

## **Green Power Development and Energy Efficiency Improvement Investment Programme- Tranch II Project - 2021**

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The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Investment Programme- Tranch II Programme for the year ended 31 December 2021 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 4.05 Article IV of the Loan Agreement No. 3483 SRI and 3484 SRI dated 27 December 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank and Section 3.4.4 of Article 03 of the Credit Facility Agreement No. CLK 1022 01 K dated 17 October 2018 entered into between the Democratic Socialist Republic of Sri Lanka and 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**

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According to the Loan Agreement of the Programme, the Ministry of Power, Energy and Business Development, presently Ministry of Power is the Executing Agency and Ceylon Electricity Board is the Implementation Agency of the Programme. The objectives of the Programme are transmission infrastructure enhancement in the country with construction of grid substations and associated lines to absorb the increased power demand and reactive power management to ensure stable system operation. As per the Loan Agreement, the estimated total cost of the Programme was US\$ 264.7 million equivalent to Rs.39, 453 million and out of that US\$ 184.7 million equivalent to Rs.27,793 million was agreed to be financed by Asian Development Bank and Agence Francaise Development. The Programme had commenced its activities on 10 July 2017 and scheduled to be completed by 31 December 2021 then extended up to 31 December 2022.

### **1.3 Qualified Opinion**

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In my opinion, except for the effects of the matters described in the table 2 of my report, the accompanying financial statements give a true and fair view of the financial position Programme as at 31 December 2021, statement of the programme expenditure and its cash flows for the year then ended in accordance with the Sri Lanka Accounting Standards.

### **1.4 Basis for Qualified Opinion**

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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 this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.5 Responsibility of the Management and Those Charged with Governance for the Financial Statements**

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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 as necessary to enable the preparation of financial statements that are free from material misstatements, 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

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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 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

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### 2.1 Accounting Deficiencies

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| No  | Accounting Deficiencies  | Amount             | Management Responses  | Auditor's Recommendation  |
|-----|--|--------------------|---|---|
| --- | -----  | -----              | -----   | -----   |
|     |  | <b>Rs. million</b> |   |   |
| (a) | The foreign currency exchange gain or loss had not been disclosed separately in the financial statements as at 31 December 2021. | 279.8              | In order to arrive at the CEB contribution in the WIP balance, the foreign exchange gain/loss is eliminated. Hence, the foreign currency exchange rate gain / loss are not included to the equity in order to show it separately. | The foreign currency exchange gain or loss should be disclosed separately under the equity of financial statements. |

- (b) The interest income received on a special foreign currency bank accounts maintained at a License Commercial Bank for the operation of the Project up to 31 December 2021 had been accounted under the work in progress instead of being shown it separately in the financial statements. Further, it was revealed this interest income of that amount had not been presented separately in the cash flow statement as per the LKAS7.
- 8.34 The funds received from Agence Francaise De Development which is deposited in the foreign currency bank account until utilization cannot be considered as an investment made by Ceylon Electricity Board and hence the interest income earned thereon cannot be considered as a return on investment to CEB. It should be corrected in the relevant ledger accounts.
- (c) An amount paid by the Government of Sri Lanka to the Agence Francaise de Development (AFD) as interest, commitment and appraisal fees as at 31 December 2021 had not been brought the financial statements of the Programme.
- 137.49 it cannot be accounted as a cost without a proper transaction base even though it is relevant to the project. Both GOSL and AFD had not been made any claim to CEB regarding the above charges so far. The interest, commitment and appraisal fees should be recorded under the programme accounts.

