

## **Green Power Development and Energy Efficiency Improvement Investment Program (Project - 02) - 2017**

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The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Program (Project - 02) for the first accounting year ended 31 December 2017 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 Section 4.04 (a) of Article IV and 4.03 (a) of Article IV of the Project Agreements No. 3483-SRI and 3484-SRI(SF) respectively of 27 December 2016 entered into between the the Ceylon Electricity Board and the Asian Development Bank (ADB).

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

According to the Project Administration Manual, the Ceylon Electricity Board is the Executing and Implementing Agency of the Program. The objective of the Program is to enhance clean power generation, system efficiency and reliability. As a part of the Investment Program, the Program aims to enhance transmission infrastructure, improve efficiency of medium-voltage network and improve demand-side management for energy efficiency. As per the Project Administration Manual, the total estimated cost of the Program amounted to US\$ 260 million equivalent to Rs. 37,895 million and the financing arrangement of the Program is described below.

<u>Source</u>	<u>US\$ million</u>	<u>Rs. million</u>
Asian Development Bank		
- Ordinary Capital Resources (OCR) Loan	95.00	13,846.25
- Asian Development Fund Loan	55.00	8,016.25
Agency Francaise de Development Loan	30.00	4,372.50
Government of Sri Lanka	80.00	11,660.00
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<b>Total</b>	<b><u>260.00</u></b>	<b><u>37,895.00</u></b>

### **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 Program'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 Program'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 the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. The examination also included such tests as deemed 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 Program management and the reliability of books, records, etc. relating to the operations of the Program.
- (b) Whether the expenditure shown in the financial statements of the Program had been satisfactorily reconciled with the enhanced financial reports and progress reports maintained by the Program.
- (c) Whether adequate accounting records were maintained on a continuing basis to show the expenditure of the Program from the funds of the Government of Sri Lanka and the Lending Agency, the progress of the Program in financial and physical terms, the assets and liabilities arising from the operations of the Program, the identifications of the purchases made out of the Loans etc.
- (d) Whether the withdrawals under the Loans had been made in accordance with the specifications laid down in the Project Agreements.
- (e) Whether the funds, materials and equipment supplied under the Loans had been utilized for the purposes of the Program.
- (f) Whether the expenditure had been correctly identified according to the classification adopted for the implementation of the Program.
- (g) Whether the financial statements had been prepared on the basis of Sri Lanka Accounting Standards, and
- (h) Whether the financial covenants laid down in the Project Agreements had been complied with.

## **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 paragraphs 2.2 of this report, I am of opinion that,

- (a) the Project had maintained proper accounting records for the year ended 31 December 2017 and the financial statements give a true and fair view of the state of affairs of the Project as at 31 December 2017 in accordance with Sri Lanka Accounting Standards ,

- (b) the funds provided had been utilized for the purposes for which they were provided,
- (c) the initial deposits and closing balances, withdrawal from and replenishments to the Special (Dollar) Account had been truly and fairly disclosed in the book and record maintained by the Program and the balance as at 31 December 2017 had been satisfactorily reconciled with the accounting records of the Central Bank of Sri Lanka as at that date.
- (d) the Statement of Expenditure submitted could be fairly relied upon to support the application for reimbursement in accordance with the requirements specified in the Project Agreements and
- (e) the financial covenants laid down in the Project Agreements 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 Program, for the year ended 31 December 2017 are required to be submitted to the Auditor General on or before 31 March 2018. However, the financial statements for the year under review had been presented for audit only on 18 July 2018.

### **2.2.2 Non – compliance with Law, Rules and Regulation**

The Program Steering Committee required to be established as per paragraph 09 of the Circular No.01/2016 of 24 March 2016 of the Department of Management Services had not been established.

