

Renewable Energy Absorption Transmission Development Project - 2023

The audit of financial statements of the Renewable Energy Absorption Transmission Development Project for the year ended 31 December 2023 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 the 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 and 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, Wewelwatta, 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 Ceylon Electricity Board. 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 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023, statement of project expenditure 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.

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. Physical Performance

2.1 Physical Progress of the Activities of the Project

The constructions of 132/33KV Grid substations in Maliboda, Wewalwatta, Nawalapitiya and Ragala had been substantially completed and handed over to the Ceylon Electricity Board on 30 April 2022.

2.2 Utilization of Funds

Audit Observation	Response of the Management	Auditor's Recommendation
Out of Euro 30 million allocated by the Agence Francaise De Development for the activities of the Project, a sum of Euro 22.89 million equivalents to Rs. 4,365.13 million had only been utilized for the activities of the Project and other Project. Further, the Project had taken over more than 03 years to utilize the third advance of Euro 2.5 million equivalents to Rs. 491.12 million received to the Project on 25 February 2020 for the activities of the Project and other Project. In addition, out of such advance, Euro 232,267 equivalent to Rs. 84,968,301 remained at the Special (Euro) Account as at 31 December 2023 which have to be refund to the Donor Agency without being utilized, due to expiration of use of funds.	Comments had not been received.	Action should be taken to utilize the proceeds of the loan effectively.

2.3 Issues Relating to the Land Acquisition

Audit Observation	Response of the Management	Auditor's Recommendation
A sum of Rs. 2,586,950 representing 44 per cent of the compensation had to be incurred as an interest charges, due to delay in payment of compensation of Rs 5,867,156 for acquisition of 1.4508 hectare of plots of lands for construction of Wewalwathta Grid Substation.	Comments had not been received.	Action should be taken to minimise the additional cost.