>Committee noted that the inter company balance of Tk. 100,818,000 has now been reduced to about Tk. 3.00 crores by way of adjustment of the annual service charge payable by GTCL as per advice of Petrobangla dated 29-10-2009 amounting Tk 7,02,49,000.</p>

SL	Auditors' Observations	Management Response	Comments of Board Committee
6.	<p><u>Excess interest charged for delay of repayment of loan</u></p> <p><u>Observation, implication and recommendation:</u></p> <p>During our audit period an amount of Taka 350,388,219 was charged as interest on loan on which amount Taka 11,763,909 charged as excess due to the delayed repayment of the interest on loans both local and foreign.</p>	<p>GTCL paid Debt Service Liabilities (DSL) in due time to Petrobangla. But subsequent process of DSL was under the control of Petrobangla.</p>	<p>The Board committee recommends to seek Petrobangla's suggestions as to resolving this matter.</p>
7.	<p><u>Office Rent</u></p> <p><u>Observation, implication and recommendation:</u></p> <p>Through the Board decision, management had decided to have a rent of space to meet the demand of various departments. As per their decision, management rented a three storied building a rental manner from 01 January 2009 located at 19 Eskaton Road, Dhaka 1000. After a few days management further decided to take another rent as office premises in GTCL's own building and terminated the previous rent agreement on three (3) months rent amounted Taka 1,020,000.</p> <p>Management should adhere to take decision in future.</p>	<p>GTCL does not have any office building of its own. Company's activities for gradual coverage of the entire country under gas transmission system have been constantly expanding in recent years. Company's Organogram was accordingly recast with required additional set-up and manpower. Consequently, increased area of office space became necessary and hence an additional space was rented at Eskaton area, near the existing office premises. Later on, an empty rental space was found in the existing building. As a result management took decision to cancel the earlier contract and a new office premises was taken in the existing office building because of suitability, convenience and cost savings for long time.</p>	<p>Management response is considered acceptable.</p>

SL	<u>Auditors' Observations</u>	<u>Management Response</u>	<u>Comments of Board</u>
8.	<p><u>Submission of loan documents</u></p> <p><u>Observation, implication and recommendation:</u></p> <p>As per terms of house building loan between GTCL and their employees' the loan holder have to submit their land documents as the original deed of purchase of land after (1) year from loan disbursement. But the employees' who took house building loan in 2007-08 still did not submit their original deed of purchase of land.</p> <p>Management should keep concur to implement their policy.</p>	<p>Management will take necessary action regarding the same.</p>	<p>Board committee recommends to ensure implementation of submission of necessary documents by recipients of house building loan commencing from the immediate next loan disbursement programme.</p>
9.	<p><u>Inventory Control</u></p> <p><u>Observation, implication and recommendation:</u></p> <p>We found the General Ledger balance of inventory was Taka 300,912,189 as on 30 June 2009 but the Store Ledger showed the balance as Taka 297,488,382 the difference between store ledger and general ledger was Taka 3,923,807.</p> <p>Management should have better communication among the departments to reflect the actual financial position of the organization.</p>	<p>The store items (2 nos. Ball Valves) are related to transfer of Ashuganj-Elenga Pipeline from TGTDCCL to GTCL. Store Ledger will be updated after receiving materials physically which is under process.</p>	<p>Board committee recommends to the Management to resolve/ conclude the physical transfer of concerned two ball valves to the company store at the earliest and update the ledger balances accordingly.</p>

Non-audit services by the External Auditors:

None.

Internal Audit:

* Adequacy of staffing levels, experience and competence and actions taken to address any identified deficiencies:

Numberwise the Internal Audit staffing level does not seem inadequate relative to authorized strength as per information furnished to the committee regarding existing staff numbers. The quality of the auditing staff in terms of experience and competence and actions necessary to address deficiencies would be matter of in-depth assessment by the committee in due course of time and as

such the committee would not like to make any comment on the matter at this primary stage of its working.

* Performance of the Internal Audit Vs Agreed Annual Plans:

No formal annual Audit Plan was/is in place and as such, no comparison can be practically made. However, once a comprehensive audit work policy/plan is drawn, such comparison will be possible ensuring reasons for deviations and remedies thereof.

* Most significant recommendations of the Internal Audit, actions taken/being taken by Management and comments on their adequacy:

None.

* Illegal activities/misuse of corporate assets detected by the Internal Audit :

None.

Internal Controls and Accounting Systems

* Summary of Board of Directors Expenses and other operating costs of the Board :

Financial Year (Tk.)	Directors Fees (Tk.)	Other operating costs (Tk.)	VAT & Tax (Tk.)	Total (Tk.)
2007-2008	1,71,500.00	2,26,775.00	25,725.00	4,24,000.00
2008-2009	3,37,500.00	3,47,875.00	50,265.00	7,36,000.00

• Summary of all expenses of the Managing and Executive Directors – with prior year comparison:

Financial Year	Salary (Tk.)	House Rent (Tk.)	Fringe Benefits (Tk.)	Total (Tk.)
2007-2008 (Mr. M. M Talukder)	10,33,880.20	2,40,000.00	65,254.00	13,39,134.20
2008-2009 (Mr. M.M Talukder/Mr. Md. Aminur Rahman)	9,67,441.64	1,00,000.00 (July'08 to Nov'08) 1,50,000.00 (January '09- June'09)	36,357.00	12,53,798.64

Business Planning and Management Reporting:

- **Commentary on the adequacy of the 5 year strategic planning and annual business planning and budgeting processes:**

No comment at this stage.

