

Clean Energy and Network Efficiency Improvement Project - 2019

The audit of financial statements of the Clean Energy and Network Efficiency Improvement Project for the period 14 months ended 29 February 2020 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 2.09(a) (ii) of the Project Agreement No. SRI 43576 dated 08 May 2013 entered into between the Ceylon Electricity Board and the Sustainable Energy Authority and the Asian Development Bank. 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 Project Agreement of the Project the Asian Development Bank is the Executing Agency and Ceylon Electricity Board is the Implementing Agency of the Project. The objectives of the Project are to increase the clean power supply and improve the efficiency and reliability of the delivery of electricity in Sri Lanka. As per the Loan Agreement, the estimated total cost of the Project was US\$ 200 million equivalent to Rs 25,240 million and out of that US\$ 131.50 million equivalent to Rs 16,595.30 million was agreed to be financed by the Asian Development Bank. The balance amounting US\$ 68.50 million equivalent to Rs. 8,644.70 million was agreed to finance by the Ceylon Electricity Board. The Project had commenced its activities on 30 September 2013 and scheduled to be completed by 30 June 2017. Further, the date of completion of the activities of the Project had been extended up to 30 June 2019.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the section 02 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 29 February 2020, statement of expenditure and its cash flows 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 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.

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.

- 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. Comment of the Financial Statements

2.1 Accounting Deficiencies

Accounting Deficiencies	Impacts	Responses of Management	Auditor's Recommendations
-----	-----	-----	-----
a) The difference was observed between the balance shown in the External Resource Department and financial statements of the Project as at 29 February 2020 in relation to the ADB Contribution due to over recorded exchange losses.	Work in progress and Loan amount overstated in the financial statement.	1. The disbursements mentioned under Items No. 3,4,5,9,10,11 had not been updated in the ERD statements at the time of preparing the project financial statements. Accordingly, the disbursements had been updated in the accounts at the spot rate of transaction. The exchange rate difference between the rate used for the accounting and ERD rate is duly identified and accounted in the 2020 June accounts and loan balances were updated accordingly. 2. The disbursements mentioned under item no 6, 7, 8 are related to a single payment certificate. But disbursement had been done in three instances and under two loan numbers. The net in fact of above three differences is zero.	Exchange rate difference should be recognized at the date of transaction.
b) Bills payable to the contractor under loan no.3483 for the part 01 (Lot-A) of the Project had not been recorded as per the requirements of Note No.2.1 of Project financial statements.	Work in progress amount understated in the financial statement.	This financial statement has been prepared for Loan no 2892/2893 covering the period up to 28 th February 2020. Even though the payables pointed out by auditors are relevant to the accounting period, these balances cannot be taken as payables under the Loan no. 2892/2893 due to. - Account closing of Loan No. 2892/2893 was due on 28 th Feb.2020 - Subsequent payment for these balances was from Loan No.3483.	Cost relevant to the period should be recorded.

3. Physical Performance

3.1 Physical and Financial Progress of the activities of the Project

According to the information made available, the activities of the Project were scheduled to be implemented under 07 parts and out of that 07 parts, the Ceylon Electricity Board is responsible to implement Part 01 to 04 of the Project. The following observations are made on the physical progress of the activities implemented by the Project.

Packages	Audit Issues	Impacts	Responses of Management	Auditor's Recommendations
Package 2 - Lot C	The physical progress of the construction of Thulhiriya–Kegalle, Polpitiya – New Polpitiya, Athurugiriya–Padukka and Athurugiriya–Kolonnawa transmission lines had achieved 86 per cent only behind the expected physical progress of 95 per cent, due to legal action taken by public on land acquisition and delays in payment of compensation under acquisition procedure.	Intended benefits to the stakeholders would not be received in timely manner.	Accepted.	Land acquisition should be completed before the commencement of the project activities to avoid any delay or objections.
Package 3 - Lot B	According to the information received, the works under the construction of 220 New Polpitiya Grid Substation, Padukka Grid Substation and augmentation of Pannipitiya Grid Substation had substantially completed as at 29 February 2020. The work under the laying of transmission lines of 69.20 kilometres from New Polpitiya to Pannipitiya had remained at 99.6 per cent behind the expected target of 100 per cent to be achieved as at 30 June 2019, due to the protest from the public.	Intended benefits to the stakeholders would not be received in timely manner.	Accepted.	Land acquisition should be completed before the commencement of the project activities to avoid any delay or objections.

