

Green Power Development and Energy Efficiency Improvement Investment Program (Tranche-1) - 2019

The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Investment Program (Tranche-1) for the year ended 31 December 2019 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 2.09 (a) of Article II of the Project Agreement No. SRI 47037 dated 20 November 2014 entered into between the Asian Development Bank and the Ceylon Electricity Board. My comment and observation which I consider should be reported to the Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Program

According to the Facility Administration Manual of the Program, then Ministry of Power, Energy and Business Development, presently Ministry of Power is the Executing Agency and the Ceylon Electricity Board is the Implementing Agency of the Program. The objectives of the Program are to enhance clean power generation, system efficiency and reliability. As per the Project Administration Manual, the estimated total cost of the Project was US\$ 220 million equivalent to Rs.28,509.80 million and out of that US\$ 180 million equivalent to Rs.23,325.50 million was agreed to be financed by the Asian Development Bank. The balance amount of US\$ 40 million equivalent to Rs.5,183.60 million is expected to be financed by the Ceylon Electricity Board. The Program commenced its activities on 02 February 2015 and scheduled to be completed by 30 September 2019.

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 Program as at 31 December 2019, statement of 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.

In preparing the financial statements, management is responsible for assessing the Program ability to continue as a going concern, disclosing, as applicable, matters related to going

concern and using the going concern basis of accounting unless management either intend to liquidate the Program or to cease operations, or has no realistic alternative but to do so.

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

The Program is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Program.

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 skepticism 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 Program.
- 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

Accounting Deficiencies -----	Impacts -----	Responses of the Management -----	Auditor's Recommendations -----
(a) The difference of Rs.9,584,574 was observed between the balance shown in the CS- DRMS report of the External Resource Department and financial statements as at 31 December 2019 in relation to the AFD Contribution.	Understatement of the Loan balance in the financial statements.	When preparing and submitting the financial statement of Ceylon Electricity Board for FY 2019 in 2020 January, ERD statement for foreign disbursements (DRMS – Report) was not updated, therefore the AFD advance imprest disbursement of December 2019 was accounted based on the CBSL exchange rate on the transaction date. ERD statement of disbursement (DRMS) was published on 27-02-2020 for FY 2019 late disbursements. Thereafter exchange rate difference of (Rs 9,584,574) CBSL exchange rate on transaction date and the exchange rate used by ERD in the DRMS report was accounted in May 2020 in the CEB financial statements. Therefore in FY2020 the above difference was rectified and the amount reflected in the CEB financial statements and ERD DRMS report is in line.	Action need to be taken to use the exchange rate to record the proceeds of the Loan at the date of received.
(b) Exchange gain Rs.9,925,801 had been classified as interest received and shown in the comparative figures of the year 2018 in the financial statements contrary to the LKAS 01.	Decision making will be affected due to incorrect classification of gain.	In the project financial statements submitted by AFM projects branch, exchange gain of Rs 9,925,801 made during 2018 by Morogolla Hydro Power Project, has been correctly classified and accounted as Exchange Rate Gain. Copy of the WIP statement in the project financial statements submitted for FY2018 and FY 2019 is attached in annexure 1 for reference. Wording/ classification error can be rectified in the consolidated project financial statement submitted by CEB.	Classification of item of gain should be done properly in the financial statements.

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| (c) | Depreciation on fixed assets Rs.1,203,511 of part 03 of the Program had not been provided. As a result the working expenditure had been understated in the financial statements by the same amount. | Real cost of the project will not be reflected and work in progress balance will be understated in the financial statements. | Fixed Assets purchased through CEB funds are recorded under AGM Distribution Division 2 using transfer vouchers and depreciation related these assets also charged to same division. According to the matching concept related assets and their cost is required to mention in the same division. | Cost relevant for the Program should be provided. |
| (d) | Contractors Bills amounting to Rs.7,152,942 payable for the part 03 of the Program had not been recorded as per the requirements of Note No.2.1 of Program financial statements. Hence the value of the work in progress shown in the financial statements had been understated by same amount. | Real cost of the program will not be reflected and work in progress balance will be understated in the Financial Statements. | The first three items of bills payable are taken in to account in the January 2020. | Cost relevant for the Program should be recorded as per Note no. 2.1 of the Program financial statements. |

2.2 Non-compliance with Rules and Regulations

The following observations are made.

