

## **Green Power Development and Energy Efficiency Improvement Investment Program Tranche II - 2018**

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The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Investment Program Tranche II 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 Article IV of the Loan Agreement No. 3483-SRI and 3484-SRI dated 19 December 2016 entered into between the Ceylon Electricity Board and the Asian Development Bank and Section 3.4.4 of Article 03 of the Credit Facility Agreement No. CLK 1022 01 K dated 17 October 2018 entered into between the Democratic Socialist Republic of Sri Lanka and The Agence Française de Development. 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 Program**

According to the Loan Agreements, the Ceylon Electricity Board is the Executing Agency and Implementing Agency of the Program. The objectives of the Program are enhance clean power generation system efficiency and reliability. As per the Loan Agreements, the estimated total cost of the Program was US\$ 260 million equivalent to Rs. 37,895 million and out of that US\$ 150 million equivalent to Rs 21,862.5 million was agreed to be financed by Asian Development Bank and US\$ 30 million equivalent to Rs. 4,372.5 million agreed to be financed by Agence Française de Development. The balance amount of Rs. 11,660 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 10 July 2017 and scheduled to be completed by 31 December 2021.

### **1.3 Opinion**

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Program as at 31 December 2018, financial performance and its cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

### **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 Sri Lanka Accounting 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.

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

## 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.

- 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 internal control of the Program.
- 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.

## 2. Comments on Financial Statements

### 2.1 Non-compliance with Laws, Rules and Regulations

No	Reference to the Laws, Rules and Regulations	Non- compliance	Impact	Response of the Management	Auditor's Recommendations
(a)	Circular No. MOFP/ERD/2007/02 of 07 August 2007	The financial statements of the Program for the year 31 December 2018 required to be submitted for audit on or before 31 March 2019 had been submitted only on 03 May 2019.	Deviation from the major requirement stipulated by the Circular instructions.	Action will be taken to comply with the Circular.	Need to comply with the Circular instructions.

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| (b) | Paragraph 09 of the Circular No. 01/2016 of 24 March 2016 of Department of Management Service | The Project Steering Committee had not been established.   | The physical progress of the activities implemented by the Program had not been regularly reviewed by the Implementing Agency. | Monthly progress review is being carried out by Ceylon Electricity Board for all the Projects. | Need to comply with the Circular instruction.   |
| (c) | Circular No. 02/2016 of 10 June 2016 of the Department of Management Audit.                   | The Program had not taken action to appoint an Internal Auditor. Further, the transaction of the Program was not subjected to audit of the Internal Audit Section of the Ceylon Electricity Board. | The financial controls over the recording of transaction is remained weakened.   | Internal Auditor for the Program was not appointed.  | An Internal Auditor for the Program need to be appointed to strengthen the financial controls of the Program. |

### 3. Physical Performance

#### 3.1 Physical progress of the activities of the Program

According to the Loan Agreements, the activities of the Program were scheduled to be implemented under 03 main components of enhancement of transmission infrastructure, improvement of efficiency of medium-voltage network and Demand-side Management for energy efficiency purposes and expected to award contracts under seven packages. However, the respective activities had been commenced with delays over 02 years from the scheduled date of 31 July 2016 and continued operations without taking any actions to catch up the delays. Therefore, the risks on additional costs of contracts on price variations, commitment charges and extension of the period of the Program etc cannot be ruled out on audit. According to the explanation made by the Project Director, the delays in commencement of works had been occurred, due to time taken to obtain the approvals from the Cabinet of Ministers, Central Environmental Authority and materializing the funds from the Lending Agency.

### 3.2 Contract Administration

The following observations are made.

No	Audit Issue	Impact	Response of the Management	Auditor's Recommendations
(a)	The contracts on smart grid and metering and the providing of consultancy services thereon awarded at an estimated cost of US\$ 11.10 million equivalent to Rs.1,617.82 million had been abandoned. Subsequently the works under the said contracts had been removed from the scope of the work of the Program without proper reasons.	The commitment charges will have to be paid for undisbursed balance.	Presently, the technology on smart grid and metering system are being used by the private parties and become proven technologies in Sri Lanka. Hence, the pilot project thereon was discontinued.	The purposes of the Project activities should be clearly identified before entering in to the Loan Agreement.
(b)	Contract on construction and augmentation of Primary Substation at Ethulkotte, Beligaha and Rathnapitiya under the component of improvement of efficiency of medium-voltage network had not been awarded even as at 31 December 2018 due to delays in selection contractors and acquisition of suitable land for the respective purpose.	Activities of the Program will be delayed and Ceylon Electricity Board will have to be paid commitment charges.	Procurement process to purchase of land for Rathnapitiya Primary Substation was initiated in 2016. However, identified land in 2016 could not be procured due to issues on legal ownership and construction tender was initiated in 2018.	Tender on construction and augmentation of Primary Substation need to awarded immediately.
(c)	Procurement process on selection of suitable contractor on construction of tower lines in Mahailuppallama, Ethagala, China Bay and Sooriyawewa Distribution Divisions and construction of gantries at Mahailuppallama, Ethagala, China Bay and Weniwelara had not been completed even as at 31 December 2018, eventhough the Credit Facility Agreement to invest Euro 30 million thereon had been entered into with the Agency Francaise de Development on 17 October 2018.	Activites of the Project will be delayed and commitment chargers have to be paid for undisbursed balance.	Procurement process could not be completed by <b>December 2017</b> , due to long delay in price negotiation.	Procurement process of construction tower lines should be expedited.

### 3.3 Underutilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
According to the financial targets stipulated in the Project Administrative	Ceylon Electricity Board had to incur Rs.22.81	Due to unavoidable circumstances, the	Delayed activities should be catch –up.

Manual, it was expected to be utilized million as commitment utilization of funds was US\$ 94.20 million equivalent to charges on undisbursed slower than expected. Rs.13,730 million at the end of the year balance. under review and only US\$ 13.8 million equivalent to Rs.2,327 million or 17 per cent of the respective target had been achieved as at 31 December 2018.

### 3.4 Matters in Contentious Nature

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
It was observed that 16 motor vehicles procured by the Program during the period from 2016 to 2018 through the contractors involved in civil construction works of the Program had not been shown separately in the statement of financial position.	The ownership of the motor vehicles rest with the respective contractors.	The cost of the vehicles is included in the financial statements under work-in-progress.	Action should be taken by the Project Monitoring Unit to transfer the ownership of the motor vehicles to the Implementing Agency and maintain a data base thereon. Further, the value of motor vehicle should be shown separately in the financial statement based on the different useful life of the assets.

### 3.5 Systems and Controls

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
The supervision and monitoring of the activities of the Program under the 03 Major Components were remained under the preview of 03 separate Divisional Heads of the Ceylon Electricity Board.	It caused delays in implementation of the activities of the Program.	All the components are under 03 main streams and separately monitored by the divisional heads.	Need to be appointed a Project Director for all components.