

GREEN POWER DEVELOPMENT AND ENERGY EFFICIENCY IMPROVEMENT INVESTMENT PROGRAMME (PROJECT - 1) - 2017

The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Program (Project - 1) 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 Project Agreement No. SRI 47037 dated 20 November 2014 entered into between the Ceylon Electricity Board and the Asian Development Bank (ADB).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Facility Administration Manual of the Program, the Ministry of Power and Renewable Energy is the Executing Agency and the Ceylon Electricity Board is the Implementing Agency of the Program. The objective of the Program is to enhance clean power generation, system efficiency and reliability. As a part of the Investment Program, 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, the total estimated cost of the Program amounted to US \$ 220 million equivalent to Rs. 28,509.80 million and out of that US \$ 180 million equivalent to Rs. 23,326.20 million was agreed to be financed by the Asian Development Bank under the Project-1 of the Program. The details of financing and the sources of finance are given below.

<u>Source</u>	US \$ million	Rs. million
Asian Development Bank		
Ordinary Capital Resources (OCR) Loan	121.00	15,680.39
Asian Development Fund Loan	29.00	3,758.11
Agency Franchise Development Loan	30.00	3,887.70
Government of Sri Lanka	40.00	5,183.60
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Total	<u>220.00</u>	<u>28,509.80</u>

The Program commenced its activities on 02 February 2015 and scheduled to be completed by 30 September 2019.

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 Auditors' 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 opening and closing and 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 as at that date.
- (e) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Project Agreement,
- (f) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Program,
- (g) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Program,
- (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 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 Project Agreement,
- (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 Project Agreement had been complied with.

2.2 Comments on Financial Statements.

2.2.1 Presentation of the Financial Statements

The financial statements of the Programme for the year under review required to be submitted for audit by 31 March 2018, as per Circular No: MOFP/ERD/2007/2 dated 07 August 2007 of the Ministry of Finance and Planning had been submitted only on 05 June 2018.

2.2.2 Accounting Deficiency

Out of the deposits amounting to Rs.7.20 million made at the Divisional Secretariats of Udapalatha and Ganga Ehalakorale in the Central Province for acquisition of lands for the constructions under the proposed Moragolla Hydropower Project, a sum of Rs 3.50 million had been released to the land owners during the year under review. However, no accounting treatments had been made thereon and as a result, the balance shown in the Deposit Account had been overstated whilst balance of the work - in - progress understated by similar amounts.

3. Financial and Physical Performance

3.1 Utilization of Funds

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 2017 are shown below.

Source	Amount agreed to be financing as per the Project Agreement		Allocation made in the Budget Estimates for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million	Rs. million	During the year under review		As at 31 December 2017	
	US\$ million	Rs. million	Rs. million	US\$ Million	Rs. million	US\$ million	Rs. million
ADB	180.00	23,326.20	4,998.00	13.41	2,051.00	18.90	2,891.00
GOSL	40.00	5,183.60	-	-	-	-	-
CEB	-	-	417.00	3.16	483.00	6.45	987.20
Total	<u>220.00</u>	<u>28,509.80</u>	<u>5,415.00</u>	<u>16.57</u>	<u>2,534.00</u>	<u>25.35</u>	<u>3,878.20</u>

It was observed that US\$ 18.90 million equivalent to Rs.2,891 million representing 12 per cent of the allocation of US \$ 180 million equivalent to Rs.23,326.20 million had been utilized as at 31 December 2017 even after lapse of 03 years from the date of commencement of the activities of the Programme. Therefore, the possibility of utilization of the entire allocations of the Loan during the rest of 03 years of the Project is remained in doubt.

3.2 Physical Progress

According to the information made available, the activities of the Program comprised with 04 major parts and the physical progress of the activities implemented during the year under review are described below.

- (a) The consultancy contract to review the bidding documents for the construction of the Hydropower Plant at Moragolla to enhance the hydropower electricity generation capacity had been awarded on 24 October 2016 and the Consultant had commenced the works only on 01 December 2016. According to the information received, the redesign works of the reservoir dam and the review works of the bidding documents had been completed as at 31 December 2017. Further, the land acquisition activities for the construction of Hydropower Plant at Moragolla had not been completed as at 31 December 2017. The procurement process of a contractor for civil construction works and providing of mechanical and electrical facilities had remained at the initial stages even as at 31 December 2017 due to the time taken to redesign the reservoir dam as per the requests made by the Mahaweli Authority of Sri Lanka for approval and environmental impact assessment purposes.
- (b) It was observed that the physical progress of the construction works of Grid Substation at Kappaiturai and augmentation works of Grid Substations at Kerawalapitiya, Katunayaka and Trincomalee to be carried out to enhance the electricity transmission infrastructure capacity had remained at 42 per cent even as at 31 December 2017. Further, the physical progress of construction works of Grid Substation at Kesbewa and Kalutara and augmentation of old Grid Substations in Anuradhapura had remained at 30 per cent whilst the physical progress of

construction works of associate transmission lines had remained at 34 per cent as at 31 December 2017, due to delays in selection of contractors.

- (c) The physical progress on works under the installation of 33 kilowatt medium voltage lines of 92 kilometres and construction of Gantries at Vaunathive and Madampe to improve the efficiency of medium voltage network had remained at 60 per cent as at 31 December 2017 due to delays in clearance of the preliminary line and works on profile designing by the Ceylon Electricity Board.
- (d) It was observed that the thermal storage pilot project and smart building pilot project to be implemented under the improvement of Demand Side Management for Energy Efficiency had been cancelled subsequently without proper reasons. Further, the activities under the provision of consulting service for institutional capacity for power sector development, system and dispatching and energy efficiency improvement etc had not been initiated as at 31 December 2017.

3.3 Matters in Contentious Nature

The following observations are made.

- (a) A sum of Rs.17.07 million had been paid as at 31 December 2017 to the contractors on hiring of 03 houses at Madampe, Vavunathiu and Urani at an excessive rates of Rs. 400,000 per month per house over the prevailed market rate in the respective areas.
- (b) The monthly running charts for the 05 motor vehicles procured through the contractor to provide transport facilities to the staff of the Programme had not been maintained by the Program and instead of that trip sheets certified by the Site Engineers were produced. As a result, the fuel and maintenance cost of Rs.13.53 million paid to the contractor could not be satisfactorily vouched and accepted in audit.

3.4 Issues on Financial Controls

The following observations are made.

- (a) The transactions of the Project had not been subjected to audit of the Internal Audit Section of the Ceylon Electricity Board, as required by the Financial Regulation 134(3) Management Audit Circular No. 05 of 26 July 2010 and Sections 26 and 27 of the Facility Administration Manual.
- (b) The activities of the program comprised with 05 Parts and the supervision and monitoring of the activities of such Parts of the Program were remained under the purview of various Divisional Heads of the Ceylon Electricity Board instead of being assigned an Additional General Manager to supervise all donor funded projects handled by the Ceylon Electricity Board.
- (c) The Implementing Agency had not taken action to maintain Ledger Accounts and other financial records separately for Donor Funded Projects in terms of Section 2.09 (a) of the Project Agreement and the financial statements for the year under review had been prepared on memorandum basis.
- (d) Commitment charges amounting to Rs. 27.21 million had been recovered by the Lending Agency as at 31 December 2017 due to delay in complementation of the activities of Program.