

SUSTAINABLE POWER SECTOR SUPPORT PROJECT - 2013

The audit of financial statements of the Sustainable Power Sector Support Project for the year ended 31 December 2013 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 Sections 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 Asian Development Bank (ADB) and the Ceylon Electricity Board (CEB) and the Sustainable Energy Authority (SEA)

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Sustainable Power Sector Support Project, the Executing Agency is the Ministry of Power and Energy and the Implementing Agency for parts 1-6 and 9-10 of the Project shall be the Ceylon Electricity Board whereas the Implementing Agency for Parts 7 and 8 shall be the Sustainable Energy Authority. The objective of the Project is 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.

According to the Project Administration Manual dated 6 October 2010, the total estimated cost of the Project is US \$ 162.03 million equivalent to Rs. 18,135 million and out of that, US\$ 160.10 million equivalent to Rs. 17,931.20 million was agreed to be financed to the CEB by the ADB as details given below. The Project commenced its activities on 17 November 2011 and was scheduled to be completed by 30 April 2014.

<u>Source</u>	<u>Part No</u>	<u>US \$ (Million)</u>	<u>US \$ (Million)</u>	<u>SLRS (Million)</u>	<u>SLRS (Million)</u>
Asian Development Bank Ordinary					
Capital Resources (OCR) Loan - CEB	1,2,4,6, 9 and 10	102.70		11,502.40	
Asian Development Fund (ADF) Loan – CEB *	3 and 5	9.72		1,088.64	
Interest and Commitment Charges for both CEB and SEA		<u>5.65</u>		<u>632.80</u>	
Subtotal			118.07		13,223.84
Government of Sri Lanka (GOSL)			42.03		4,707.36
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			160.10		17,931.20
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* The CEB received this amount as a grant

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

2. **Scope of Audit and Basis of Opinion**

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessments of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore, believe that my audit provides a reasonable basis for my opinion. The examination also included such test of systems and controls, transactions, assets, liabilities and accounting records 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 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 identification of purchases made out of the Loan etc.;
- (c) Whether withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- (d) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the Project;
- (e) Whether the expenditure had been correctly identified according to the classifications adopted for the implementation of the Project;
- (f) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards;

(g) Whether financial covenants laid down in the Loan Agreements had been complied with.

3. 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 5 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2013 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 (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreements,
- (d) 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.

4. Financial Statements

4.1 Financial Performance

According to the financial statements and information made available to audit, the Project expenditure for the year under review amounted to Rs. 3,168,132,328 and the cumulative expenditure as at 31 December 2013 amounted to Rs. 3,899,145,738. A summary of the expenditure for the year under review, the preceding year and the cumulative expenditure as at 31 December 2013 is given below.

<u>Activities</u>	<u>Expenditure for the Year 2013</u>	<u>Expenditure for the Year 2012</u>	<u>Cumulative Expenditure as at 31 December 2013</u>
	Rs.	Rs.	Rs.
Transmission System Strengthening			

Part 1 - New Galle Power Transmission Development	374,757,989	44,606,801	497,699,883
Part 2 - North East Power Transmission Development	2,397,494,369	309,809,537	2,788,946,512

Rural Electrification and Distribution System Improvement

Part 3 - Ampara District Distributions Development

Part 4 - Ampara District Distributions Network Reliability Improvement

48,046,305 207,765,069 255,811,374

Part 6 - Strengthening of Distribution System in Uva Province

Energy Efficiency and Renewable Energy

Part 10 - Moragolla Hydropower Station

347,833,665 8,854,304 356,687,969

3,168,132,328= **571,035,711** **3,899,145,738**

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5. Audit Observations

The following observations are made.

- (a) According to the Loan Agreement, the audited financial statements of the Project should be furnished to the ADB as soon as available but in any event not later than six months after the related fiscal year. It is the responsibility of the Project to furnish the financial statements to the Auditor General within a reasonable period enabling the Project to meet the above mentioned time target. However, the financial statements of the Project for the year ended 31 December 2013 were furnished to the Auditor General only on 20 May 2014.
- (b) Payables amounting to Rs. 26,456,140 at the end of the year under review had not been brought to account. Therefore, the values of work- in -progress, mobilization advances and accrued expenditure shown in the financial statements had been understated by Rs. 3,238,365, Rs. 23,217,775 and Rs. 26,456,140 respectively
- (c) As mentioned in the paragraph 1.2 of this report, the Parts 1 - 6 and 9 – 10 of the Project are carried out by the Ceylon Electricity Board while implementing the Parts 7 and 8 is by the Sustainable Energy Authority. However, overall responsibility of the Project could not be identified because the two entities are coming under the purview of two separate Ministries, namely, Ministry of Power and Energy and the Ministry of Environment respectively.
- (d) Further, the activities of the Project did not come under the purview of the Additional General Manager (Projects) of Ceylon Electricity Board who is responsible for all foreign funded Projects handled by the Ceylon Electricity Board . As such, overall monitoring of the activities of eight Parts assigned to the Ceylon Electricity Board had not been properly carried out.

