

## **Sustainable Power Sector Support Project - 2015.**

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The audit of financial statements of the Sustainable Power Sector Support Project for the year ended 31 December 2015 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Article 4.05(a) and 4.03(a) of Article IV of the Loan Agreements No.2733 SRI(SF) and No. 2734- SRI(SF) dated 20 June 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank (ADB).

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Loan Agreements of the Project, the Ministry of Power and Renewable Energy is the Executing Agency and the Implementing Agency for the Parts 1- 6 and the Parts 9 and 10 of the Project is the Ceylon Electricity Board whereas the Implementing Agency for Parts 7 and 8 is the Sustainable Energy Authority. The objectives of the Project are to provide reliable, adequate and affordable power supply expanding coverage and improving efficiency and reliability in service delivering through (i) strengthened transmission system in the Eastern, North Central, Southern and Uva Provinces, (ii) broadened rural electrification in the Eastern and Uva Provinces and (iii) enhanced energy efficiency and further development of renewable energy.

As per the Project Administration Manual of 06 October 2010, the estimated total cost of the Project was US\$ 162.03 million equivalent to Rs. 18,135 million and out of that US\$ 120 million equivalent to Rs 13,427.64 million representing 74 per cent was agreed to be provided by the Asian Development Bank. The Project commenced its activities on 17 November 2011 and scheduled to be completed by 30 April 2014 and the Loan closing date is scheduled on 30 October 2016.

### **1.3 Responsibility of the Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1:4 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Project's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

opinion on the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Project management and the reliability of books, records, etc. relating to the operations of the Project,
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loans etc.
- (d) Whether the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreements.
- (e) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- (f) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the Project.
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Loan Agreements had been complied with.

## **1.5 Basis for Qualified Audit Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

### **2.1 Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 2.1 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreements,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report and
- (e) the financial covenants laid down in the Loan Agreements had been complied with.

### **2.2 Comments on Financial Statements**

#### **2.2.1 Delays in submission of the Financial Statements**

The financial statements of the Project for the year under review which required to be submitted for audit before 31 March 2016, according to the Circular No. MOFP/ERD/2007/02 of 07 August 2007 of the Ministry of Finance and Planning had been submitted only on 11 August 2016.

#### **2.2.2 Accounting deficiencies**

The following accounting deficiencies were observed .

- (a) Seven motor vehicles procured by the Project at a cost of Rs 48.99 million in previous years and transferred to the Ceylon Electricity Board during the year under review were continuously shown under the work-in –progress of the financial statements of the Project. Further, the value of motor vehicles shown in the financial statements had been understated by Rs. 14.13 million as the local charges paid by the Ceylon Electricity

Board on other 07 motor vehicles procured in the previous years was not brought to account.

- (b) Value of work done amounting to Rs. 196.90 million under the Reactive Power Management had been accounted under New Galle Power Transmission Development works, due to a classification error .

### 2.2.3 Un-reconciled differences

The following observations are made.

- (a) It was observed that the disbursements of the proceeds of Loan amounting to Rs. 9,043 million under Loan Agreement No: 2733 shown in the financial statements as at 31 December 2015 was not agreed with the corresponding proceeds of Rs. 9,177.58 million shown in the records maintained by the External Resources Department.
- (b) The disbursements made during the year under review amounting to Rs. 2,067.67 million as per the financial statements of Ceylon Electricity Board was not agreed with the disbursements amounting to Rs. 1,789.22 million made shown in the financial statements of the Project.

## 3. Financial and Physical Performance

### 3.1 Utilization of Funds

Certain significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2015 are shown below.

Source	Amount agreed for financing in the Loan Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		during the year under review		As at 31 December 2015	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	118.07	13,223.84	1,863.00	12.60	1,789.00	70.40	9,999.00
GOSL	42.03	4,707.36	-	-	-	-	-
CEB	-	-	208.00	3.60	513.00	13.40	1,899.00
	<b>160.10</b>	<b>17,931.20</b>	<b>2,071.00</b>	<b>16.20</b>	<b>2,302.00</b>	<b>83.80</b>	<b>11,898.00</b>

### **3.2 Physical Performance**

According to the information made available, the works under the developments of New Galle Power Transmission, North East Power Transmission, Eastern Province Distribution Capacity Development and Moragolla Hydro Power Station had been completed as at 31 December 2015. However, the augmentation of Kiribathkumbura Grid Substation had remained at the initial stages due to late commencements of the works. Further, the actions taken to procure specialized utility vehicles for the purpose of Eastern Province Distribution Capacity Development was not completed due to failures of the supplier. The activities of the strengthening for Medium Voltage Distribution System in Haldummulla and Ragala area in Uva Province could not be completed due to disputes on land acquisitions.

### **3.3 Matters in Contentious Nature**

It was observed that the income taxes amounting to Rs 8.93 million paid by the contractors had been reimbursed by the Project, contrary to the Section 1.10 of the special condition of the Loan Agreements.