

Green Power Development and Energy Efficiency Improvement Investment Program (Project - 1) - 2014

The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Program (Project – 1) for the first accounting period from 20 November 2014 to 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) of Article II of the Project Agreement No. SRI 47037 dated 20 November 2014 entered into between the Asian Development Bank and the Ceylon Electricity Board.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Facility Administration Manual of the Program, the Executing Agency of the Program is the Ministry of Power and Renewable Energy and the Implementing Agency is the Ceylon Electricity Board. The objective of the Program is to enhance clean power generation, system efficiency and reliability. The Program aims to increase renewable energy generation, enhance transmission infrastructure, improve network efficiency and ensure demand side management.

As per the Facility Administration Manual of the Program, the total estimated cost of the Program amounted to US\$ 220 million equivalent to Rs. 28,509.80 million under the Project-01 and out of that US\$ 180.0 million equivalent to Rs.23,325.50 million was agreed to be financed by the Asian Development Bank. The activities of the Project - 01 commenced on 20 November 2014 and scheduled to be completed by 30 September 2019. A summary of the sources of finance is given below.

Source	US\$ million	Rs. million
Asian Development Bank		
Ordinary Capital Resources Loan	121.00	15,680.40
Asian Development Fund		
Loan	29.00	3,758.10
Franchise Development Agency		
Loan	30.00	3,887.00
Government of Sri Lanka	40.00	5,184.30
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	<u>220.00</u>	<u>28,509.80</u>

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 Program'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 Program'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 Program management and the reliability of books, records, etc. relating to the operations of the Program.
- (b) Whether the expenditure shown in the financial statements of the Program had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Program.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Program from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Program in financial and physical terms, the assets and liabilities arising from the operations of the Program, the identifications of the purchases made out of the Loan etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Project Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Program.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Program.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards, and
- (h) Whether the financial covenants laid down in the Project Agreement 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, 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 Program 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 Program 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 Project Agreement, and
- (d) the financial covenants laid down in the Project Agreement had been complied with.

2.2 Comments on Financial Statements

2.2 Accounting Deficiency

A sum of Rs. 6.12 million remitted to the Divisional Secretariat offices of Uda Palatha and Ganga Ihalakorale to make deposits for the acquisition of lands for the construction of proposed Moragolla Hydropower Plant had been shown under work-in-progress instead of being accounted as deposits.

2.2.2 Non-Compliance with Laws, Rules and Regulations

According to the Circular No: MOFP/ERD/2007/2 of 07 August 2007 of the Ministry of Finance and Planning, the financial statements of the Program should have been submitted to the Auditor General on or before 31 March 2016. However, financial statements for the year ended 31 December 2014 had been submitted only on 22 September 2016.

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 as at 31 December 2014 is shown below.

Source	Amount agreed for financing in the Project Agreement		Allocation made in the Budget Estimate for the year under review	Funds utilized as at 31 December 2014	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million
ADB	180.00	23,326.20	2,000.00	-	-
GOSL	40.00	5,183.60	750.00	-	-
Ceylon Electricity Board	-	-	365.00	0.21	27.00
Total	<u>220.00</u>	<u>28,509.80</u>	<u>3,115.00</u>	<u>0.21</u>	<u>27.00</u>

3.2 Physical Progress

Preliminary works of the main activities of the Program had been commenced using funds provided by the Ceylon Electricity Board and no significant physical progress had been reported at the end of the period under review.

3.3 Issues on Financial Control

Eventhough there was a specialized Division established for the implementation of foreign funded Projects, the direct responsibility on implementation of the activities of this Program had been assigned to 03 Divisions of the Ceylon Electricity Board. As a result, financial and physical controls over the implementation of the activities of the Program would be problematic and hard.