6. **Financial and Physical Progress**

6.1 **Financial Progress**

According to the Project Administration Manual, the total estimated cost amounted to Rs. 17,931 million comprising the Contribution of Foreign Funds, Government of Sri Lanka/ Ceylon Electricity Board and the cumulative expenditure as at 31 December 2013 amounted Rs. 5303 million. The estimated cost as compared with the cumulative expenditure as at 31 December 2013 is given bellow.

<u>Source of Funds</u>	<u>Amount agreed under the Loan Agreement</u>		<u>Expenditure incurred as at 31 December</u>		<u>Utilization of Funds</u>
	<u>US \$ Million</u>	<u>Rs. Million</u>	<u>US \$ Million</u>	<u>Rs. Million</u>	<u>Percentage</u>
ADB	118.07	13,224	36.41	4,078	31
GOSL/CEB	42.03	4,707	10.93	1,225	26
Total	<u>160.10</u>	<u>17,931</u>	<u>47.34</u>	<u>5,303</u>	30

6.2 **Physical Progress**

According to the information made available to audit, the physical progress of the activities carried out by the Project as at 31 December 2013 is given below.

<u>Activity</u>	<u>Progress as at 31 December 2013</u>	
	<u>Target</u>	<u>Achievement percentage</u>
Transmission System Strengthening		
1 New Galle Power Transmission Development		
Lot A : Construction of 3 x 31.5 MVA, 132/33 kv Grid Substation at Galle	55	
Lot B : Construction of 40 kilometers 132 kv Transmission Line from Ambalangoda Grid Substation to Galle Grid Substation	66	36
		47
2 North East Power Transmission Development Project		
Lot A: Grid Substations		
Construction of 132 kv/ 33 kv Grid Substations at Polonnaruwa, Vavunativu, Monaragala and	50	
Construction of two 132 kv line bays at Ampara Grid Sub Station		47
Lot B: Transmission Lines Construction of two 132 kv	75	

	Double Circuit Transmission Lines form Mahiyangana Grid Sub Station to Vaunativu Grid Sub Station via Ampara		70
	Grid Sub Station, Habarana – Valachchena 132 km Transmission Line to Polonnaruwa GSS, Medagama – Monaragala Transmissions Line	84	
	Lot C: String of Second Circuit of Kotmale New Anuradhapura 220 Kv Transmission Line		91
Rural Electrification and Distribution System Improvement			
3	Ampara Distribution Development Construction of Medium Voltage and Low Voltage Distribution Lines and Distribution Substation under approximately 486 Rural Electrification Schemes.	100	80
4	Ampara District Distribution Network Reliability Improvement Installation of Auto – recloses and load break switches.	100	74
5	Eastern Province Distribution Capacity Development Purchase of tools and specialized utility vehicles for construction and maintenance for Line Gangs in Ampara, Batticaloa and Trincomalee Districts.	95	0
6	Strengthening of Distribution System in Uva Province Strengthening for Medium Voltage Distribution System in Haldummulla and Ragala area in Uva Province including construction of 33 KV Primary Distribution Backbone Line Reinforcements (approximately 33 Kilometers of double circuit and 12 Kilometers of single circuit) and upgrading approximately 9 Kilometers of existing 33KV Line.	98	94
Energy Efficiency and Renewable Energy			
9	Reactive Power Management Installation of 40 MV Ar breaker Switched Capacitor Banks for loss reduction at Aniyakanda, Ambalangoda and Katunayake Grid Substation.	100	2
10	Moragolla Hydropower Station Preparation of detailed Engineering Design of approximately 30 MW run – of River Hydropower Station.	90	85

7. **Systems and Controls**

Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Stocks
- (c) Monitoring and Performance Review