

## **Green Power Development and Energy Efficiency Improvement Investment Program (Project - 1) - 2016**

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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 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) 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 Program**

According to the Facility Administration Manual of the Program, the Ministry of Power and Renewable Energy 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 a part of the Investment Program, the Program 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 to Rs.23,325.50 million was agreed to be financed by the Asian Development Bank under the Project-01 of the Program. The Program commenced its activities on 02 February 2015 and scheduled to be completed by 30 September 2019. The financing arrangement had been made under two Loan Agreements and the details of financing and the sources of finance are given below.

<b>Source</b>	<b>US\$ million</b>	<b>Rs. million</b>
Asian Development Bank		
Ordinary Capital Resources (OCR) Loan	121.00	15,680.40
Asian Development Fund Loan	29.00	3,758.10
Agency Franchise Development Loan	30.00	3,887.00
Government of Sri Lanka	40.00	5,184.70
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<b>Total</b>	<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 Loans etc.
- (d) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Project Agreement.
- (e) Whether the funds, materials and equipment supplied under the Loans 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.
- (h) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (i) Whether the financial covenants laid down in the Project Agreement had been complied with.

## **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, I am of opinion that,

- (a) the Program 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 Program as at 31 December 2016 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,
- (d) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (e) the financial covenants laid down in the Project Agreement had been complied with.

## **2.2 Comments on Financial Statements**

### **2.2.1 Presentation of the Financial Statements**

According to the Circular No. MOFP/ERD/2007/2 of 07 August 2007 of the Ministry of Finance and Planning, the financial statements of the Program (Project-1), for the year ended 31 December 2016 are required to be submitted to the Auditor General on or before 31 March 2017. However, the financial statements for the year under review had been presented for audit only on 01 June 2017.

## **3. Financial and Physical Performance**

### **3.1 Utilization of Funds**

Certain 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 2016 are shown below.

Source	Amount agreed to be financing as per the Project Agreement		Allocations made in the Budget Estimates for the year under review	Funds utilized			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. million
ADB	180.00	23,325.50	3,958.00	4.32	640.00	5.07	750.00
GOSL	40.00	5,183.60	-	-	-	-	-
CEB	-	-	450.00	2.05	303.00	3.40	504.00
<b>Total</b>	<b><u>220.00</u></b>	<b><u>28,509.10</u></b>	<b><u>4,408.00</u></b>	<b><u>6.37</u></b>	<b><u>943.00</u></b>	<b><u>8.47</u></b>	<b><u>1,254.00</u></b>

It was observed that US\$ 5.07 million equivalent to Rs. 750 million representing 2.8 per cent of the allocation of US\$ 180 million equivalent to Rs. 23,325.50 million had been utilized as at 31 December 2016 even after lapse of 01 ½ years from the date of commencement of the activities of the Project. Therefore, the possibility of utilization of the entire allocations of the Loans during the rest of the period of 2 ½ years is remained in doubt.

### 3.2 Physical Progress

According to the information made available, the activities of the Program (Project-1) comprised with 04 major parts and the physical progress of the activities carried out as at 31 December 2016 are described as follows.

- (a) The consultancy contract to review the bidding documents for the construction of the Hydropower Plant at Moragolla to enhance the hydropower electricity generation capacity had been awarded on 24 October 2016 and the Consultant had commenced the works only on 01 December 2016. Further, the land acquisition activities for the construction of Hydropower Plant at Moragolla had not been completed as at 31 December 2016, eventhough a sum of Rs. 7.20 million had been deposited at the offices of the Divisional Secretariats of Uda Palatha and Ganga Ehala Korale in November 2014.
- (b) It was observed that the physical progress of the construction works of Grid Substation at Kappaiturai and augmentation works of Grid Substations at Kerawalapitiya, Katunayaka and Trincomalee to be carried out to enhance the electricity Transmission Infrastructure Capacity were remained slow at 21 per cent due to delays in selection of the contractor. Further, the construction of Grid Substation at Kesbewa and Kalutara and augmentation of old Grid Substations in Anuradhapura had remained at initial stages as at 31 December 2016 due to delays in selection of suitable contractors for the respective purposes.

- (c) The works under the installation of 33 KV medium voltage lines of 92 kilometres and construction of gantries at Vaunathive and Madampe to improve the efficiency of medium voltage network of the Ceylon Electricity Board had not been commenced even as at 31 December 2016, due to delays in clearance of the preliminary line and works on profile designing etc by the Ceylon Electricity Board. However, the mobilization advances amounting to Rs. 110.11 million had been made to the contractor in December 2015.
- (d) It was observed that the Program had not taken action to initiate the activities under improvement of the Demand Side Management for Energy Efficiency even as at 31 December 2016. Therefore, the sub activities to be carried out for demand side management purposes such as usage of smart grid and metering technologies, retrofitting buildings technology with smart energy saving and installation of cold thermal storage in selected buildings in Colombo to achieve energy saving targets etc had not been carried out.

### **3.3 Un-economic Transaction**

It was observed that the contractors who engaged with the activities of the Program (Project-1) were allowed to import motor vehicles directly for the use of their activities. Therefore, 21 motor vehicles were procured at a cost of Rs. 225.50 million during the year under review and previous year, out of the funds provided by the Program (Project-1). However, no evidence had been received thereon to prove the concurrence of the Lending Agency. Further, the detailed audit carried out in this regard had revealed that the similar types of motor vehicles could have been procured at a cost of Rs. 201.15 million, if the Ceylon Electricity Board had taken action to import motor vehicles directly.

### **3.4 Financial Controls**

The following observations are made.

- (a) The transactions of the Project had not been subjected to audit of the Internal Audit Section of the Ceylon Electricity Board, as required by the Financial Regulation 134(3) and Management Audit Circular No. 05 of 26 July 2010.
- (b) The activities of the Program (Project-1) comprised with 05 parts and the supervision and monitoring of the activities of such parts of the Program (Project-1) were remained under the purview of various Divisional Heads of the Ceylon Electricity Board instead of the Additional General Manager who is responsible for the supervision of all donor funded projects handled by the Ceylon Electricity Board.