

## **Clean Energy and Network Efficiency Improvement Project -2017**

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The audit of financial statements of the Clean Energy and Network Efficiency Improvement Project for the 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 Article 2.09(a) (ii) of the Project Agreement No. SRI 43576 dated 08 May 2013 entered into between the Ceylon Electricity Board (CEB) and Sustainable Energy Authority and the Asian Development Bank (ADB).

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

According to the Loan Agreements No.2892 SRI and 2893 SRI of 08 May 2013 entered under the above mentioned Project Agreement, the Ministry of Power and Renewable Energy is the Executing Agency of the Project. The Ceylon Electricity Board is responsible to implement the Part 01 to Part 06 of the Project whilst the Sustainable Energy Authority is responsible to implement the Part 07 of the Project. The observations on the activities carried out by the Ceylon Electricity Board under the Part 01 to Part 06 of the Project are included in this report. The objectives of the Project are to increase the clean power supply and improve the efficiency and reliability of the delivery of electricity in Sri Lanka. As per the Project Administration Manual, the estimated total cost of the Project amounted to US \$ 200 million equivalent to Rs.25,240 million and out of that US \$ 131.50 million equivalent to Rs.16,595.30 million representing 66 per cent was agreed to be provided by the Asian Development Bank. The Project commenced its activities on 30 September 2013 and originally scheduled to be completed by 30 June 2017. However, the completion date of the Project had been extended upto 30 June 2019.

### **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.
- (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,
- (h) Whether 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 lay 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,
- (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 Project Loan Agreements,
- (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 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/2007/02 of 07 August 2007 of the Ministry of Finance and Planning, the financial statements of the Project are required to be submitted to the Auditor General within 03 months after the financial year. However, the financial statements of the Project for the year under review had been submitted for audit only on 19 June 2018.

### **2.2.2 Accounting Deficiency**

The following observations are made.

- (a) A sum of Rs. 66.30 million spent by the Project during the year under review, out of the contribution received from the Ceylon Electricity Board to meet the recurrent expenditure for network energy efficiency improvement purposes had not been brought to the financial statements.
- (b) It was observed that 09 motor vehicles procured by the Project at a cost of Rs. 123.71 million and transferred subsequently to the Ceylon Electricity Board had been shown in the financial statements of the Project under the plant, property and equipment and work-in-progress.

### **2.2.3 Un-reconciled Balance**

The total disbursement of the Loans amounting to Rs. 12,858 million as at 31 December 2017 shown in the records of the External Resources Department had not been agreed with the corresponding balance of disbursements aggregating Rs.12,512 million shown in the statement of financial position of the Project as at that date.

## **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 2017 are shown below.

Source	Amount agreed for financing in the Loan Agreements		Allocation made in the Budgeted Estimate for the year under review	Funds utilized			
				during the year under review		as at 31 December 2017	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB	131.50	16,595.30	6,033.00	36.56	5,544.00	82.52	12,512.00
GOSL	68.50	8,644.70	-	-	-	-	-
CEB	-	-	560.00	3.57	542.00	12.08	1,832.00
<b>Total</b>	<b><u>200.00</u></b>	<b><u>25,240.00</u></b>	<b><u>6,593.00</u></b>	<b><u>40.13</u></b>	<b><u>6,086.00</u></b>	<b><u>94.60</u></b>	<b><u>14,344.00</u></b>

### 3.2 Physical Progress

The following observations are made.

- (a) According to the information made available, 89 per cent of physical works of the constructions of new electricity transmission line from Anuradhapura to Manner had been achieved as at 31 December 2017. However, the construction works of Grid Substation in Manner had remained at the initial stage due to changes of the scope of works.
- (b) It was observed that the construction works of Kegalle Grid Substation and augmentation of Grid Substation at Thulhiriya had not been completed as at 31 December 2017 due to delays in completion of laying of electricity transmission lines thereon. Further, the works on installation of Breaker Switches of Grid Substations at Biyagama, Sapugaskanda, and Kolonnawa commenced with delays due to disputes in land acquisition and access facilities had not been completed even as at 31 December 2017. The physical progress of the construction of transmission lines from Thulhiriya to Kegalle, Athurugiriya to Padukka and Athurugiriya to Kolonnawa had remained behind the targets due to delays in receiving of the approvals from respective Divisional Secretariats, alternation of the original routes and public protests etc.,
- (c) It was observed that the proper attention had not been made by the Project to communicate the residents in the areas on laying of transmission lines and as a result, the works under the construction of transmission line from Polpitiya to Pannipitiya through Padukka had remained behind the targets. The acquisitions of land for this purpose at 13 locations in Magamma in Padukka could not be completed due to public protests whilst 04 other court cases had been filed by the affected land owners against the construction of transmission lines.

### **3.2.1 Management Inefficiencies**

Commitment charges amounting to Rs.4.71 million had been recovered by the Lending Agency during the year under review, due to delays in producing of reimbursement claims in the scheduled time.

### **3.2.2 Matters in Contentious Nature**

The following observations are made.

- (a) It was observed that the contractors engaged in the civil construction works of the Project had hired 05 houses in Kahatagasdigiya, Kebithigollewa, Pothuwil, Akkarapaththu and Kiribatkumura areas for residential purposes of the staff deployed by the respective contractors. However, the rate of Rs.350,000 per month per house had remained excessive compared with the current market rates prevailed in the area and a sum of Rs.12.95 million had been reimbursed by the Project as at 31 December 2017 thereon.
- (b) The trip sheets certified by the Site Engineers of the Project, instead of monthly running charts had been produced for audit to verify the movement of 11 motor vehicles procured by the Project through the contractors to provide transport facilities to the staff of the Project. As a result, the fuel and maintenance cost amounting to Rs.27.23 million paid to the contractor could not satisfactorily be vouched and accepted in audit.

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

The following observations are made.

- (a) The activities of the Project comprised with 04 Parts and the supervision and monitoring of the activities of such Parts of the Project 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.
- (b) No separate ledger accounts had been maintained for the Project by the Ceylon Electricity Board in terms of Section 2.09 (a) of the Project Agreement.