

Improving Gender - Inclusive Access to Clean and Renewable Energy Project - 2014

The audit of financial statements of the Improving Gender - Inclusive Access to Clean and Renewable Energy Project for the first accounting 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 Sections 11(a) and (b) of the Grant Agreement No. 9158 dated 29 August 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Letter of Agreement of the Project, the Ceylon Electricity Board is the Executing Agency and Implementing Agency of the Project. The objectives of the Project are increasing access to clean energy for rural communities in the Ampara District of the Eastern Province and enhance the training skills and service delivery of the Ceylon Electricity Board. As per Section (vii) 33 of the Grant Implementation Manual of April 2012, the total estimated cost of the Project amounted to US\$ 1.08 million equivalent Rs.142 million and out of that US\$ 873,975 was expected to be financed through Japan Fund for Poverty Reduction (JFPR). Further, US\$ 211,200 was agreed to be financed by the ETC Foundation. The Project commenced its activities on 08 November 2011 and initially scheduled to be completed by 08 November 2014. Subsequently, it was extended up to 31 December 2017.

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 their overall presentation of the financial statements. I believe that the audit evidence I have obtained sufficient and appropriate to provide a basis for my opinion the examination also included such tests as 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 the operations of the Project, the identifications of the purchases made out of the Grant etc.
- (d) Whether the opening and closing balances, withdrawals from and replenishments to the Impress to the 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 Grant Agreement.
- (f) Whether the withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement.
- (g) Whether the funds, materials and equipment supplied under the 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 Accounting Standards.
- (j) Whether the financial covenants lay down in the Grant Agreement 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 2.2 of this report, 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 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 Grant Agreement,
- (d) the financial covenants laid down in the Grant Agreement had been complied with.

2.2 Comments on Financial Statements

2.2.1 Presentation of Financial Statements

According to the Circular No. MOFP/ERD/2007/02 of 07 August 2007 of the Ministry of Finance and Planning, the financial statements for the year ended 31 December 2014 are required to be submitted to the Auditor General on or before 31 March 2015. However, the financial statements of the Project had been submitted only on 22 August 2017.

2.2.2 Accounting Policies

The service connection fees and other administration costs aggregating Rs.37.89 million had been capitalized under the property, plant and equipment and work-in-progress without considering its capital nature. Further, according to the accounting policy followed by the Ceylon Electricity Board, the costs on labour, material and overheads on capital works is determined standard cost method. However, the service connection costs included in the property, plant and equipment and work-in-progress had been determined based on the actual costs incurred thereon.

2.2.3 Non - Compliance with Laws Rules and Regulation

According to the Part C (10) of Appendix 4 of the Grant Implementation Manual, the transactions of the Project during the year under review is required to be reviewed by internal auditor had not been audited by the Internal Audit Division of the Board.

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 2014 are shown below.

Source	Amount agreed to be financed as per the Grant Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
				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	1.08	142	94	0.29	38.38	0.29	38.38
Total	<u>1.08</u>	<u>142</u>	<u>94</u>	<u>0.29</u>	<u>38.38</u>	<u>0.29</u>	<u>38.38</u>

3.2 Physical Progress

It was observed that the targets for the service connections to be done during the year under review had not been prepared by the Project. However, 595 new connections had been made as at 31 December 2014.