

Clean Energy and Network Efficiency Improvement Project - 2015.

The audit of financial statements of the Clean Energy and Network Efficiency Improvement 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 2.09(a) ii of the Project Agreement No.2892 SRI(SF) and Grant Agreement No. 0303-SRI(EF) dated 08 May 2013 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 Agreements of the Project, the Ministry of Power and Renewable Energy is the Executing Agency. The Ceylon Electricity Board is responsible to implement Part-01 to Part -06 of the Project whilst the Sustainable Energy Authority is responsible to implement the Part-07 of the Project. The observations on the activities carried out by the Ceylon Electricity Board under the Part-01 to Part -06 of the Project are included in this report. The objectives of the Project are to increase the clean power supply and improve the efficiency and reliability of the delivery of electricity in Sri Lanka. As per the Project Administration Manual, the estimated total cost of the Project amounted to US\$ 200 million equivalent to Rs. 25,240 million and out of that US\$ 131.50 million equivalent to Rs. 16,595.30 million or 66 per cent was agreed to be provided by the Asian Development Bank. The Project commenced its activities on 30 September 2013 and scheduled to be completed by 31 December 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 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 withdrawals under the Grant had been made in accordance with the specifications laid down in the Project and Grant Agreements,
- (e) Whether the funds, materials and equipment supplied under the Loan and Grant had been utilized for the purposes of the Project,
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards,
- (h) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants lay down in the Project and 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 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 (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Project and Grant 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 Project and Grant 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 07 August 2007 of the Ministry of Finance and Planning had been submitted only on 24 June 2016.

2.2.2. Accounting Deficiencies

The following accounting deficiencies were observed in audit.

- (a) The deposits aggregating Rs 25.44 million placed at the Divisional Secretariat Offices of Homagama and Ambagamuwa Korale to acquire 02 plots of land for construction of grid substations of Padukka and Polpitiya had been shown under work-in-progress without being shown under advances.
- (b) Land surveying cost of Rs. 3.29 million spent during the year under review had been accounted as miscellaneous expenses instead of being capitalized .
- (c) The Project had applied different accounting treatments on capitalization of assets procured. Therefore, 37 motor vehicles procured by the Project during the year under review at a cost of Rs. 294.67 million and registered by the names of contractors had

been accounted under work-in- progress whilst other motor vehicle procured at a cost of Rs. 15.71 million registered by the name of General Manager of the Ceylon Electricity Board had been accounted under Property, Plant and Equipment.

2.2.3 Un-reconciled Balances

According to the records of the External Resources Department, the disbursements as at 31 December 2015 amounted to Rs.1983.50 million and it was not agreed with the balance of Rs.1,954.40 million shown in the financial statements for the year under review.

3. Financial and Physical Performance

3.1 Utilization of Funds

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

Source	Amount agreed for financing in the Grant /Loan Agreements		Allocation made in the Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
ADB	131.50	16,595.30	7,200.00	12.12	1,741.70	13.00	1,954.40
GOSL	68.50	8,644.70	-	-	-	-	-
CEB	-	-	2,958.00	3.41	490.00	5.00	759.00
Total	200.00	25,240.00	10,158.00	15.53	2,231.70	18.00	2,713.40

According to the above information, out of the allocation of US\$ 131.50 million of the proceeds of Loan and Grant, only US\$ 13 million representing 11.8 per cent of allocation had been utilized even after lapse of 75 per cent of the period Project as at 31 December 2015.

3.2 Physical Progress

According to the information made available to audit, the physical activities of the Project had shown slow progress as at 31 December 2015 as described below.

- (a) Civil construction works of the Grid Substations at Vavuniya and Mannar and development of the transmission lines from Anuradhapura to Vavuniya and Mannar scheduled to be carried under the improvements of Mannar Transmission Infrastructure had shown slow progress due to changes of the scope of work and public protests on way leave rights.
- (b) The contracts on civil construction works under the development works of Padukka and Kegalle Power Transmission line and new Polpitiya Power Transmission line had been offered with delays and as a result, the civil construction works thereon were remained at the initial stages as at 31 December 2015.