

## **Improving Gender - Inclusive Access to Clean and Renewable Energy Project -2015**

The audit of financial statements of the Improving Gender - Inclusive Access to Clean and Renewable Energy Project for the year ended as at 31 December 2015 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 Sections 11(a) and (b) of the Grant Agreement No. 9158 dated on 29 August 2011 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank.

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

According to the Letter of Agreement of the Project, the Ceylon Electricity Board is the Executing Agency and Implementing Agency of the Project. The objectives of the Project are increasing access to clean energy for rural communities in the Ampara District of the Eastern Province and enhance the training skills and service delivery of the Ceylon Electricity Board. As per Section (vii) 33 of the Grant Implementation Manual, the total estimated cost of the Project amounted to US\$ 1.08 million equivalent to Rs. 142 million and out of that US\$ 873,975 was expected to be financed by the through Japan Fund for Poverty Reduction (JFPR). Further, US\$ 211,200 was agreed to be financed by the ETC Foundation. The Project commenced its activities on 08 November 2011 and initially scheduled to be completed by 08 November 2014. Subsequently, it was extended up to 31 December 2017.

### **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 their overall presentation of the financial statements. I believe that the audit evidence I have obtained sufficient and appropriate to provide a basis for my opinion the examination also included such tests as 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 fund of the Government of Sri Lanka and the Donor Agency, the progress of the Project in financial and physical terms, the assets and liabilities arising the operations of the Project, the identifications of the purchases made out of the Grant etc.
- (d) Whether the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (e) Whether the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Grant Agreement.
- (f) Whether the withdrawals under the Grant had been made in accordance with the specifications laid down in the Grant Agreement.
- (g) Whether the funds, materials and equipment supplied under the Grant had been utilized for the purposes of the Project.
- (h) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Project.
- (i) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards.
- (j) Whether the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (k) Whether the financial covenants lay down in the Grant Agreement 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 2015 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2015 in accordance with Sri Lanka Accounting Standards,
- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the opening and closing balances, withdrawals from and replenishments to the Imprest Fund Account had been truly and fairly disclosed in the books and records maintained by the Project and the balance as at 31 December 2015 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (d) the Statements of Expenditure submitted could be fairly relied upon to support the applications for reimbursement in accordance with the requirements specified in the Grant Agreement,
- (e) the satisfactory measures had been taken by the management to rectify the issues highlighted in my previous year audit report, and
- (f) the financial covenants laid down in the Grant Agreement 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/2007/2 of 07 August 2007 of the Ministry of Finance and Planning the financial statements of the Project for the year ended 31 December 2015 required to be submitted to the Auditor General on or before 31 March 2016. However, the financial statements of the Project had been submitted only on 22 August 2017.

#### **2.2.2 Accounting Policies**

According to the accounting policy followed by the Ceylon Electricity Board, the labour, material and overheads expenditure in relation to capital works is determined based in standard cost method. However, the service connection costs of the Project included in the property, plant and equipment and work- in-progress in the financial statements for the year under review had been determined on actual costs.

#### **2.2.3 Accounting Deficiency**

The costs amounting to Rs. 41.05 million incurred on service connections by the Ceylon Electricity Board expected to recover from the Donor Agency had been shown inappropriately under the capital employed by the Ceylon Electricity Board in the statement of financial position.

#### 2.2.4 Un-reconciled balance

The balance of the Imprest Fund maintained at the Central Bank of Sri Lanka amounted to Rs. 15.21 million as at 31 December 2015 shown in the financial statements of the Project had not agreed with the balance of Rs. 15.47 million confirmed by the Central Bank of Sri Lanka.

### 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 2015 are shown below.

Source	Amount agreed to be financed according to the Grant Agreement		Allocations made in the Budget Estimates for the year under review	<u>Funds utilized</u>			
	US\$ million	Rs. million		during the year under review	as at 31 December 2015	US\$ million	Rs. million
ADB	1.08	142	29	0.32	45.39	0.58	83.76
<b>Total</b>	<b><u>1.08</u></b>	<b><u>142</u></b>	<b><u>29</u></b>	<b><u>0.32</u></b>	<b><u>45.39</u></b>	<b><u>0.58</u></b>	<b><u>83.76</u></b>

#### 3.2 Physical Progress

According to the information received, the comprehensive plan to implement the activities of the Project had not been prepared by the Project. As a result, the annual targets to be achieved had not been determined. However, service connections for 1,676 households had been provided as at 31 December 2015. Further, the works for the providing of service connections for 1,103 households had remained in progress as at that date. However, it was indicated in the progress reports of the Project that the service connections for 3,630 households had been provided as at 31 December 2015.

#### 3.3 Financial Controls

The following observations are made.

- (a) The activities of the Project for the year under review had not been subjected to the Internal Audit Section of the Ceylon Electricity Board, as required by the Part C (10) of the Appendix 4 of the Grant Implementation Manual.
- (b) According to the Financial Regulations 626, the financial statements of each projects should be prepared based on separate accounting records maintained by the Project. However, a separate set of Ledger Account had not been maintained by the Ceylon Electricity Board to record receipts and payments of the Project and prepared the financial statements of the Project based on the figures extracted from the General Ledger of the Ceylon Electricity Board, contrary to the above mentioned requirement.