## 2.2 Non-Compliance with Laws, Rules and Regulations

| Reference to the Laws Rules and Regulations  | Non-Compliances  | Management Responses   | Auditor's Recommendations   |
|--|--|--|---|
| (a) Management Audit Circular No.2/2016 dated 10 June 2016 issue by the Ministry of Finance          | The Program had not taken action to recruit an Internal Auditor or audit the transaction of the program by the Internal Audit Section of the Ceylon Electricity Board. | Internal Audit branch carries out overall audits of the projects and hence a separate Internal Auditor had not been appointed. | The transaction of the Programme should be audited by the Internal Audit Section of the Ceylon Electricity Board. |
| (b) Paragraph 09 of the Circular No. 01/2019 dated 15 March 2019 of Department of Management Service | The Project Steering Committee had not been established.   | Project progress is monitored regularly in CEB. Further, project progress reviews are carried out by the                       | The activities of the Program should be reviewed by a Steering Committee.   |

Ministry of Power and Energy, ERD and the Project Monitoring Department of the Treasury.

**3. Physical Performance**  
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**3.1 Physical and Financial Progress of the activities of the Project**  
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According to the Loan Agreement, the initial activities of the Program were schedule to be implemented under 03 main components namely Enhancement of Transmission Infrastructure, improvement of Efficiency of Medium-Voltage Network and Demand-side Management for energy efficiency purposes and expected to award contracts under six packages. In addition other two packages were included to the Enhancement of Transmission Infrastructure component in year 2020. However, the respective activities had been commenced with delays over 02 years from the scheduled date of 31 July 2016 and continued operations without being taking any action to catchup the delays. Therefore, the risks on incurring additional costs on contracts on price variations, commitment charges and extension of the period of the Project etc, could not be ruled out in audit. The following further observations are made.

| No    | Audit Issues  | Responses of the Management   | Auditor's Recommendations  |
|-------|---|---|--|
| ----- | -----   | -----   | -----  |
| (a)   | <b>Enhancement of Transmission Infrastructure</b>   |   |  |
| (i)   | The contract for the construction of Hambanthota 220/33kv grid substation was awarded 2018 and effective on 04 December 2018 and expected to completed on 01 February 2022. However, due to slow progress of the construction of new Polpitiya-Hambantota 220 kv, 150 km transmission line, the construction works could not be completed even at the date of audit on 05 August 2022 and it is doubtful the contract works could be completed within the Project period. | Hambanthota Grid Substation -All construction, commissioning and energizing works of the project was completed on February 01, 2022. However, the Polpitiya-Hambanthota 220kV line construction works continue up to October, 2022. | Action should be taken to expedite the works and need to monitor the works of contractors closely. |

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|-------|---|---|------|
| (ii)  | The contract for construction of new Polpitiya- Hambanthota 220 kv transmission line was awarded and became effective on August 2018 and expected to be completed on 18 May 2022. It was observed that out of 452 towers, only 399 towers had been completed foundations works under the 150 kilometers long tower line. Further, erection works started and completed 272 towers and stringing completed in 50 km out of 150 kilometers. | Project Completion date is extended up to October 18, 2022. The project progress was affected by the COVID-19 pandemic and scarcity of construction material and fuel.  | -Do- |
| (iii) | According to the information received, 23 and 38 percent of low physical and financial progress had been indicated on construction of 24 km Paddukka- Horana 132 kv transmission line. Further, it was observed that the out of 95 towers, only 4 towers had been completed foundations works and any erection works had not been completed as at 31 December 2021 under the 24 kilometers long tower line.                               | Project Completion date is extended up to December 16, 2022. 28 numbers of tower foundations has been completed out of 90 while erection works had not been started as at Aug 05 2022.  | -Do- |
| (iv)  | Eventhough the contract for augmentation of Kotugoda, Kolonnawa, Horana, Padukka, Dehiwala and Madampe grid substations was awarded and become effective on 22 October 2018 and expected to be completed 30 September 2021, the contract work had not been completed even the date of audit on 03 August 2022.  | Sub Lot 1: Augmentation of Dehiwala and Madampe Grid Substations: Completed<br><br>Sub Lot 2: Augmentation of Kotugoda, Kolonnawa, Hoara and Padukka Grid Substations : Horana and Padukka completed.<br><br>Kotugoda Augmentation work is delayed, due to issues in obtaining power interruptions. | -Do- |

(b) **Improvement of Efficiency of Medium Voltage Network**

(i) The contract for the construction of five 33 kv medium voltage distribution lines and gantries was awarded and the contract became effective on 03 December 2019 and the contractor had initiated contract works on 21 September 2020 with delay of more than 09 months. According to the contract agreement, the contract works expected to be completed on 02 December 2021. However, the works had not been completed even the date of audit on 03 August 2022.

