

Clean Energy and Network Efficiency Improvement Project - 2016

The audit of financial statements of the Clean Energy and Network Efficiency Improvement Project for the year ended 31 December 2016 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. SRI 43576 dated 08 May 2013 entered in to between the Ceylon Electricity Board (CEB) and Sustainable Energy Authority (SEA) and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements No.2892 SRI and 2893 SRI of 08 May 2013 entered under the above mentioned Project Agreement 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, estimated total cost of the Project is 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 30 June 2017. However, the completion date of the Project had been extended up to 30 June 2019 subsequently.

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 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 identifications of the purchases made out of the Loans.
- (d) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Loan Agreements.
- (e) Whether the funds, materials and equipment supplied under the Loans 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 the 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 Loan Agreements 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 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 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 submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan Agreements,
- (d) the 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.

2.2 Comments on Financial Statements

2.2.1 Un-reconciled Balances

The following observations are made.

- (a) According to the records of the External Resources Department, total Loan amounting to Rs. 7,100.57 million had been received from the Asian Development Bank as at 31 December 2016. However, the corresponding proceeds of Loans aggregating Rs.6,968.53 million had been shown in the Statement of Financial Position of the Project as at 31 December 2016.
- (b) Further, the disbursements amounting to Rs. 5,014.12 million made during the year under review and shown in the financial statements of the Ceylon Electricity Board was not agreed with the proceed of Rs.5,013.68 million shown in the financial statements of the Project.

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 2016 are shown below.

Source	Amount agreed for financing according to the Loan Agreements		Allocation made in the Budget 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	10,389.00	33.58	5,014.00	46.62	6,969.00
GOSL	68.50	8,644.70	331.00	-	-	-	-
CEB	-	-	991.00	3.77	530.00	8.63	1,289.00
Total	<u>200.00</u>	<u>25,240.00</u>	<u>11,711.00</u>	<u>37.35</u>	<u>5,544.00</u>	<u>55.25</u>	<u>8,258.0</u>

It was observed that only 42 per cent of proceeds allocated under the Loan had been utilized even after lapse of 50 per cent of the period of the Project as at 31 December 2016. Therefore, the possibility of utilization of the entire allocation of the Loan during the rest of the period was remained in doubt.

3.2 Physical Progress

The following observations are made.

- (a) According to the information made available to audit, the site survey and soil investigation at Manner Grid Substation, construction works of 52 electricity towers and foundation laying works of other 169 towers, out of 372 electricity towers scheduled to be constructed for the purpose of construction of new electricity transmission line from Anuradhapura to Vavuniya under the component of strengthening of the transmission infrastructure had been completed as at 31 December 2016.
- (b) The construction works of Grid Substation in Kegalle, argumentation of Grid Substation at Thulhiriya and development of transmission lines from Padukka to Athurugiriya and Thulhiriya to Kegalle implemented under the efficiency improvements of transmission and distribution networks had remained behind targets due to disputes in land acquisition and access facilities.
- (c) Preliminary approvals and factory testing for the installation of Breakers Switch at Pannala, Bolawaththa, Biyagama and Horana Grid Substations under the component of Reactive Power Management initiated during the year under review had remained in progress even as at 31 December 2016 whilst the respective works at Supugaskanda Grid Substation had not commenced even as at 31 December 2016.

3.3 Matters in Contentious Nature

The following observations are made.

- (a) The Project had procured 47 vehicles at a cost of Rs.436.96 million through contractors engaged in civil works, even though there was no provision in the contract agreements and Project Administration Manual to make procurement in such manner. It was observed that said vehicles could have been imported directly at a cost of Rs.352.81 million. Further, 45 vehicles valued at Rs.402.95 million had been registered under the name of the contractor.
- (b) It was observed that the payments aggregating Rs. 35.87 million made to the contractors on hiring of five houses at Kahatagasdigiliya, Kebithigollewa, Pothuwil, Akkarepaththu and Kiribathkumbura at rate of Rs.350,000 per month per house was remained excessive with the current market rates prevailed in the area.
- (c) The trip sheets certified by the site engineers of 11 vehicles procured through the contractors to provide transport facilities to the staff of the Project had been produced instead monthly running charts. As a result, the fuel and maintenance cost of Rs.40.73 million paid to the contractor could not be vouched satisfactorily and accepted in audit.
- (d) The payments aggregating Rs. 2.68 million made by the Project to the contractor to meet monthly rentals and call charges of 08 mobile phones provided to the Engineers of the Ceylon Electricity Board could not be vouched or accepted in audit due to lack of bills.

3.4 Management Inefficiency

Commitment charges amounting to Rs. 61.18 million had been recovered by the Lending Agency as at 31 December 2016, due to delays in producing of reimbursement claims in the scheduled time.