

## **Green Power Development and Energy Efficiency Improvement Investment Program (Tranche-1) - 2018**

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The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Investment Program (Tranche-1) 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 Section 2.09 (a) of Article II of the Project Agreement No. SRI 47037 dated 20 November 2014 entered into between the Asian Development Bank and the Ceylon Electricity Board. My comment and observation which consider should be reported to the Parliament appear in this report.

### **1.2 Implementation, Objectives, Funding and Duration of the Program**

According to the Facility Administration Manual of the Program, the Ministry of Power, Energy and Business Development is the Executing Agency and the Ceylon Electricity Board is the Implementing Agency of the Program. The objective of the Program is to enhance clean power generation, system efficiency and reliability. As per the Project Administration Manual, the estimated total cost of the Project was US\$ 220 million equivalent to Rs.28,509.80 million and out of that US\$ 180 million equivalent to Rs.23,325.50 million was agreed to be financed by the Asian Development Bank. The balance amount of Rs.5,183.60 million is expected to be financed by the Ceylon Electricity Board. The Program commenced its activities on 02 February 2015 and scheduled to be completed by 30 September 2019.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Table 2.1 of my report, 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 flows for the year 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.

In preparing the financial statements, management is responsible for assessing the Program 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 Program or to cease operations, or has no realistic alternative but to do so.

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

The Program 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 Program.

## **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 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.

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 Deficiency

Accounting Deficiency	Impact	Response of the Management	Recommendation
The proceeds amounting to Rs. 1,924 million disbursed as at 31 December 2018 shown in the records of the Department of External Resources was not agreed with the disbursements amounting to Rs.1,888 million shown in the financial statements of the Program.	Understatement of the balance of the Loan.	Proceeds of disbursement received on Morogolla Hydro Power Project had not been accounted.	Action need to be taken to reconcile the proceeds of the Loan utilized with the records of Department of External Resources.

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

The following observations are made.

Reference to the Laws, Rules and Regulations	Non- compliance	Impact	Management Response	Auditor's Recommendations
(a) Circular No. MOFP/ERD/2007/02 dated on 07 August 2007 of the Ministry of Finance and Planning.	The financial statements of the Program should be submitted to the Auditor General on or before 31 March of each financial year. However, financial statements of the program had been submitted only on 15 May 2019.	Major requirements stipulated in the Circular not fulfilled.	The financial statements of the foreign funded projects are prepared after finalization of the consolidated financial statements of the Ceylon Electricity Board.	Need to adhere with circular instructions.
(b) Section 2.09 (a) of the Project Agreement	No separate Ledger Accounts had been maintained by the Ceylon Electricity Board to record the transactions of the program.	Weaken controls on financial management.	All the Divisions of the Ceylon Electricity Board keeps records related to the operations of the foreign funded projects under their purview.	Separate Ledger Accounts should be maintained by the Ceylon Electricity Board to record the transactions of the Program.

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| (c) | Financial regulation 134(3) and Management Audit Circular No.05 of 26 July 2010. | The transactions of the Program had not been subjected to audit of the Internal Audit Section of the Ceylon Electricity Board.   | Internal Control systems weaken.               | It is scheduled to be carried out audit in next months and will be completed within 2019, as a matter of priority.      | The operations of the Program need to be reviewed by the Internal Audit Section in continuous manner to assure the efficiency and effectiveness of the operations of the Program. |
| (d) | Public Enterprise circular No. PED 03/2016 of 29 April 2016.                     | The Program had paid the Pay As You Earn tax and tax on tax of Rs.34.77 million from its owned fund without deducting it from the salaries of the respective employees during the period under review. | Increased cost of the Program Monitoring Unit. | The PAYE Tax liability of the employees of the Ceylon Electricity Board had been borne by the Ceylon Electricity Board. | PAYE tax should be recovered from gross salaries of the employees.  |

### 3. Physical Performance

#### 3.1 Physical and Financial Progress of the activities of the Program

The activities of the Program comprised with 05 parts and the supervision and monitoring of the activities of such parts of the Program were remained under the purview of the Divisional Heads of the Ceylon Electricity Board. The following observations are made thereon.

<b>Component</b>	<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
(a) Hydropower Generation	Eventhough the consultancy contract awarded to review the bidding documents for the construction of the Hydropower Plant at Moragolla to enhance the hydropower electricity generation capacity had been completed on 27 December 2017, the construction works of the Hydropower Plant and providing of mechanical and electrical facilities thereon etc had remained at the initial	Objective of the Long term Least cost Power Generation Plan may not be achieved.	Due to delays in appointing of Consultants, approvals from the other agencies and the procurements etc, the activities on power generations were remained delay over 3 1/2 years, which beyond control of the Ceylon Electricity Board.	The activities of the Program need to be implemented according to the Action Plan to avoid imposing of commitment charges and achieve the objectives of the Program.

stages even as at 31 December 2018.

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| (b) | Enhanced Transmission Infrastructure Capacity | The physical progress of the construction works of Grid Substation at Kappaiturai and augmentation of Grid Substations at Kerawalapitiya, Katunayaka and Trincomalee to enhance the capacity of electricity transmission infrastructure had remained slow at 75 per cent even after lapse of 04 years of the commencement of the activities of the Program. | -Do -   | Not commented  | -Do - . |
| (c) | Efficiency Medium Voltage Network             | The physical progress of works under the installation high tension electricity lines of 57 kilometers of Batticaloa district and 20 kilometres in Kurunegala district and construction works of gantries at Vaunathive and Madampe to improve the efficiency of medium voltage network had remained at 93.30 per cent as at 31 December 2018.               | -Do-  | The progress of Vavunathive Lines is affected by legal disputes on Tower locations which are beyond the control of Ceylon Electricity Board. | -Do-    |
| (d) | Demand Side Management for Energy Efficiency  | The Smart Metering Pilot Project expected to be implemented under the Component of Demand Side Management for Energy Efficiency Improvements was not completed as at 31 December 2018 even after lapse of 04 months from the scheduled date.  | Commitment fee will be charged for the undisbursed balance. | Not commented.   | -Do-    |

### 3.2 Contract Administration

<b>Audit Issue</b>	<b>Impact</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
The supervision and monitoring of the above mentioned 05 parts of the program were remained under the purview of various Divisional Heads of the Ceylon Electricity Board instead of the Additional General Manager (Projects) who is responsible for the supervision of all donor funded projects handled by the Ceylon Electricity Board.	The supervision and monitoring mechanism was remained weaken and shown slow progress on completion of the activities of the program.	As per Board decision on 25 August 2010, Additional General Manager (Projects) is responsible to execute only Transmission and Generation projects except the rehabilitation of projects.	Need to appoint an officer of senior management responsible for overall supervision and monitoring of the activities of the program.