

Clean Energy and Network Efficiency Improvement Project (Part -7) - 2018

The audit of the financial statements of the Clean Energy and Network Efficiency Improvement Project (Part -7) for the year ended 31 December 2018 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 and Loan Agreement No. SRI 43576 dated 08 May 2013 entered into between the Asian Development Bank (ADB) and Ceylon Electricity Board and Sustainable Energy Authority. My Comments and observations which I consider should be reported to the parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the loan Agreement of the Project the Ministry of Power, Energy and Business Development is the Executing Agency and Ceylon Electricity Board and Sustainable Energy Authority is the Implementing Agencies of the Project. The objectives of the Project are to increase the clean power supply and improve the efficiency and reliability on distribution of electricity in Sri Lanka. As per the Project Administration Manual, the estimated total cost of the Project was 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 activities of the Project had commenced 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.

1.3 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1.4 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Generally Accepted Accounting Principles and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

1.6 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. Physical Performance

2.1 Physical and Financial Progress of the activities of the Project

According to the Project Administration Manual, it was expected to popularize the solar rooftop power generation systems in the country including the purposes such as installing the rooftop power generation systems in 04 selected national universities and facilitating for sustainable private sector participants such as hotels and commercial entities in installation of solar rooftop systems. The activities of the Project scheduled to be completed by 31 December 2014 had been completed as at 31 December 2018 with delays over 04 years. Further, the contract for installation of solar rooftop power generation system awarded to a private company scheduled to be completed in May 2016 had been completed in October 2017 and the contract completion certificate thereon had been issued only on 15 October 2018.

2.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
No corroborative evidences were made available to ensure that either the period of contract was extended or recovered security bonds on delays in completion of contracts on installation of solar roof top system in 04 Universities.	Legal action would not be raised against the contractor at the breach of contracts.	Action had been taken to monitor the progress of the contractor continuously.	It is empathized to maintain collaborative records on contract administration.

2.3 System and Controls

Audit Issue	Impact	Management Response	Recommendation
(a) As per Circular No. MOFP/ERD/2007/02 dated on August 2007 of the Ministry of Finance and Planning, the financial statements of the Project should be submitted to the Auditor General on or before 31 March of each financial year. However, financial statements of the Project had been submitted only on 26 July 2019.	The major requirement stipulated in the Circular not completed.	The Financial Statements could not be prepared and presented on time due to the lack of professional staff specialized to this subject area.	Financial statements need be submitted for the audit before the due date.

(b) The transactions of the Project had not been audited by the Internal Audit Section as required by the Financial Regulation 134(3) . Internal controls of the Project not properly implemented. Due to lack of staff of the Internal Audit Division, comprehensive audit on the activities of the Project was not conducted. Need to be carried out the audit to ensure the achievement of the objectives of the Project in efficient and effective manner.