Since 11 March 2020 construction work has been disturbed, due to the intermittent imposing of lockdown by GOSL due to Covid 19. All the sites were closed during that period and construction activities were delayed. Therefore, EOT(1st) has been granted until 7 June 2022. Moreover, 2nd EOT also has been granted until 07 November 2022.

-Do-

(ii) Eventhough, the contract for the construction of Rattanapitiya primary substation and augmentation of Beligaha and Ethulkotte primary substations were awarded in December 2019, the agreement was signed on 08 July 2020 with delay of 07 months and expected to be completed on 20 September 2022. Further, it was revealed the selected land at Rathanapitiya for respective purpose had not been acquired even the date of audit on 05 August 2022. Due to this reason, physical construction works had not been initiated even the date of audit on 05 August 2022.

The Contract was awarded in November 2019 and the Board of Directors of CEB was dissolved in the same month. Contract signing was postponed until the board was appointed. The physical possession of Rattanapitiya land had been given to CEB, but the compensation procedure is still ongoing.

-Do-

(c) **Demand side Management for Energy Efficiency**

According to the Program Administration Manual of the Program, works of the smart meter project under the package 6 required to be advertised in second quarter of year 2017. Eventhough the contract under this package was advertised in year 2020 and bids were closed on 22 March 2021, the respective contract had not been awarded even on the date of audit on 05 August 2022.

Upon a request by the bidder, the deadline to complete the proof of concept was extended till 23 September 2022.

The activities of the Programme should be properly planned in order to Achieve the objectives of programme

### 3.2 Under Utilized Resources

#### Audit Issue

It was observed that out of the total allocation of US\$ 260 million equivalent to Rs.37,880 million, US\$ 143 million equivalent to Rs. 20,920 million had only been utilized as at 31 December 2021. Further, the financial targets stipulated in the Project Administrative Manual, it was expected be utilize US\$ 259.9 million equivalent to Rs. 37,880 million at the end of the year under review. However, only 55 per cent of the respective targets had been achieved as at that date. As a result of the slow utilization of funds allocated, the commitment charges amounting to Rs. 549.6 million had been recovered by the Lending Agency.

#### Response of the Management

As per the Project Administration Manual, ADB loan was effective in Jan. 2017, but it was only effective from July 2017 and the AFD loan became effective in May 2019. Environmental clearances sometimes caused delays.

#### Auditor's Recommendation

Need to adopt with the financial targets stipulated in the Project Administrative Manual.

### 3.3 Extraneous Activities

#### Audit Issues

Out of the proceeds of the Loan, the Programme had procured 35 motor vehicles at a cost of Rs. 218.97 million during the period from 2016 to 2020 had not been brought to the statement of financial position as the ownership of the 35 motor vehicles rest were in the name of the contractors. Eventhough this was mention in previous Audit report, action had not been taken by the Project Monitoring Unit to transfer the ownership of the motor vehicles to the Implementing Agency and maintain a data base thereon. Further, depreciation of the said 35 motor vehicles had not been brought to the financial statements as at 31 December 2021.

#### Responses of the Management

Payments made for all 35 Nos of vehicles had been taken to the financial position (under the wok in-progress) as at 31 March 2021. Once the Project is completed the respective PMU has taken to transfer the ownership of the motor vehicles to the name of CEB.

#### Auditor's Recommendations

Clauses of Contract Documents should be changed to minimize the risk to the Ceylon Electricity Board.