## **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 2017 are shown below.

Source	Amount agreed to be financing as per the Project Agreement		Allocations made in the Budget Estimates for the year under review	Funds utilized			
				during the year under review		as at 31 December 2017	
	US\$ million	Rs. million	Rs. million	US\$ million	Rs. million	US\$ million	Rs. million
ADB							
3483-SRI	95	13,846.25	} 5,022	0.93	144.17	0.93	144.17
3484-SRI(SF)	55	8,016.25		-	-	-	-
AFD	30	4,372.50	-	-	-	-	-
CEB	80	11,660.00	214	1.17	175.38	1.63	241.66
<b>Total</b>	<b><u>260</u></b>	<b><u>37,895.00</u></b>	<b><u>5,236</u></b>	<b><u>2.10</u></b>	<b><u>319.55</u></b>	<b><u>2.56</u></b>	<b><u>385.83</u></b>

### 3.2 Physical Progress

According to the Project Administration Manual, the activities of the Program comprised under 03 major components namely, enhance transmission infrastructure, improve efficiency of medium voltage network and improve demand – side management for energy efficiency. The comments on physical progress of the activities carried out by the Program during the year under review are described below.

- (a) A comprehensive detailed action plan highlighting financial and physical targets within scheduled times period with fixing responsibilities to the officers to ensure the achievement of Program objectives using allocated resources had not been prepared and implemented.
- (b) According to the Project Administration Manual, the Project Agreements was required to be signed by 30 June 2016 and the activities of the Program were required to be commenced by 30 September 2016. However, the respective Project Agreements had been signed only on 27 December 2016 and became effective on 10 July 2017.
- (c) The construction works scheduled to be carried out at an estimated cost of US \$ 17.5 million under the financial assistance of Agence Francaise de Development had not been implemented even as at 31 December 2017, as there was no arrangements had been made by the Government of Sri Lanka to enter into a Loan Agreement with the Lending Agency .
- (d) According to the information received, the bidding process on development of grid substation in Hambanthota and works on new transmission line of 150 kilometres from Polpitiya to Hambanthota under the component -01 of the Program had been substantially completed as at 31 December 2017. Further, the bid documents under the contracts for Medium Voltage Distribution to construct 60 kilometres of

electricity lines in Mahailappalama, Ethagala, China Bay, Sooriyawewa and Bentota areas and 04 gantries at Mahallppalama, Ethagala, China Bay and Wenivelara areas under the component -02 of the Program had been approved only on 15 December 2017 by the Lending Agency. The procurement process for augmentation of primary substations at Beligaha and Ethulkotte, and construction works of primary substations at Rattnapitiya under the allocation of Rs. 10.41 million under the component – 3 had not been commenced even as at 31 December 2017.

- (g) It was observed that the Program had not taken action to initiate the activities on Improvement of the Demand Side Management for Energy Efficiency purposes under the Component 03 of the Program even as at 31 December 2017.

### **3.3 Financial Controls**

The following observations are made.

- (a) The supervision and monitoring of the activities of the Program under the 03 major components were remained under the preview of 03 separate Divisional Heads of the Ceylon Electricity Board, thus it caused delays in implementation of the activities of the Program due to lack of proper coordination. All Donor Funded Projects handled by the Ceylon Electricity Board are required to be monitored by an senior officer to operate the activities of the Program in efficient and effective manner.
- (b) It was observed that as Pay You Earn Tax aggregating Rs. 8.34 million had been paid by the Program during the year under review on behalf of staff members of the Ceylon Electricity Board, contrary to the provisions made in term of Section 114 of the Inland Revenue Act, No.10 of 2006.
- (c) According to the Circular No DMA/D/2015 of 15 June 2016 of the Department of Management Audit, an Internal Auditor should be recruited for Donor Funded Projects which exceeds the total estimated cost of US \$ 10 million. However, action had not been taken by the Program to recruit an Internal Auditor enable to establish proper monitoring mechanisms over the activities of the Program
- (d) It was observed the Program had hired houses in Trincomalee, Anuradhapura, Embilipitiya and Gampola for residential purposes of the officers of the Program and a sum of Rs.977,000 had been spent thereon during the year under review. The detailed audit carried out in this regard had revealed that there were no written agreements in this regard and other records maintained to prove the utilization of respective residences for intended purposes.