Reference to the Rules and Regulations	Non-compliances	Impacts	Management Responses	Auditor's Recommendations
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(a) Section 2.09 (a) of the Project Agreement	No separate Ledger Accounts had been maintained by the Ceylon Electricity Board to record the transactions of the Program.	Weaken controls on financial management.	According to the Section 2.09 of the Loan Agreement, Project Division is keeping separate books of accounts and financial statements for construction of Morogolla Hydro Power Plant and Green Power Development & Energy Efficiency	Separate Ledger Accounts should be maintained by the Ceylon Electricity Board to record the transactions of the all parts of Program as one entity to identify the cost relevant to the

Improvement Programme program.
Tr. 1- Part 2 project separately. Cost center code No 980.62 and 980.63 was obtained in year 2014 from Finance HQ solely to maintain separate ledger for this project and therefore this observations cannot be accepted.

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| (b) | Financial regulation 134(3) and Management Audit Circular No.05 of 26 July 2010. | The transactions of the Project had not been subjected to audit of the Internal Audit Section of the Ceylon Electricity Board. | Weaken Internal Control Systems | A comprehensive internal audit for the transactions carried out by the part 2 of the project was carried out in 2020 by the internal audit section of CEB. | The operations of the Program need to be reviewed by the Internal Audit Section in continuous manner to assure the efficiency and effectiveness of the operations of the Program. |
| (c) | Public Enterprise circular No. PED 03/2016 of 29 April 2016. | The Program had paid the Pay As You Earn tax and tax on tax of Rs.12,012,424 from its owned fund without deducting it from the salaries of the respective employees during the period under review. | Increased cost of the Program Monitoring Unit. | The PAYE Tax liability of the employees of the Ceylon Electricity Board had been borne by the Ceylon Electricity Board. | PAYE tax should be recovered from gross salaries of the employees. |

3. Physical Performance

3.1 Physical and Financial Progress of the activities of the Program

The activities of the program comprised with 05 parts and the supervision and monitoring of the activities of such parts of the program were remained under the purview of various Divisional Heads of the Ceylon Electricity Board instead of the Additional General Manager who was responsible for the supervision of all donor funded projects handled by the Ceylon Electricity Board and hence coordination of the program is not in a satisfactory level. The physical progress on construction works on five parts of the Program had remained behind the targets, allowing opportunities for cost increases and extensions of the respective contracts. The following observations are made thereon.

Components	Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
(a) Hydropower Generation	Actual overall Physical performance of the construction of Morragolla Hydro Power Plant was 24 per cent and it was behind when compared to the expected target of 31 per cent due to delay in appointing consultants for construction supervision, delay in procurement work on Lot A and delay in approving extension to the environmental impact assessment report and supplementary Environmental impact assessment report by approving Authority. Hence, time extensions had been granted to the main contractors up to August 2023 from December 2019. Actual financial progress of the part 1 was Rs.3,084 million and it was behind when compared to the expected financial progress of Rs.5,994 million.	Objective of the Long term Least cost Power Generation Plan may not be achieved.	The main reasons for the delays of the project are due to; 1. Delay in appointing Consultants for Construction Supervision. 2. Delay in approving extension to the EIA and supplementary EIA by the Project Approving Authority. 3. Delay in procurement work on Lot A (Civil works) due to redesign of the Dam on a request from Project Approving Authority.	The activities of the Program need to be implemented according to the Action Plan to avoid the commitment charges and achieve the objectives of the Program without delay.
(b) Enhanced Transmission Infrastructure Capacity	Physical progress of the construction works of Grid Substation at Kappaiturai and augmentation works of Grid Substations at Kerawalapitiya, Katunayaka and Trincomalee to be carried out to enhance the electricity transmission infrastructure capacity were remained slow at 90 per cent even after lapse	-Do -	Lot A contract of this project was effective from March 15, 2016 and it had to be completed by March 15, 2018 as two years contract. Extension of Time (EOT) was granted up to December 15, 2019. By December 31, 2019, augmentation works at Kerawalapitiya GS, Katunayake GS & Trincomalee GS were completed and commercially energized. Due to restrictions for transportation of	-Do - .

of 04 years of the commencement of the activities of the Project due to restrictions for transportation of filling materials by the Local Government bodies. Further, the construction of Grid Substation at Kesbewa and Kalutara and augmentation of old Grid Substations in Anuradhapura, New Anuradhapura had remained at 69.5 per cent and construction of associate transmission lines had remained at 96.8 per cent as at 31 December 2019 and it was behind the expected progress of 100 per cent as at 31 December 2019 due to restrictions for transportation of filling materials by the Local Government bodies.

filling materials by the Local Government bodies have been affected by the progress of landfilling at Kappalturei site which has significant works in the contract. Further, prevailed situation with the Easter Sunday attack also cause delay in the project works. Because of these unforeseen conditions, the contractor has requested a time extension and it is under review.

