

Renewable Energy Absorption Transmission Development Project - 2019

The audit of financial statements of the Renewable Energy Absorption Transmission Development Project for the year ended 31 December 2019 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 provisions in the Credit Facility Agreement No. CLK 101104 L dated 02 October 2015 and Section 3.4.3 (h) of the Credit Facility Agreement No. CLK 101104 L dated 18 November 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the Agence Francaise De Development. My comments and observations which I consider should be reported to Parliament appear in this report

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Credit Facility Agreement of the Project, the Ministry of Power, Energy and Business Development is the Executing Agency and Ceylon Electricity Board is the Implementing Agency of the Project. The objective of the Project is to absorb renewable energy to national grid by increasing renewable energy grid absorption capacity, decreasing the average production cost and enabling the private sector association. The activities of the Project are implemented under four components namely constructions of 132/33Kv Grid Substations in Maliboda, Wewalwatta, Nawalapitiya, Ragala. As per the Loan Agreements, the estimated total cost of the Project amounted to USD 46.4 million (EURO 41.10 million) equivalent to Rs.6,660.10 million and out of that USD 33.9 million (EURO 30 million) equivalent to Rs.4,865.90 million was agreed to be financed by Agence Francaise De Development used to finance parts of the contracts for supply of equipment and for works. The balance amount of USD 5.3 million (EURO 11.1 million) equivalent to Rs. 1,794.20 million is expected to be financed by the Government of Sri Lanka. The Project commenced its activities on 01 April 2016 and scheduled to be completed by 30 October 2019 technically.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standard.

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 this 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 Standards 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 Project'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.

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 internal control of the Project.
- 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. Comments on Financial Statements

2.1 Accounting Deficiencies

The following observations are made.

No	Accounting Deficiencies	Amount Rs. Million	Impacts	Responses of the Management	Auditor's Recommendations
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(a)	Re-valuation for the Mobilization advance and retention had not been done by the project as per the LKAS 21. As a result of that, following amounts are remaining in the financial statements after the settlement.	<p>Contractor</p> <p>Amount shown in financial statement as mobilization advance</p> <p>Mobilization Advances</p> <p>B.E.S.T (Euro) (5,616,604.35)</p> <p>SIEMINS LTD (Euro) 141,665.65</p> <p>ABB (1,044.15)</p> <p>Hengtong Oplic Eelct 15,639.31</p> <p>Apar Industries 143,578.78</p> <p>Retention</p> <p>B.E.S.T(Euro) 810,521.28</p> <p>ABB (165,120.39)</p>	Real value of the asset and liabilities may not be reflected.	Noted.	Advances and retention balances should be revalued at the end of the year.
(b)	Following expenses had been recognized as salaries without being recognized relevant expense categories.		Real impact of the expense category will not be reflected when making management decisions.	Noted and Action will be taken to correct it	Expenses should be properly categorized.

Expense Category disclosed	Expense Category include
Management staff salary	Management staff allowances
Other Staff salaries	Other staff overtime expenses Other Staff allowances holiday pay - other staff account

2.2 Non-compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliances	Impacts	Management Responses	Recommendations
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(a)	Public Enterprise circular No. PED 03/2016 dated on 29 April 2016	The Project had paid the PAYE tax on Rs.4,799,734 from its owned fund without deducting it from the salaries of the respective employees during the period under review.	Project cost is being increased unnecessarily.	PAYE Tax liability of CEB employees has been born by the CEB since its employees were made liable for PAYE Tax. This was informed to the Ministry of Power & Energy and salaries and carder Commission on several times and discussions were also held with Trade union. However, no consensus was reached regarding reverting it back to employees. The Collective Agreement signed on 04-01-2018 has	PAYE tax should deduct from employees' salaries and remitted to the Inland Revenue Department.

been published by extra ordinary Gazette No. 2068/5 dated 23-04-2018. It appears now a violation of the Collective Agreement to change the agreed remuneration and would create further legal repercussions.

(b)	Financial regulations 134(3) and Management Audit Circular No.05 of 26 July 2010.	The transactions of the Project had not been audited by the Internal Audit Section.	Internal controls had not been properly implemented.	Noted	Transactions of the Project should be audited to ensure the efficiency and effectiveness of the project.
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3. Physical Performance

3.1 Physical progress of the activities of the Project

- Out of the allocation of US\$ 30 million equivalent to Rs. 4,865.90 million made under the Loan, only US\$ 18.34 million equivalent to Rs. 3,666.40 million representing 61.13 per cent had been utilized as at 31 December 2019 from the commencement of the activities of the Project.
- As per agreement, the Project had commenced its activities on 01 April 2016 and scheduled to be technically completed by 31 October 2019. However, the Additional General Manager had been approved the extension of the Project period up to 31 October 2020 without being obtained the approval of the Board. Further, no evidence were made available for audit for the approval given by Agence Francaise De Development for the extension of drawdown period requested up to 31 January 2021 by the Ceylon Electricity Board.
- According to progress report as at 31 December 2019, actual physical progress of the Project remained at 73 per cent which is below the expected physical progress of 78 per cent.

3.2 Matters in Contentious Nature

Even though the custom duty had been paid by the Ceylon Electricity Board as per the section 9 – particular conditions of contract agreement, eleven Vehicles Purchased through contract bill had not been registered in the name of Ceylon Electricity Board.