3.2 System and controls

Audit Issues -----	Impacts -----	Management Responses -----	Auditor's Recommendation -----																														
a) The Project had paid the Pay As You Earn (PAYE) tax of Rs.41,072,974 from its owned fund contrary to the provisions made in the Public Enterprise circular No.PED 03/2016 of 29 April 2016.	Project cost is being increased unnecessarily.	PAYE has been paid to the employees of this project in compliance to the policy of the CEB.	PAYE tax should be deducted from employees' salaries and remitted to the Inland Revenue Department.																														
b) Following vehicles which were handed over by the contractor to CEB had not been recorded in the fixed assets register of part 01(Lot- A) of the Project.	Property Plant & Equipment amount is understated in the financial statement.	The Vehicles handed over by the Contractor has been taken to Books of Accounts of CEB as follows. There was a delay in taking in to books of Accounts due to the prevailed Covid -19 Pandemic Situation and Physical Verification Process.	Transactions should be recorded at the time of occurred.																														
<table border="1"> <thead> <tr> <th>Vehicle Register No.</th> <th>Transfer date for CEB</th> </tr> </thead> <tbody> <tr> <td>WP 0696 PG</td> <td>2020-01-30</td> </tr> <tr> <td>WP 0698 PG</td> <td>2020-01-30</td> </tr> <tr> <td>WP 0700 PG</td> <td>2019-12-24</td> </tr> <tr> <td>WP 6465 CAI</td> <td>2020-01-22</td> </tr> <tr> <td>WP 3948 CAH</td> <td>2019-12-24</td> </tr> </tbody> </table>	Vehicle Register No.	Transfer date for CEB	WP 0696 PG	2020-01-30	WP 0698 PG	2020-01-30	WP 0700 PG	2019-12-24	WP 6465 CAI	2020-01-22	WP 3948 CAH	2019-12-24		<table border="1"> <thead> <tr> <th>Vehicle Registratio n No.</th> <th>Transfer red to CEB</th> <th>Recorded to Books of Accounts of CEB</th> </tr> </thead> <tbody> <tr> <td>WP PG 0696</td> <td>2020.01.30</td> <td>2020.06.01</td> </tr> <tr> <td>WP PG 0698</td> <td>2020.01.30</td> <td>2020.06.01</td> </tr> <tr> <td>WP PG 0700</td> <td>2019.12.24</td> <td>2020.06.01</td> </tr> <tr> <td>WP CAI 6465</td> <td>2020.01.22</td> <td>2020.06.01</td> </tr> <tr> <td>WP CAH 3948</td> <td>2019.12.24</td> <td>2020.06.01</td> </tr> </tbody> </table>	Vehicle Registratio n No.	Transfer red to CEB	Recorded to Books of Accounts of CEB	WP PG 0696	2020.01.30	2020.06.01	WP PG 0698	2020.01.30	2020.06.01	WP PG 0700	2019.12.24	2020.06.01	WP CAI 6465	2020.01.22	2020.06.01	WP CAH 3948	2019.12.24	2020.06.01	
Vehicle Register No.	Transfer date for CEB																																
WP 0696 PG	2020-01-30																																
WP 0698 PG	2020-01-30																																
WP 0700 PG	2019-12-24																																
WP 6465 CAI	2020-01-22																																
WP 3948 CAH	2019-12-24																																
Vehicle Registratio n No.	Transfer red to CEB	Recorded to Books of Accounts of CEB																															
WP PG 0696	2020.01.30	2020.06.01																															
WP PG 0698	2020.01.30	2020.06.01																															
WP PG 0700	2019.12.24	2020.06.01																															
WP CAI 6465	2020.01.22	2020.06.01																															
WP CAH 3948	2019.12.24	2020.06.01																															