

CLEAN ENERGY AND NETWORK EFFICIENCY IMPROVEMENT PROJECT (PART -7) - 2014

The audit of financial statements of the Clean Energy and Network Efficiency Improvement Project (Part -07) for the year ended 31 December 2014 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 Section 2.09 (a) ii of the Project Agreement No. SRI 43576 dated 08 May 2013 entered into between the Asian Development Bank (ADB) with the Ceylon Electricity Board and Sustainable Energy Authority.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Agreement of the Project, the Ministry of Power and Renewable Energy is the Executing Agency. The Ceylon Electricity Board and Sustainable Energy Authority are the Implementing Agencies of the Project. The Ceylon Electricity Board is responsible to implement the activities from Part-01 to Part -06 of the Project whilst the Sustainable Energy Authority is responsible for implementation of the activities indicated under Part-07 of the Project. The audit observations on the activities carried out by the Sustainable Energy Authority under the Part-07 of the Project are contained in this report. The objectives of the Project are to increase the clean power supply and improve the efficiency and reliability on distribution of electricity in Sri Lanka. As per the Project Administration Manual, the total estimated cost of the Project amounted to US\$ 200 million equivalent to Rs. 25,240 million and out of that US\$ 3.00 million equivalent to Rs. 378.6 million was allocated for the Part -07 of the Project. The financial arrangements made for the all parts of the Project are summarized and shown below.

<u>Source</u>	<u>US\$</u> <u>(million)</u>	<u>SL Rs.</u> <u>(million)</u>
Asian Development Bank		
- Asian Development Fund (Loan No. 2892 SRI of 08 May 2013)	30.00	3,786.00
- Ordinary Capital Resources (Loan No. 2893 SRI SF of 08 May 2013)	100.00	12,620.00
- Clean Energy Fund (Grant No. 0303 SRIEF 08 August 2013)	1.50	189.30
Government of Sri Lanka	68.50	8,644.70
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	<u>200.00</u>	<u>25,240.00</u>

The activities of the Project had been commenced on 30 September 2013 and scheduled to be completed by 30 June 2017. However, the completion date of the Project is extended up to 30 June 2019.

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 Public Sector 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 incurred out of the funds provided by the Government of Sri Lanka and the Donor 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 Loan and Grant, etc.
- (d) Whether the opening and closing balance, withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2014 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date,
- (e) 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 and Grant Agreements,

- (f) Whether the withdrawals under the Loan and Grant had been made in accordance with the specifications laid down in the Loan and Grant Agreements,
- (g) Whether the funds, materials and equipment supplied under the Loan and Grant had been utilized for the purposes of the Project,
- (h) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (i) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards, and
- (j) Whether the financial covenants lay down in the Loan and Grant Agreements had been complied with.

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, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2014 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2014 in accordance with Sri Lanka Public Sector 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 Project Loan and Grant Agreements,
- (d) the financial covenants laid down in the Loan and Grant Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Presentation of Financial Statements

The Statement of the Management Responsibility for preparation of the financial statements was not included in the financial statements of the Project, as required by the paragraph 19 of the Sri Lanka Public Sector Accounting Standard 01- Presentation of Financial Statements.

3. Financial and Physical Performance

3.1 Utilization of Funds

Certain significant statistics relating to financing, budgetary provision and utilization of funds of the part 7 of the Project, during the year under review and cumulative expenditure as at 31 December 2014 are shown below.

Source	Amount agreed to be financed according to the Loan and Grant Agreements		Provision made in the Annual Estimates for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		Rs. million	during the year under review		as at 31 December 2014
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB Loan	1.50	189.30	-	-	-	-	-
ADB Grant	1.50	189.30	70.00	0.03	4.40	0.03	4.40
GOSL	0.08	10.00	5.00	0.002	0.30	0.002	0.30
Total	<u>3.08</u>	<u>388.60</u>	<u>75.00</u>	<u>0.032</u>	<u>4.70</u>	<u>0.032</u>	<u>4.70</u>

3.2 Physical Progress

According to the objectives of the Project, the Sustainable Energy Authority is required to take action to assist institutions such as universities, hotels, factories and other commercial entities to install rooftop solar power generation plant under public-private partnership basis. Therefore, the Sustainable Energy Authority had selected a National Consultants and commenced preliminary actions to install solar rooftop systems in 04 national universities during the year under review.

4. Issues on Financial Controls

The transactions of the Project had not been subjected to audit of the Internal Audit Section of the Sustainable Energy Authority, as required by the Financial Regulation 134(3) and Management Audit Circular No. 05 of 26 July 2010.