

Renewable Energy Absorption Transmission Development Project - 2018

The audit of financial statements of the Renewable Energy Absorption Transmission Development 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 provisions in the Loan Agreement No. CLK 101104 L dated 02 October 2015 and Section 3.4.3 (h) of the Loan Agreement No. CLK 101104 L dated 18 November 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the Agence Francaise De Development. My comments and observations which I consider should be reported to Parliament appear in this report

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 objective of the Project is to absorb renewable energy to national grid by increasing renewable energy grid absorption capacity and decreasing the average production cost. The activities of the Project are implemented under four components namely constructions of 132/33Kv Grid Substations in Maliboda, Wewalwatta, Nawalapitiya, Ragala. As per the Loan Agreements, the estimated total cost of the Project amounted to EURO 41.10 million equivalent to Rs.6,660.10 million and out of that EURO 30 million equivalent to Rs.4,865.90 million was agreed to be financed by Agence Francaise De Development. The balance amount of Rs. 1,794.20 million is expected to be financed by the Government of Sri Lanka. The Project commenced its activities on 01 April 2016 and scheduled to be completed by 30 October 2019.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 02 of my report, the accompanying 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 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 Deficiencies

The following observations are made.

No	Accounting Deficiency	Amount Rs. million	Impact	Response of the Management	Auditor's Recommendation
(a)	The proceeds amounting to Rs. 1,252.91 million disbursed as at 31 December 2018 shown in the Department of the External Resources was not agreed with the disbursements amounting to Rs.907.47 million shown in the financial statements of the Project.	345.44	Understatement of work-in-progress.	The drawdown confirmations received from Donor Agency for the payment made by them was considered in financial statements prepared by Ceylon Electricity Board for the year 2018.	A sum of Rs. 345.44 million confirmed by the Donor Agency need to be taken in to consideration.
(b)	The contribution of the Ceylon Electricity Board amounting to 893.16 million shown in the financial statements had been overstated by Rs.3.63 million, due to erroneous accounting treatment.	3.63	Overstatement	According to the Generally Accepted Accounting Principles, accrued basis had been adopted for the preparation of Project financial statement.	Need to rectify the accounting error.

2.2 Non-compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Non-compliance	Impact	Response of the Management	Auditor's Recommendation
Circular No. MOFP/ERD/2007/02 dated on 07 August 2007 of the Ministry of Finance and Planning	Eventhough the financial statements for the year ended 31 December 2018 required to be submitted to audit on or before 31 March 2019, had been submitted only on 10 April 2019.	Not adopted with major requirement stipulated in the circular instructions.	Not commented	The financial statements should be submitted for the audit on due dates.

3. Physical Performance

3.1 Physical progress of the activities of the Project

According to the Action Plan of the Project, the Grid substations at Maliboda and Wewalwatte in the Sabaragamuwa Province and Nawalapitiya and Ragala in the Central Province are expected to be constructed during the period of the Project. According to the progress reports of the Project, overall progress of the works under the construction of grid substations and transmission lines had remained at 37.5 per cent behind the expected target of 42 per cent to be achieved as at 31 December 2018. However, 03 contracts on supply of materials and goods, out of 15 contracts awarded thereon had been completed as at 31 December 2018.

3.2 System and Controls

The following observations are made.

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
(a) The Fixed Asset Register of the Project had not been maintained properly by Project Monitoring Unit, as required by the Treasury Circular No. 842 dated 31 December 1978.	Existence of the assets could not be verified.	The Register of Fixed Assets is available for audit purpose and also Fixed asset details are available for all cost centres.	Register of Fixed Assets should be maintained in updated manner.
(b) According to Financial regulation 134(3) and Management Audit Circular No.05 of 26 July 2010, the transactions of the Project had not been audited by the Internal Audit Section of the Ceylon Electricity Board.	Internal controls may not be properly implemented.	Not commented	The transactions of the Project should be audited by the Internal Audit Section.