- **Commentary on the adequacy of the controls applied by management over the veracity of source data and the correctness of analysis and synthesis processes used for operational, commercial, and financial management reporting:**

No comment at this stage.

- **Commentary on the efficacy and use of routine management reporting within the Company to support continuous performance improvement:**

No comment at this stage

Financial Reporting:

Refer to the published Annual Report containing the Audited Financial Statements, supporting notes and Management's Discussion and Analysis and highlight any improvements in disclosure in the current year. Liquidity and solvency ratio improved while profitability ratio declined due to reduction of company's operating income caused by the transmission tariff rate earned by the company being slashed down by nearly 8% effective from July 2008.

Risk Management:

- **Major Risk and mitigation measures:**

Company has potential risk of revenue generation commensurate with the huge amount of investments in its infrastructural development spread over different parts of the country because of uncertainty of adequate gas availability.

- **Disaster preparedness:**

General awareness and capability are learnt to be available. However, as the country's sole Gas Grid operator, GTCL's disaster preparedness should be systematically elevated to an international standard over the shortest possible time through a comprehensive procurement and human resources development programme.

Pensions:

Company does not have a pension scheme in place and there exists a gratuity scheme instead. Gratuity fund is learned to be adequate to meet the obligations.

Others:

- Adequacy of the Company's public and website reporting of financial and accounting information:
 - This requirement does not strictly apply in the case of GTCL which is not a listed company under Stock Exchange. This Committee is however of the opinion that as a minimum the Company's Annual Director's Report may be uploaded in the Web-site for General Public Information.
- Any other commentary on the Activities of the Audit Board Committee that it sees fit to publish:
 - No Comments at this stage.

Appendix: Part-A

Management Representations for Consideration by the Audit & Procurement Board Committee

- That Management represents to the best of its knowledge and belief that the Company's accounting and financial transaction capture and reporting systems are reliable and that its internal controls are adequate, and that it has reported to the Audit Committee all areas where it believes significant improvements could be made;
- That Management represents to the best of its belief and knowledge that all its operational, commercial and financial management reporting systems are producing accurate and timely data;
- That Management attests to the adequacy, quality and integrity of its Internal Audit function and staff; and,
- That Management has carried out a comprehensive review of the major risks faced by the Company and recommended (and tested in the case of disaster recovery) appropriate mitigation measures.

PART B: PROCUREMENT

Overview

1) Procurement Process in Use:

- GTCL follows well defined procurement process depending on which source of finance is applied for procurement.
- In the case of aided projects, the concerned donor agency's procurement guidelines are meticulously followed.
- In the case of GOB funded procurement, the Public Procurement Act. 2006 (PPA-2006) and PPR-2008 are followed without any exception.
- In the case of own financed procurement, PPA-2006 and PPR-2008 are also followed.

2) Delegation of authorities and approval limits by management level:

- The approval limit by the management level as per delegation of authorities (FY: 2008-2009) is a maximum of TK.100 lakhs for both foreign and local procurements (the authority has recently been increased up to Tk.200.00 lakhs). In the case of emergency works involving safety of company's employees, plant, machineries, property etc. the full power is vested with the company's Chief Executive as per delegation of authorities.

Data:

3) Operating and capital budget procurements and total value of procurement:

- The data to be collected and examined in relation to this would require more time than is available at the disposal of the Committee at this stage. The Committee however intends to collect and analyze relevant data for presentation in the next report.

4) Operating and capital budget procurements by unit value in case of both local and international procurement with prior year comparison:

- Nothing to report for reasons as stated in item-3.

5) Time required for tendering to goods availability with breakdown by procurement stage and by procurement type, both local and international, with prior year composition.

- Nothing to report for reasons as stated in item-3.

6) Procurement overseen by the Procurement Board Committee and commentary on their efficiency:

- The Committee has not overseen any procurement made during the FY: 2008-09 since the Committee was constituted in June 2009 and served with a formal TOR in September 2009. As such the Committee has no response to make under this para.

Exceptions:

7) Number of complaints and accusations of unethical procurement conduct received both internally and externally:

- Nothing to report for reasons as stated in item-6 above.

8) Significant breaches of procurement policy and procedure either by a company officer or staff or by a supplier and action taken by management to prevent any recurrence;

- Nothing to report for reasons as stated in item-6 above.

