

## **Green Power Development and Energy Efficiency Improvement Investment Program (Project -1) - 2015**

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The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Program (Project – 1) for the year ended 31 December 2015 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.

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

According to the Facility Administration Manual of the Program, the Executing Agency of the Program is the Ministry of Power and Renewable Energy and the Implementing Agency is the Ceylon Electricity Board. The objective of the Program is to enhance clean power generation, system efficiency and reliability. As a part of the Investment Program, the Project aims to increase renewable energy generation, enhance transmission infrastructure, improve network efficiency and ensure demand side management.

As per the Facility Administration Manual, the total estimated cost of the Program amounted to US\$ 220 million equivalent to Rs 28,509.80 million and out of that US\$ 180 million equivalent Rs.23,325.50 million was agreed to be financed by the Asian Development Bank under the Project-01 of the Program. The activities of the Program had been commenced on 20 November 2014 and scheduled to be completed by 30 September 2019. A summary of the sources of finance is given below.

<b>Source</b>	<b>US\$ million</b>	<b>Rs. million</b>
<b>Asian Development Bank</b>		
Ordinary Capital Resources Loan	121.00	15,680.40
<b>Asian Development Fund</b> Loan	29.00	3,758.10
<b>Agency Franchise Development</b>		
Loan	30.00	3,887.00
<b>Government of Sri Lanka</b>	40.00	5,184.70
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	<b><u>220.00</u></b>	<b><u>28,510.20</u></b>

### **1.3 Responsibility of the Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

#### **1.4 Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Program's preparation and fair presentation of the financial statements 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 Program's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed necessary to assess the following.

- (a) Whether the systems and controls were adequate from the point of view of internal control so as to ensure a satisfactory control over Program management and the reliability of books, records, etc. relating to the operations of the Program.
- (b) Whether the expenditure shown in the financial statements of the Program had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Program.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Program from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Program in financial and physical terms, the assets and liabilities arising from the operations of the Program, the identifications of the purchases made out of the Loan etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Project Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Program.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Program.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards, and
- (h) Whether the financial covenants laid down in the Project Agreement had been complied with.

## **1.5 Basis for Qualified Audit Opinion**

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial Statements**

### **2.1 Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, except for the effects of the adjustments arising from the matters referred to in paragraph 2.2 of this report, I am of opinion that,

- (a) the Program had maintained proper accounting records for the year ended 31 December 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the Statements of Expenditure (SOEs) submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Project Agreement, and
- (d) the financial covenants laid down in the Project Agreement had been complied with.

## **2.2 Comments on Financial Statements**

### **2.2.1 Accounting Deficiencies**

The following observations were made.

- (a) The part payments aggregating Rs. 6.20 million made to the residents in the areas of Uda Palatha and Ganga Ehala Korale Divisional Secretariats for land acquired for the construction of Moragolla Hydropower Plant had been shown under work-in-progress instead of being accounted as advances.
- (b) A sum of Rs. 1.37 million incurred in 2014 by the other Donor Funded Project called “Sustainable Power Sector Support Project” for detailed designing of Moragolla Hydropower Plant had been transferred to this Program in 2015. Further, depreciation amounting to Rs. 2.94 million on plant, property and equipment of the above mentioned Donor Funded Project had also been transferred to this Program during the year under review.

### **2.2.2 Non-Compliance with Laws, Rules and Regulations**

According to the Circular No: MOFP/ERD/2007/2 dated 07 August 2007 of the Ministry of Finance and Planning, the financial statements of the Program for the year under review required to be submitted for audit on or before 31 March 2016 had been submitted only on 24 June 2016.

### 3. Financial and Physical Performance

#### 3.1 Utilization of Funds

Significant statistics relating to the financing, budgetary provision for the year under review and the utilization of funds during the year under review and up to 31 December 2015 are shown below.

Source	Amount agreed for financing in the Project Agreement		Allocation made in the Budget Estimate for the year under review	<u>Funds utilized</u>			
				during the year under review	as at 31 December 2015		
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	180.00	23,326.20	4,361.00	0.80	110.00	0.80	110.00
GOSL	40.00	5,183.60	-	-	-	-	-
CEB	-	-	541.00	1.40	176.70	1.60	205.00
<b>Total</b>	<b><u>220.00</u></b>	<b><u>28,509.80</u></b>	<b><u>4,902.00</u></b>	<b><u>2.20</u></b>	<b><u>286.70</u></b>	<b><u>2.40</u></b>	<b><u>315.00</u></b>

#### 3.2 Physical Progress

- (a) According to the information made available to audit, the civil construction works of the Moragolla Hydropower Plant had not been commenced even after lapse of 13 months from the date of entering into the contract agreement, due to delays in selecting of a Consultant. Further, the physical progress on acquisition of lands for the construction of Hydropower Plant had not been received for audit eventhough a sum of Rs. 6.20 million had been released to the Divisional Secretary, Moragolla in November 2014 for that purpose.
- (b) The contract agreements for the construction of Grid Substation at Kappaiturel and augmentation of Grid Substations Kerawalapitiya, Katunayaka and Trincomalee had been entered in to on 28 December 2015 and other works such as construction works of Grid Substations at Kesbewa and Kalutara and augmentation of old and new Grid Substations in Anuradhapura under the enhancement of capacities of transmission infrastructure had remained at initial stages as at 31 December 2015.
- (c) The other activities of the Program for the purposes of the improvements of efficiency of medium voltage networks and improvement of demand side management for energy efficiency had also remained at the initial stages even after lapse of 01 year of the commencement of the activities of the Program.

### **3.3 Issues on Financial Control**

The responsibility on implementation of the activities of the Program had been segregated and assigned to 03 Divisions of the Ceylon Electricity Board instead of assigning such activities to the dedicated Division established for the implementation of the Donor Funded Projects. Therefore, a proper mechanism for the monitoring of the activities of the Program and disseminate information on physical progress of such activities had not been implemented during the year under review.