

CLEAN ENERGY AND ACCESS IMPROVEMENT PROJECT - 2017

The audit of financial statements of the Clean Energy and Access Improvement Project for the year ended 31 December 2017 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 Loan Agreements No. 2518 and No. 2519 SRI (SF) and Grant Agreement No 0149 - SRI dated 17 June 2009 entered into between the Democratic Socialist Republic of Sri Lanka and Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan and Grant Agreements of the Project, the Ministry of Power and Renewable Energy is the Executing Agency and the Ceylon Electricity Board, Lanka Electricity Company (Private) Limited are the Implementing Agencies of the Project. The objectives of the Project is to realize affordable and reliable power supply by improving the coverage and service efficiency of the Ceylon Electricity Board and Lanka Electricity Company (Private) Limited through (a) a stronger transmission and distribution network, and demand – side management of municipal street lightning; (b) removal of network bottlenecks for small hydropower plant; and (c) stronger transmission network in the Eastern Province and an expanded credit support programme for service connections in selected provinces. As per the Project Administration Memorandum, the total estimated cost of the Project amount to US \$ 188.20 million equivalent to Rs. 20,274.80 million and out of that US \$ 164.20 million equivalent to Rs.17, 689.20 million was agreed to be financed by the Asian Development Bank. The Project commenced its activities on 09 February 2010 and scheduled to be completed by 31 May 2013. The period of Project had been extended up to 31 December 2016. However, the activities of the Project had been continued up to 31 December 2017 and submitted the financial statements thereon.

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 Loan and Grant etc.
- (d) Whether the withdrawals under the Loan and Grant had been made in accordance with the specifications laid down in the Loan and Grant Agreements.
- (e) Whether the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with requirements specified in the Loan and Grant Agreements.
- (f) Whether the funds, materials and equipment supplied under the Loan and Grant had been utilized for the purposes of the Project,
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (h) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards,
- (i) Whether satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (j) Whether the financial covenants laid down in the Loan and Grant 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 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 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 and Grant 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 and Grant Agreements had been complied with.

2.2 Comments on Financial Statements

2.2.1 Presentation of the Financial Statements

According to the Ministry of Finance and Planning Circular No: MOFP/ERD/2007/2 of 07 August 2007, the financial statements of the Project required to be submitted to the Auditor General on or before 31 March 2018 had been submitted only on 09 August 2018.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Interest amounting to Rs.144.60 million recovered from the electricity consumers on concessionary loans granted under the rural household connection facilities provided by the Project as at 31 December 2017 had been shown as grants made to the Ceylon Electricity Board instead of being credited to the Household Connection Revolving Fund.
- (b) The value of works completed amounting to Rs.3,135.21 million and the cost of motor vehicles amounting to Rs.383.51 million transferred to the Ceylon Electricity Board had continuously been shown as the assets of the Project. Further, the works valued at Rs. 16,698.70 million completed in 2014 and used by the Ceylon Electricity Board had continuously been shown under work in progress in the financial statements of the Project.

2.2.3 Un-reconciled Balances

The disbursement made during the year under review amounted to Rs.858.64 million as per the records of the External Resources Department had not been agreed with the corresponding amount of Rs.829.23 million shown in the financial statements for the year under review.

3. Financial and Physical Performance

3.1 Utilization of Funds

Significant statistics relating to the financing, budgetary provision for the year under view and the utilization of funds during the year under review and up to 31 December 2017 are shown below.

Source	Amount agreed for financing in the Loan and Grant Agreements		Allocation made in the Budget Estimate for the year under review	Funds utilized			
	US\$ million	Rs. million		during the year under review	US\$ million	Rs. million	as at 31 December 2017
ADB	164.20	17,689.20	870.00	4.47	684.60	135.80	18,880.70
GOSL	24.00	2,585.60	-	-	-	-	-
CEB	-	-	12.00	4.31	660.60	17.40	2,673.60
Total	<u>188.20</u>	<u>20,274.80</u>	<u>882.00</u>	<u>8.78</u>	<u>1,345.20</u>	<u>153.20</u>	<u>21,554.30</u>

According to the information presented, only US\$ 135.8 million equivalent to Rs.18,880.7 million representing 83 per cent of the allocation of US\$ 164.2 million equivalent to Rs.17,689.2 million agreed to be financed by the Donor Agency had been utilized at the end of the period of the Project, after lapse of 07 years of the operations of the Project. According to the information received, the commitment charges amounting to Rs.31.6 million had been recovered by the Lending Agency as at 31 December 2017, due to delay in implementation of the activities of the Project.

3.2 Physical Progress

The activities of the Project consisted with 08 parts under 03 components of Energy Efficiency Improvement, Renewable Energy Development and Access for the Poor and out of that 06 parts had been completed as at 31 December 2015. The construction works of National System Control Centre under the Energy Efficiency Improvement Project had been completed on 30 April 2018 with delay in 04 months. The activities under the Kelaniya – Vauniya Augmentation Project commenced on 12 November 2014 had been completed on 12 May 2016 and the activities under procurement of material and equipment for Rural Electrification Purposes had not been completed even as at 31 December 2017 due to delays in completion of procurement process.

3.3 Issues on Financial Controls

The following observations are made.

- (a) The supervision and monitoring activities of the Project were remained under the purview of various Divisional Heads of the Ceylon Electricity Board instead of the Additional General Manager (Projects) who is responsible for the supervision of all donor funded Projects handled by the Ceylon Electricity Board.
- (b) The transactions of the Project had not been subjected to audit of Internal Audit Section the Ceylon Electricity Board, as required by the financial regulation 133 and Management Audit Circular No: 05 of 26 July 2010.

3.4 Assets under utilized

The material procured at a cost of Rs.1,003.16 million for Rural Electrification Project had remained at the stores for over 02 years as at 31 December 2017 without being utilized for intended purposes.