

Renewable Energy Absorption Transmission Development Project - 2022

The audit of financial statements of the Renewable Energy Absorption Transmission Development Project for the year ended 31 December 2022 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. 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, then the Ministry of Power, presently the Ministry of Energy 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 Credit Facility Agreement, 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. 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 06 January 2018 and scheduled to be completed by 31 October 2019. However, the date of completion of the activities of the project had been extended up to 31 December 2023.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the paragraph 2.1 of this report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022, 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 Deficiency	Amount Rs Million	Response of the Management	Auditor's Recommendation
(a)	There was a difference of Rs.6.6 million between the disbursement shown in the statement of Department of External Resources and the disbursement shown in the project Financial Statement as at 31 December 2022. However, it had not been reconciled.	6.6	<p>The total contribution made by AFD amounts to EURO 23,119,580 and all the interim payment certificates for the payments through AFD have been duly accounted.</p> <p>The payment certificate for the amount disbursed for Euro 28,227 (equivalent USD 30,430.28), has not been recorded in the statement of the Department of External Resources.</p>	Actions should be taken to clear the differences and state the AFD Contribution accurately.
(b)	The cost of motor vehicles purchased through AFD funds amounting to Rs. 182.7 million had not been shown under the property, plant and equipment of the statement of financial position of the project as at 31 December 2022. As a result, vehicle balances as at 31 December 2022 had been understated by that amount.	182.7	This has been already rectified in the year 2023 Project Financial Statements of REATDP.	It should be complied with the relevant accounting policy of the financial statements.
(c)	Interest income for Special Foreign Currency Bank account amounting to Rs. 1 million and Rs. 0.4 million related to the year under review had been credited to the contractor's account and the capital expenditure account respectively without being recorded in the CEB contribution account.	1.4	This has been already rectified in the year 2024 Project Financial Statements of REATDP.	Interest Income from Special Foreign Currency Bank Account should be accounted accurately.

(d) Cost of a motor vehicle purchased through AFD funds amounting to Rs 13.2 million transferred from contractor to CEB during the year under review had not been credited to working progress. As a result, contractor account had been overstated by that amount.	13.2	This has been already rectified in the year 2024 Project Financial Statements of REATDP.	Cost of transferred vehicle should be accounted accurately.
(e) Land and fuel deposit amounting to Rs. 8.5 million had remained without being settled, although the activities of the project had been completed as at 31 December 2022. Further, confirmations related to the Land and fuel deposits as at 31 December 2022 were not available for the audit.	8.5	The land and fuel deposits are cleared in the year 2024, there is no balance in the year 2024 Project Financial Statements of REATDP.	Actions should be taken to expedite the settlement of Land and Fuel deposits.
(f) Borrowing costs amounting to Rs. 138.6 million and commitment charge amounting to Rs. 102.5 million borne by the Government of Sri Lanka during the implementation period of the project had not been brought to the financial statements of the project.	241.1	This loan is obtained by GOSL and provided to CEB. Hence, there is no mechanism for CEB to recognize the borrowing cost, thus not considered.	Accounting Policy on this matter should be disclosed.

3. Physical Performance

3.1 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendations
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In proper internal control system on accounting, financial statements of the project should be forwarded to audit within a reasonable time period (approximately within 02 months) after making the financial statements. The financial statements of the project for the year ended 31 December 2022 was forwarded to the audit on 20 August 2024.	Management Comment had not been submitted.	Financial statements of the project should be forwarded to audit within a reasonable time period (approximately within 02 months) after making the financial statements