

## **CLEAN ENERGY AND NETWORK EFFICIENCY IMPROVEMENT PROJECT (PART -07) - 2017**

The audit of financial statements of the Clean Energy and Network Efficiency Improvement Project (Part -07) 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 Sections 2.09 (a) ii of the Project Agreement No. SRI 43576 dated 08 May 2013 entered into between the Asian Development Bank (ADB) and Ceylon Electricity Board and Sustainable Energy Authority

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

According to the Agreements of the Project, the Ministry of Power and Renewable Energy presently, the Ministry of Power, Energy and Business Development is the Executing Agency. The Ceylon Electricity Board and Sustainable Energy Authority are the Implementing Agencies of the Project. The Ceylon Electricity Board is responsible to implement the Part-01 to Part -06 of the Project whilst the Sustainable Energy Authority is responsible for the implementation of the activities under the Part- 07 of the Project. The audit observations on the activities carried out by the Sustainable Energy Authority under the Part 07 of the Project are contained in this report. The objectives of the Project are to increase the clean power supply and improve the efficiency and reliability of the distribution of electricity in Sri Lanka. As per Project Administration Manual, the total estimated cost of the Project amounted to US \$ 200 million equivalent to Rs. 25,240 million and out of that US \$ 3.00 million equivalent to Rs.3,786 million was allocated for the Part 07 of the Project. The financial arrangements made for the all Parts of the Project are summarized and shown below.

<b>Source</b>	<b>US \$ (million)</b>	<b>SL Rs (million)</b>
Asian Development Bank (Loan No.2892 SRI(SF) 08 of 08 May 2013)	30.00	3,786.00
Ordinary Capital Recourse (Loan No 2893 SRI(SF) of 08 May 2013)	100.00	12,620.00
Clean Energy Fund (Grant No.0303 SRI(EF) of 08 August 2013)	1.50	189.30
Government of Sri Lanka	68.50	8,644.70
<b>Total</b>	<b><u>200.00</u></b>	<b><u>25,240.00</u></b>

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 is extended 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 Generally Accepted Accounting Principles 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 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 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 and Grant etc.;
- (d) Whether the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka (CBSL) as at that date;
- (e) 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;
- (f) Whether the withdrawals under the Loans and Grant had been made in accordance with the specifications laid down in the Loan and Grant Agreements;
- (g) Whether the funds, materials and equipment supplied under the Loans and 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 Generally Accepted Accounting Principles and
- (j) Whether the financial covenants laid down in the Loan and Grant Agreements had been complied with.

## **2. Financial Statements**

### **2.1. Audit Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, 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 Generally Accepted Accounting Principles,
- (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 Presentation of the Financial Statements**

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 Projects for the year ended 31 December 2017 is required to be submitted for audit before 31 March 2018. However, the financial statements of the Project for the year under review had been submitted for audit only on 27 March 2019..

## **3. Financial and Physical Performance**

### **3.1 Utilization of Funds**

Certain significant statistics relating to the financing, budgetary provision and the utilization of funds during the year under review and cumulative expenditure as at 31 December 2017 are shown below.

Source	Amount agreed to be financed according to the under Loan and Grant Agreements		Allocation made in the annual Budget Estimates for the year under review	<u>Funds utilized</u>			
				During the year under review		As at 31 December 2017	
	USA million	Rs. million	Rs. million	USA million	Rs. million	USA million	Rs. million
<b>ADB</b>							
L2892/2893	1.50	189.30	160.00	0.56	84.49	0.86	130.09
<b>Grant 303</b>	1.50	189.30	116.00	0.33	49.75	0.732	111.75
<b>GOSL</b>	0.08	10.00	1.00	0.00	0.474	0.023	2.923
<b>Total</b>	<b><u>3.08</u></b>	<b><u>388.60</u></b>	<b><u>277.00</u></b>	<b><u>0.89</u></b>	<b><u>134.71</u></b>	<b><u>1.61</u></b>	<b><u>244.76</u></b>

### 3.2 Physical Progress

According to the Project Administration Manual, the solar rooftop power generation pilot project includes the purposes such as installing the rooftop power generation systems in 04 selected national universities and facilitate sustainable private sector participants of hotels and commercial entities etc. According to the information made available, the works scheduled to be completed by 31 December 2014 had been completed by 31 December 2018. However, no evidence with regard to the extension of the contract period of the contractors who engaged with the installation of power generation systems had been made available for audit.

### 4. Issues relating to Financial Controls

The transactions of the Project had not been subjected to audit of the Internal Audit Section of the sustainable Energy Authority as required by the Financial Regulation 134(3).