

Renewable Energy Absorption Transmission Development Project – 2021/2022

The audit of financial statements of the Renewable Energy Absorption Transmission Development Project for the 15 months ended 31 March 2022 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 amended 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 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 was EURO 41.10 million equivalents to Rs.6,660.10 million and out of that EURO 30 million equivalents 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 EURO 11.1 million equivalents to Rs. 1,794.20 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 01 April 2016 and scheduled to be completed by 30 October 2019 technically.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the paragraph 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 March 2022, statement of project expenditure and its cash flows for the 15 months then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Qualified 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 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 scepticism 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

No	Accounting Deficiencies	Amount	Responses of the Management	Auditor's Recommendations
		Rs. million		
(a)	The estimated useful lives of vehicles of the project and the CEB had been changed from 7 years to 14 years in the year under review. Accordingly, a sum of Rs. 19.25 million had been deducted from the depreciation of the project in the year under review. However, changes in life time of motor vehicles had not been disclosed properly in the financial statements.	19.25	Considering the immateriality of the financial impact on the WIP and CEB Contributions, no adjustments were made for the comparative figures in the FS.	Changes in estimation of life time should be disclosed properly to provide information for users.
(b)	Land and fuel deposits had been remained unsettled even after the deadline of using of AFD funds as at 31 March 2022. Further, capitalization of the work-in-progress had not been completed up to 28 June 2022.	2.8	The follow up actions are made with the authorities to expedite the land acquisition process. The fuel deposits made in various fuel stations. Since the defect liability period is still in progress, the Deposits are kept for site visit purposes. The letters have been sent to the respective Fuel stations to release the deposits. The winding up of the project cannot be done until the Defect Liability period is over.	Deposits should be withdrawn before the end of the Project period.
(c)	Borrowing costs such as interest amount of Rs. 133.08 million and commitment charge of Rs.102.53 million born by the Government during the implementation period of the Project had not been brought to the financial statements.	235.6	The commitment charges and interest relevant to this loan is paid by Ministry of Finance. Since it is borne by a different entity outside CEB, it cannot be accounted as a cost without a proper transaction base even though it is relevant to the project.	All borrowing cost incurred up to construction period should be capitalized.

2.2 Non-Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non- Compliances	Responses of the Management	Auditor's Recommendations
(a)	Public Enterprise Circular No.PED03/2016 dated on 29 April 2016	The Project had paid the Pay As You Earn (PAYE) tax and tax on tax amounting to Rs. 55,233 up to October 2020 out of its owned funds without being deducted it hem from salaries of the respective employees.	CEB has borne the PAYE tax only up to October 2020.APIT from November 2020 was borne by the employees as per the decision taken at the Board.	Personal tax should be deducted from employees' salaries instead of incurred by the Board and remitted to the Inland Revenue Department.
(b)	Financial Regulation 134(3) and Management Audit Circular No.05 of 26 July 2010.	Neither an Internal auditor had been recruited to the project staff nor had transactions of the Project been subjected to audit of the Internal Audit Section of the Ceylon Electricity Board in the year under review.	Internal Audit could not be carried out due to prevailing situation in the country.	Project should be audited by the internal auditor to assure the efficiency and effectiveness of the Project.
(c)	Section 4.3 of the Management Services Circular No.1/2006 dated 23 March 2016.	In Contrary to the provisions of the Circular, leave encashment and bonus aggregating to Rs. 43,124,643 up to 31 March 2022 had been paid to the project staff.	This is in accordance with the CEB's policy and the guidelines pertained to all CEB employees	Comply with the circular instruction.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

Component/Sub Component	As at 31 March 2022		Audit Issue
	Expected physical Performance	Performance Achieved	
<u>Maliboda</u>			There was a delay in adsorbing renewable energy to the national grid by mini hydro power plants.
-Grid Substation	100	100	
-Transmission line	100	100	
<u>Ragala</u>			
-Grid Substation	100	100	
-Transmission line	100	100	
<u>Nawalapitiya</u>			

-Grid Substation	100	100
-Transmission line	100	100
<u>Wewelwatta</u>		
-Grid Substation	100	100
-Transmission line	100	100

Response of the Management All project components (for Grid Substations and related Transmission Lines) have been completed by 25/06/2021 and used for commercial operations of CEB.

Reasons for the delay in completion are:

1. Cancellation of some Tenders for the procurement of Goods and Works.
2. Unexpected amount of rock blasting in Tr. Lines and GS Lands.
3. Easter attack in April 2019, Pandemic situation of Covid 19 resulted travel restriction, shortage of local material (blasting material, Cement, Sand, reinforcement etc.), Leaving of foreign staff from Sri Lanka.
4. Increase of prices drastically in local material, Labour etc.
5. Bad weather prevailed during construction period. (Flood in Grid Substations and Transmission Line site)

Auditor's Recommendation Activities should be completed on time to meet plan of the CEB.

3.2 Issues relating to the Land Acquisition

No	No of plots of Land ----- Expected to be Acquired -----	Acquired as at 31 March 2022 -----	Audit Issue -----
(a)	Ragala Grid Substation	} Ownership was not transferred not yet.	} Land ownership issues will be arisen in future if ownership is not transferred.
(b)	Nawalapitiya G.S.		
(c)	Maliboda G.S.		
(d)	Wewelwatta G.S		
Response of the Management		} Acquisition of land for the GSs is carried out by relevant DSs and is a lengthy process. CEB is continuously following up this process with DS office. However, CEB has limited access to the process.	
Auditor's Recommendation		} Make necessary arrangement to acquire land before completion of the project.	