

## **CLEAN ENERGY AND NETWORK EFFICIENCY IMPROVEMENT PROJECT (PART - 07) - 2016**

The audit of financial statements of the Clean Energy and Network Efficiency Improvement Project (Part - 07) for the year ended 31 December 2016 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) ii of the Project Agreement No. SRI 43576 dated 08 May 2013 entered into between the Asian Development Bank (ADB) and Ceylon Electricity Board and Sustainable Energy Authority.

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

According to the Agreement of the Project, the Ministry of Power and Renewable Energy is the Executing Agency. The Ceylon Electricity Board and the Sustainable Energy Authority are the Implementing Agencies of the Project. The Ceylon Electricity Board is responsible to implement from Part - 01 to Part - 06 of the Project whilst the Sustainable Energy Authority is responsible for the Implementation of the activities under the Part - 07 of the Project. The audit observations on the activities carried out by the Sustainable Energy Authority under the Part - 07 of the Project are contained in this report. The objectives of the Project are to increase the clean power supply and improve the efficiency and reliability of the distribution of electricity in Sri Lanka. As per the Project Administration Manual, the total estimated cost of the Project amounted to US \$ 200 million equivalent to Rs. 25,240 million and out of that US \$ 3.00 million equivalent to Rs. 378.6 million was allocated for the Part – 07 of the Project. The financial arrangements made for the all parts of the Project are summarized and shown below.

<u>Source</u>	<u>US \$ (million)</u>	<u>SL Rs. (million)</u>
<b>Asian Development Bank</b>		
- Asian Development Fund (Loan No. 2892SRI of 08 May 2013)	30.00	3,786.00
- Ordinary Capital Resources (Loan No. 2893SRISF of 08 May 2013)	100.00	12,620.00
- Clean Energy Fund(Grant No. 0303SRIEF 08 August 2013)	1.50	189.30
<b>Government of Sri Lanka</b>	68.50	8,644.70
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	<b><u>200.00</u></b>	<b><u>25,240.00</u></b>

The Project commenced its activities on 30 September 2013 and scheduled to be completed by 30 June 2017. However, the completion date of the Project is extended to 30 June 2019 subsequently.

**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 Public Sector 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 Project'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 Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 Project management and the reliability of books, records etc., relating to the operations of the Project.
- (b) Whether the expenditure shown in the financial statements of the Project had been satisfactorily reconciled with the enhanced financial reports and progress maintained by the Project.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project incurred out of the funds provided by the Government of Sri Lanka and the Donor Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising from the operations of the Project, the identifications of the purchases made out of the Loan and Grant, etc.
- (d) Whether the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2016 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.

- (e) The Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan and Grant.
- (f) Whether the withdrawals under the Loan and Grant had been made in accordance with the specifications laid down in the Project Loan and Grant Agreement.
- (g) Whether the funds, materials and equipment supplied under the Loans and Grant had been utilized for the purposes of the Project,
- (h) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (i) Whether the financial statements had been prepared on the basis of Sri Lanka Public Sector Accounting Standards, and
- (j) Whether the financial covenants laid down in the Loan and Grant 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 Project had maintained proper accounting records for the year ended 31 December 2016 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2016 in accordance with Sri Lanka Public Sector Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Loan and Grant Agreements, and
- (d) the financial covenants laid down in the Loan and Grant Agreements had been complied with.

## 2.2 Comments on Financial Statements

### 2.2.1 Presentation of the Financial Statements

The following observations are made.

- (a) 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 Projects for the year under review should be submitted to the Auditor General on or before 31 March 2017. However, the financial statements of the Project under review were submitted to Auditor General only on 18 July 2017.
- (b) The Statement of the Management Responsibility for preparation of the financial statements was not included in the financial statements of the Project, as required by the paragraph 19 of the Sri Lanka Public Sector Accounting Standard 01 - Presentation of Financial Statements.

### 2.2.2 Un – reconciled control Accounts

It was observed that the balances aggregating Rs.23.01 million had remained as at 31 December 2015 in 02 Imprest Fund Accounts at the Central Bank of Sri Lanka under the Loans and Grant. However, the corresponding records thereon had not been maintained by the Project to enable to reconcile the balances timely and brought to the financial statements.

## 3. Financial and Physical Performance

### 3.1 Utilization of Funds

Certain significant statistics relating to financing, budgetary provision and utilization of funds during the year under review and cumulative expenditure as at 31 December 2016 are shown below.

Source	Amount agreed to be financed		Allocation made in the Annual Budget Estimates for the year under review	Funds utilized			
	Under loan and Grant Agreements			during the year under review		as at 31 December 2016	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB L2892/2893	1.50	189.30	65.5	0.30	45.60	0.30	45.60
ADB Grant 303	1.50	189.30	34.0	0.30	50.00	0.40	62.00
GOSL	0.08	10.00	1.0	0.20	2.30	0.02	2.90
<b>Total</b>	<b><u>3.08</u></b>	<b><u>388.60</u></b>	<b><u>100.5</u></b>	<b><u>0.80</u></b>	<b><u>97.90</u></b>	<b><u>0.72</u></b>	<b><u>110.50</u></b>

**3.2 Physical Progress**

According to the Implementation Plans, the Project should take action to implement the Solar Rooftop Power Generation Pilot Project which includes an options for installing the rooftop systems on public buildings and universities under the Public - Private Partnership agreements and facilitate for sustainable private sector participation in solar rooftop of other private entities such as hotels, private factories, commercial entities. According to the information made available, the Project had taken action during the year under review to install solar rooftop systems of 04 national universities of Peradeniya, Jaffna, Ruhuna and Moratuwa and a sum of Rs. 77.16 million had been awarded by the Project as grants for the beneficiary institutions. Further, out of 18 private developer companies selected as the beneficiary institutions, the installation of solar power system had been completed only in 12 private institutions as at 31 December 2016. However, a sum of Rs. 45.66 million had been released as Loans for respective institutions through a License Commercial Bank.

**4. Issues on Financial Controls**

The transactions of the Project had not been subjected to audit of the Internal Audit Section of the Sustainable Energy Authority, as required by the Financial Regulation 134(3) and Management Audit Circular No. 05 of 26 July 2010.