

## **Clean Energy and Network Efficiency Improvement Project - 2018**

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The audit of financial statements of the Clean Energy and Network Efficiency Improvement Project for the year ended 31 December 2018 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 and the Sustainable Energy Authority and the Asian Development Bank. My Comments and observations which I consider should be reported to the parliament appear in this report.

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

According to the Project Agreement of the Project the Ministry of Power and Renewable Energy is the Executing Agency and Ceylon Electricity Board is the Implementing Agency of the Project. The objective of the Project is 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 was US\$ 200 million equivalent to Rs.25,240 million and out of that US\$ 131.50 million equivalent to Rs.16,595.30 million was agreed to be financed by the Asian Development Bank. The balance amount of Rs. 8,644.7 million is expected to be financed by the Ceylon Electricity Board. The Project had commenced its activities on 30 September 2013 and scheduled to be completed by 30 June 2017. However, the date of completion of the activities of the Project had been extended up to 30 June 2019.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Qualified Opinion**

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.5 Responsibilities of management and those charged with governance for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going

concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

## **1.6 Auditor's Responsibilities for the audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

## 2. Comments on Financial Statements

### 2.1 Accounting Deficiency

### 3. Physical Performance

Accounting Deficiency	Impact	Management Response	Recommendation
According to the records of the External Resources Department, a sum of Rs. 14,292.75 million had been disbursed by the Project as at 31 December 2018. However, according to the financial statements of the Ceylon Electricity Board, the disbursements amounting Rs.13,962.63 million had been made by the Project as at 31 December 2018.	Value of work - in - progress shown in the financial statement is understated.	Not properly commented.	All the disbursements should be recorded on time and need to be timely reconcile with corresponding records.

### 3.1 Physical and Financial Progress of the activities of the Project

According to the information made available, the activities of the Project were scheduled to be implemented under 07 parts and the Ceylon Electricity Board was responsible to implement Part 01 to Part 04 of the Project. The works under the Part 04 of the Project had substantially completed as at 31 December 2018. The following observations are made on the physical progress of the activities implemented under the Part 01 to Part 03 of the Project.

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
(a) The progress of works on construction of Manner Grid Substation under the Part 01 of the Project had remained at 42 per cent as at 31 December 2018, behind the target of 76 per cent to be achieved as at that date, due to the subsequent changes made on the scope of the works.	The intended benefits to the stakeholders would not be received in timely manner.	Comments not received.	Monitoring mechanism applied by the Ceylon Electricity Board on the activities of the Project need to be strengthen.

- (b) The physical progress of the construction works of transmission lines of Thulhiriya - Kegalle, Polpitiya- New Polpitiya, Athurugiriya -Padukka and Athurugiriya - Kolonnawa had remained at 85 per cent only, eventhouh it was expected to be completed as at 31 December 2018. The legal actions taken by the general public and delays in settlement of compensation on land acquired had resulted to slow progress in completion of the respective works - Do - - Do - - Do -
- (c) Eventhough the construction works of New Polpitiya Grid Substation, Padukka Grid Substation and augmentation of Pannipitiya Grid Substation had substantially completed as at 31 December 2018, the works under the laying of transmission lines from New Polpitiya to Pannipitiya through Paddukka had remained at 85 per cent behind the target to complete the works as at 30 April 2018, due to the public protests. - Do - - Do - - Do -

### 3.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendations
The supervision and monitoring of 04 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.	The supervision and monitoring mechanism applied by the Project was remained weaken and shown slow progress on completion of the activities of the Project.	Noted, as per Board decision on 25 August 2010, Additional General Manager (Projects) is responsible to execute only Transmission and Generation projects except the rehabilitation projects.	A responsible person should be appointed for the overall supervision and monitoring of the Project.

### 3.3 System and Controls

Audit Issue	Impact	Management Response	Auditor's Recommendation
(a) According to the Circular No. MOFP/ERD/2007/02 dated on August 2007 of the Ministry of Finance and Planning the financial statements of the Project should be submitted to the Auditor General on or before 31 March of each financial year. However, financial statements of the Project had been submitted only on 08 May 2019.	A major requirement of the circular instructions not achieved.	The financial statements of the Project may not be prepared until finalizing of the financial statements of the Ceylon Electricity Board. .	Financial statements should be submitted for the audit before due date.
(b) The separate Ledger Account required to be maintained as per the Section 2.09 (a) of the Project Agreement had not been maintained by the Ceylon Electricity Board to record the transactions of the Project.	Expenses of the Project may not be clearly identified and possible misstatement or omission of the transaction.	The separate books of accounts and financial statements are maintained at each cost centres.	Separate Ledger Accounts should be maintained by the Ceylon Electricity Board to record the transactions of the project.
(c). The transactions of the Project had not been subjected to audit of the Internal Audit Section of the Ceylon Electricity Board as per Financial regulation 134(3).	Internal control may not be properly implemented.	Noted. However, this was beyond over scope.	Project should be audited to assure the efficiency and effectiveness of the project.
(d) The Project had paid the Pay As You Earn (PAYE) tax of Rs.36.32 million from its owned fund contrary to the provisions made in the Public Enterprise Circular No.PED 03/2016 of 29 April 2016.	Project cost is being increased unnecessarily.	As a practice, The PAYE tax liability of Ceylon Electricity Board employees has been borne by the Board .	PAYE tax should be deducted from employees' salaries and remitted to the Inland Revenue Department.