Further, Lot B1 contract of this project was effective from November 04, 2016 and it had to be completed by November 04, 2018 as two years contract. Extension of Time (EOT) was granted up to November 03, 2019. By December 31, 2019, augmentation works at New Anuradhapura Grid Substation is almost completed and expects to commercialize in January 2020. Due to restrictions for transportation of filling materials by the Local Government bodies have been affected the progress of land filling at Kesbewa, Anuradhapura and Kaluthara sites in this contract. Further, prevailed situation with the Easter Sunday attack also cause to delay the project works. Because of these unforeseen conditions, contractor has requested for time extension and it is under review.

Furthermore, Lot B2 contract of this project was effective from November 10, 2016 and it had to be completed by November 10, 2018 as two

years contract. Extension of Time (EOT) was granted up to January 31, 2020. It consists of associate Transmission lines for above Lot A & Lot B1 contracts. By December 31, 2019, Transmission line sections at Kalutara, Kesbewa and Trincomalee were completed and commissioned. Only Anuradhapura Line is to be completed in this Contract and 98 % completed. It is expected to complete this contract by end of January 2020.

(c) Efficiency Medium Voltage Network	<p>The works under the installation of 33 KV medium voltage lines of 92 kilometres and construction of medium voltage lines and gantries around Vaunathive and Madampe to improve the efficiency of medium voltage network had remained 90 per cent as at 31 December 2019 and due to delays in clearance of land. According to the board minute no. 20.03.049 dated 25 February 2020, this part of the project had been concluded and handed over to Distribution Division 02 of Board due to pending legal cases and expecting to continue these cases indefinitely as it is beyond the control of the Board.</p>	-Do-	<p>The progress of Vavunathive Lines is affected by legal disputes on Tower locations which are beyond the control of Ceylon Electricity Board.</p>	-Do-
(d) Demand Side Management for Energy Efficiency	<p>The implementation of Smart metering pilot project had been awarded and completed as at 30 July</p>	<p>Commitment fee will be charged for the</p>	<p>Not commented.</p>	<p>-Do-</p>

2019 after lapse 10 months from the scheduled date. Further, construction works under the Thermal Storage Pilot Project and Smart Building Pilot Project scheduled to be implemented under the above-mentioned component had been cancelled subsequently due to external environmental changes taken place around the concepts of Demand side management projects.

undisbursed balance.

(e)	Part 05 – Capacity development Support Provided	– Provision of consulting service for institutional capacity for power sector development, system and dispatching and energy efficiency improvement had not been initiated, due to Consultant had submitted the final report on 12 August 2016 relating to preparation of new project for the second tranche. The contract for the consultancy service had been completed on 12 February 2018. Out of the allocation of US\$ 851,150 equivalent to Rs.33,411,948 provided for consultancy service for program management support for preparation of Tranch 2 by the Lending Agency, only a sum of US\$ 577,393 equivalent to Rs.14,039,953 had been utilized as at 31 December 2019.	Commitment fee will be charged for the undisbursed balance.	Not commented.	-Do-
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3.2 Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
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<p>The activities of the program comprised with 05 parts and the supervision and monitoring of the activities of such parts of the program were remained under the purview of various Divisional Heads of the Ceylon Electricity Board instead of the Additional General Manager who was responsible for the supervision of all donor funded projects handled by the Ceylon Electricity Board and hence coordination of the parts of the program is not in a satisfactory level. The physical progress on construction works on five parts of the Program had remained behind the targets, allowing opportunities for cost increases and extensions of the respective contracts.</p>	<p>The supervision and monitoring mechanism was remained weaken and shown slow progress on completion of the activities of the program.</p>	<p>Not commented.</p>	<p>Need to appoint an officer of senior management responsible for overall supervision and monitoring of the activities of the program.</p>