

Renewable Energy Absorption Transmission Development Project - 2017

The audit of financial statements of the Renewable Energy Absorption Transmission Development Project for the first accounting year ended 31 December 2017 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 11.5 of AFD Loan Agreement No: 101104 L of 02 October 2015 and Section 3.4.3 (h) of amended AFD Loan Agreement No: CLK 101104 L of 18 November 2016 entered into between the Democratic Socialist Republic of Sri Lanka and Agence Francaise De Development (AFD).

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Loan Agreements of the Project, the Ministry of Power, Energy and Business Development is the Executing Agency and Ceylon Electricity Board is the Implementing Agency of the Project. The main objective of the Project is to absorb renewable energy to national grid by increasing energy grid absorption capacity and decreasing the average production costs. As per the Loan Agreement, the total estimated cost of the Project amounted to USD 46.40 million (EUR 41.10 million) equivalent to Rs.6,660.10 million and out of that USD 33.9 million (EUR 30.0 million) equivalent to Rs.4,865.90 million was agreed to be financed by the Agence Francaise De Development. The Project commenced its activities on 01 April 2016 and scheduled to be completed by 30 September 2019. However, the civil construction works had been commenced on 06 January 2018 and scheduled to be completed by 05 January 2020.

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 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 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 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 reports maintained by the Project,
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Project from the funds of the Government of Sri Lanka and the Lending 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 etc.
- (d) Whether the withdrawals under the Loan had been made in accordance with the specifications laid down in the Loan Agreements,
- (e) Whether the funds, materials and equipment supplied under the Loan had been utilized for the purposes of the Project,
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project,
- (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 Loan Agreements 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 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided, and
- (c) the financial covenants laid down in the Project Loan Agreements 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 Projects for the year ended 31 December 2017 are required to be submitted to the Auditor General on or before 31 March 2018. However, the financial statements for the year under review had been presented for audit only on 05 December 2018.

2.2.2 Accounting Deficiency

A sum of Rs.67.10 million spent by the Ceylon Electricity Board for purposes of preliminary survey, construction of stores and soil investigation in 2016 had been shown under the consultancy fees in the financial statements whilst showing of the initial expenses amounting to Rs.98.3 million spent by the Ceylon Electricity Board in 2016, under the work in progress.

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 2017 are shown below.

Source	Amount agreed to finance as per Loan Agreement		Budgetary Provision made in the Annual Estimates for the period under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		US\$ million	Rs. million	US\$ million	Rs. Million
AFD	33.90	4,865.90	1,306.00	5.43	820.90	5.43	820.90
GOSL	12.50	1,794.20	-	-	-	-	-
CEB	-	-	225.00	1.25	178.70	1.81	274.10
Total	<u>46.40</u>	<u>6,660.10</u>	<u>1,531.00</u>	<u>6.68</u>	<u>999.60</u>	<u>7.24</u>	<u>1,095.00</u>

3.2 Physical Progress

Eventhough the initial Loan Agreement was signed on 02 October 2015, the activities of the Project had been commenced only on 01 April 2016, out of the funds allocated by the Ceylon Electricity Board. According to the Implementation Plans of the Project, the construction works of grid substations at Maliboda, Nawalapitiya, Ragala and Wewalwatta and related transmission lines scheduled to be completed on 30 September 2019 had been commenced only on 06 January 2018 and expected to be completed on 06 January 2020. According to the information received, there was no significant physical progress reported at the end of the period under review on the construction works of the respective grid substations and transmission lines.

3.3 Issues on Financial Controls

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.