9) Failed procurements (as recognized) in the current year, the symptoms of such failure, their underlying causes, and actions taken to prevent the recurrence of similar failures:

- During the FY under review a case of failed procurement was experienced by the Company viz., the procurement undertaken against the ADB financed project of Installation of Compressor Stations at Muchai, Ashuganj and Elenga. The 1st procurement attempt dates back to the month of April 2006 which was to be discontinued at the technical bid evaluation phase due to objection raised by ADB alleging corrupt practices in terms of manipulation of technical specifications by a company official in connivance with and favoring a particular manufacturer.
- A re-bidding process was then taken up in January 2008 under a Two Stage Two Envelope bidding procedure as per ADB Guidelines. Out of the four bids received against the re-bidding in the first of the two stages, two bids were found non-responsive leaving the other two bids as qualified for submission of 2nd Stage Modified Technical bids together with supplementary Price Proposals which were opened on 6 January' 2009.
- Evaluation of the two Modified Technical and Supplementary Price Proposals were duly evaluated taking necessary clarifications from both bidders. The outcome of evaluation was placed before the Company Board in its 246th Meeting held on 9 May' 2009. Both bids being considered as non-responsive and also much higher priced against the estimated cost of procurement (one bid was for a price of US\$ 147.00 Million and the other bid was for US\$ 249 million as against estimated cost of US\$ 53.177 Million in FC and US\$ 9.559 million in LC), the Company Board decided to go for a fresh tendering process with a revision of estimated cost and seeking provision of additional fund requirement to the authority.
- The decision of the Board was conveyed to ADB on 13th May 2009 and after a long process of due diligence, ADB finally concurred with the Company Board decisions under its communication made to the Company on 10th September 2009.
- An analysis of the aforementioned facts reveals that the procurement under reference failed due mainly to non-compliance of modified Technical Proposals and the Supplementary Price Proposals to the bid requirements in spite of clarifications sought from and furnished by the bidders as per provisions of the bidding document. The Committee also noted that even if the bids were found to be fully compliant and responsive to the bid requirements, the procurement could not be made due to excessively high bid prices on two accounts, namely (a) in addition to bid prices being excessively high preventing a decision for award (b) the incremental fund was also not available for the procurement under the ADB Loan.
- The Committee would also like to mention as a pertinent information that the re-bidding process initiated in June 2008, was against an estimated cost prepared by the ADB consultant back in the

year 2004 and in the intervening period there was a sharp rise in the global capital goods market particularly steel and steel products which also impeded a successful outcome of the re-bidding process.

Commentary:

- 10) **Current procurement policies and procedures in assuring best quality/cost, expediency and transparency and transparency and recommendations to the Board for any changes in policies and procedures:**
 - Commentary of Procurement entities were recently forwarded to the Government by various sector organizations for appropriate necessary revision of PPR. GTCL responded with elaborate comments/recommendations in this revision process. The Government has meanwhile finalized and issued the revisions which will now be followed. The Committee however intends to reflect on the efficiency, expediency and transparency of the policies.
- 11) **Recommendations made to Board, and their justification, for improvements in procurement planning, specification, acceptance testing, contracts management, progress payment approvals or any other part of the procurement cycle:**
 - Time currently available at the disposal of the Committee does not unfortunately permit reflection on these items and hence the Committee intends to leave these matters as items to pend until next formal periodical report of the Committee.
- 12) **Feedback received on the Company's procurement process from suppliers:**
 - Time currently available at the disposal of the Committee does not unfortunately permit reflection on these items and hence the Committee intends to leave these matters as items to pend until next formal periodical report of the Committee.
- 13) **Any improvements in capital projects analysis, approval, funding and tendering:**
 - The recurrence of failed procurement in the Company for such capital intensive goods in future can be avoided employing all opportunities for collection of up to date global market prices and application of highest possible care should also be exercised in finalizing the scope and technical specifications of such complex procurement cases involving multifaceted engineering and cost implications.
- 14) **Any compliance issues with procurement legislation or regulation:**
 - Time currently available at the disposal of the Committee does not unfortunately permit reflection on these items and hence the Committee intends to leave these matters as items to pend until next formal periodical report of the Committee.
- 15) **Comment on the activities of the Procurement Board Committee that it sees fit to publish:**
 - Time currently available at the disposal of the Committee does not unfortunately permit reflection on these items and hence the Committee intends to leave these matters as items to pend until next formal periodical report of the Committee.

Appendix: Part- B

Management Representations for Consideration by the Audit & Procurement Board Committee

That Management has made the Procurement Policies and Procedures readily available to all Staff and Officers of the Company;

That Management has rigorously followed the Procurement Policies and Procedures in all its dealings with the Company's suppliers and has prevented all forms of outside interference in individual procurements;

That Management finds the Procurement Policies and Procedures in force to be effective and easy to administer, and that the Procurement Committee has been advised of all issues that Management has with the Policies and Procedures and is satisfied with the actions being taken to resolve them;

That Management has openly encouraged Staff and Officers to report any actual or suspected unethical conduct by the Company's Officers and Staff in procurements, and that no such cases of these have been withheld from the Board Committee; and,

That Management certifies the veracity of the procurement data provided to the Procurement Committee and that it has not knowingly withheld or manipulated any such information.