

Renewable Energy Absorption Transmission Development Project - 2020

The audit of financial statements of the Renewable Energy Absorption Transmission Development Project for the year ended 31 December 2020 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 Credit Facility agreement No CLK 101104 L dated 02 October 2015 and section 3.4.3(h) of amended Credit Facility 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 (AFD). 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 Credit Facility Agreement of the Project, the Ministry of Power 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, decreasing the average production cost and enabling the private sector association. 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 was EURO 41.10 million equivalents to Rs.6,660.10 million and out of that EURO 30 million equivalents to Rs.4,865.90 million was agreed to be financed by Agence Francaise De Development used to finance parts of the contracts for supply of equipment and for works. The balance amount of EURO 11.1 million equivalents to Rs. 1,794.20 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 01 April 2016 and scheduled to be completed by 30 October 2019 technically.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2020, statement of project expenditure 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.

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

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 scepticism 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

No	Accounting Deficiencies -----	Amount ----- Rs.	Responses of the Management -----	Auditor's Recommendations -----
(a)	Five vehicles valued at Rs.71,855,666 procured by the Project had been subsequently transferred to the Ceylon Electricity Board. However, value of those vehicles had not been included in the non-current assets, even though those vehicles were utilized for the Project related activities.	71,855,666	The current practice of the Projects Division is to keep the assets in the work in progress account until the asset's ownership is transferred to the name of the CEB. All the assets in the name of CEB are transferred to AGM -Projects Cost Centre in order to maintain centralized assets data base within the division.	Assets purchased for the Project should be shown as Project assets.
(b)	Value of eight numbers of vehicles which were procured by the Project had been shown under work-in-progress account instead of being shown under the non-current assets separately in the financial statements. As a result, balance of the work-in-progress account had been overstated by the same amount.	-	The current practice of the Projects Division is to keep the assets in the work in progress account until the asset's ownership is transferred to the name of the CEB. All the assets in the name of CEB are transferred to AGM -Projects Cost Centre in order to maintain centralized assets data base within the division.	Assets purchased for the Project should be separately shown as Project assets.
(c)	Net exchange gain of Rs.79,442,841 had been deducted from the work-in-progress instead of being shown under the non-current liabilities of the financial statements. As a result, balance of the work-in-progress account had been understated by the same amount	79,442,841	Noted and corrective actions will be taken.	Correct accounting procedure should be applied.

2.2 Non-Compliance with Rules and Regulations

No	Reference to the Rules and Regulations	Non- Compliance	Responses of the Management	Auditor's Recommendations
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(a)	Public Enterprise circular No.PED03/2016 dated on 29 April 2016 and Department of Inland Revenue Circular No. SEC/2020/03(revised) dated on 08 June 2020.	The Project had paid the PAYE tax / Advanced Personal Income Tax (APIT) of Rs.538,202 from its owned fund without deducting it from the salaries of the respective employees during the period under review.	PAYE Tax liability of CEB employees has been born by the CEB since its employees were made liable for PAYE Tax. This was informed to the Ministry of Power & Energy and salaries and carder Commission on several times and discussions were also held with Trade union. However, no consensus was reached regarding reverting it back to employees. The Collective Agreement signed on 04-01-2018 has been published by extra ordinary Gazette No. 2068/5 dated 23-04-2018. It appears now a violation of the Collective Agreement to change the agreed remuneration and would create further legal repercussions.	Personal tax should be deducted from employees' salaries by the Board and remitted to the Inland Revenue Department.
(b)	Financial Regulation 134(3) and Management Audit Circular No.05 of 26 July 2010.	Neither Internal auditor had been recruited within the project staff nor transactions of the Project had been subjected to audit of the Internal Audit Section of the Ceylon Electricity Board during the year under review.	Internal Auditing is carried out by internal Audit branch of CEB and they carry out auditing in sample basis throughout the CEB.	The Project should be audited by the internal auditor to assure the efficiency and effectiveness of the Project.

- (c) Section 4.3 of the Management Services Circular No.1/2006 dated 23 March 2016. Contrary to the provision, leave encashment and bonus aggregating to Rs.24,813,513 up to 31 December 2020 had been paid to the project staff. This is in accordance with the CEB's policy and the guidelines pertained to all CEB employees. Actions should be taken to comply with the regulations.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component -----	As at 31 December 2020 -----		Reasons for delays -----
	Expected physical performance ----- Percentage	Performance achieved ----- Percentage	
Maliboda -Grid Substation	100	100	-
-Transmission line	100	100	
Ragala -Grid Substation	95	93	Not responded.
-Transmission line	95	93	
Nawalapitiya -Grid Substation	95	93	Not responded.
-Transmission line	95	98	
Wewalwatta -Grid Substation	100	100	-
-Transmission line	100	100	

Response of the Management Not responded

Auditor's Recommendation Activities should be met on time to meet the plan of the Board.

3.2 Contract Administration

Audit Issue -----	Response of the Management -----	Auditor's Recommendation -----
It was observed that, Key Posts of Project Director and accountant were filled on acting basis from October 2020 and January 2019 respectively	Not responded	Key Posts should be filled by officers who can occupied fulltime to implement project properly.

3.3 Observations made on site visits

Audit Issue -----	Response of the Management -----	Auditor's Recommendation -----
Although, The project should be technically completed on 30 October 2019, the Ragala Grid Substation had been energized and connected to the National Grid System on 20 May 2021 and the Nawalapitiya Grid substation had been commissioned on 07 February 2021 with a delay of 1 year and 3 months.	Not responded	Activities should be met on time to meet the plan of the Board.

3.4 Matters in Contentious Nature

Audit Issue -----	Response of the Management -----	Auditor's Recommendation -----
(a) Although The project is in the final stage, it was constructed four sub grids on the private property which lands of 6.0032 hectares should be acquired to the Divisional Secretaries of relevant areas and then steps should be taken to give long term lease basis to the Board.	Lands selected for Maliboda, Wewalwatta, Nawalpitiya and Ragala GSs will be leased to CEB by relevant Divisional Secretaries. Divisional Secretaries have given written permission to construct the GSs. CEB will pay the lease when requested by Divisional Secretaries at the completion of acquisition process.	Need to make necessary arrangement to lease the assets before completion of the Project
(b) Vehicles purchased under the contract bill and custom duty paid by the CEB had not been registered under the name of Ceylon Electricity Board.	Vehicles supplied by the contractors for the Engineers' transport will be registered under CEB at the completion of the Project.	Vehicles purchased under contract bills and custom duty paid by CEB should be registered under name of the CEB.