

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

The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Investment Program (Tranche-1) for the year ended 31 December 2022 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 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 Program

According to the Facility Administration Manual of the Program, the Ministry of Power is the Executing Agency and the Ceylon Electricity Board is the Implementing Agency of the Program. The objective of the Program is to enhance clean power generation, system efficiency and reliability. The activities of the Program are implemented under five components namely Hydropower Generation Developed and Connected to the Grid, Enhanced Transmission Infrastructure Capacity, Efficiency of Medium Voltage Network Improved, Demand Side Management for Energy Efficiency improved and Capacity development support provided. As per the Facility Administration Manual, the estimated total cost of the Project was US\$ 220 million equivalent to Rs.28,515.03 million and out of that US\$ 180 million equivalent to Rs.23,330.48 million was agreed to be financed by the Asian Development Bank (ADB) and the Agence Française de Développement (AFD). The balance amount of Rs.5,184.55 million is expected to be financed by the Ceylon Electricity Board.

The Program had commenced its activities on 02 February 2015 and scheduled to be completed by 30 September 2019. However, the date of completion of the activities of the Program had been extended up to 13 July 2024.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2 of this report, the accompanying financial statements give a true and fair view of the financial position of the Program as at 31 December 2022, statement of program expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Qualified Opinion

My opinion is qualified on the matters described in table 2 of this report.

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 Program'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 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

No	Accounting Deficiency	Response of the Management	Auditor's Recommendation
(a)	Credit balance of Asian Development Bank and Agence Francaise de Development as at 31 December 2022 had not been translated into LKR value of the reporting date in accordance with Sri Lanka Accounting Standard -21 and as a result the loan balances and development expenditure balance shown in the statement of financial position had been understated.	It is the practice of CEB to formulate project accounts under Additional General Manager (Projects) as a set of branch accounts. This has been duly accepted by the auditors and ADB throughout the history and no query has been raised so far. Under the Additional General Manager (Projects), all the projects are executed while recording loan disbursements and the relevant asset construction in line with CEB's policies and generally accepted principles. All the transactions are recorded in General Ledger under the historical cost convention as per the accounting standards. The relevant loans are maintained and administered and settled by the Finance Manager – CEB in line with the guidance of the Ministry of Finance as applicable. Hence, the loan is recorded under the GL of CEB headquarters.	The financial statements should be prepared in accordance with the Sri Lanka Accounting Standards.
(b)	The interest and commitment charges amounting to Rs.285.6 million and Rs.46.6 million respectively born by the Government during the implementation period of the Project had not been shown in the financial statements of the Program.	Green Power Development Energy Efficiency Improvement Programme Tranche 1 is funded by ADB Loan No 3147 – SRI. This particular loan agreement is entered into between the Government of Sri Lanka and ADB. Therefore, commitment charges and interest relevant to this loan are paid by the Ministry of Finance and cannot be accounted as a cost of the project without a proper agreement with Finance Ministry. If we do account for this under CEB, the National Accounts will be duplicated.	An appropriate accounting treatment or disclosure of relevant information is required.

- (c) Three loan disbursements totalling Rs.11.9 million received under the Loan agreement No. 3146 during the year under review had been utilized by Sri Lanka Sustainable Energy Authority for Environmental and Social Impact Assessment for Pooneriy Wind Solar Hybrid Energy Park Project. However, these loan disbursements and corresponding expenses had not been reflected in the financial statements of the Program..
- The environmental and Social Impact Assessment for Pooneriy Wind Solar Hybrid Energy Park Project which is carried out by Sri Lanka Sustainable Energy Authority cannot be consolidated with CEB since it is a separate entity. Hence, only CEB's transactions were recorded against loan.
- Total disbursements relating to the loan should be accounted.
- (d) As per the financial statements of the CEB, the work-in- progress of the activities carried out by the Project as at 31 December 2022 was Rs.8,205.8 million and as per the financial statements of the Project, it was Rs.8,184.5 million. Accordingly, it was observed an un-reconciled balance of Rs.21.3 million in the financial statements.
- A payment amounting to Rs.21.3 million for Nippon Koei Co Ltd was made through the advance fund account. This Payment has been accounted for in the advance fund account accordingly. However, the accrued payment has not been reversed in the CEB Financial Statements as of 31.12.2022 due to an oversight. Thus, it has been corrected in the submitted project financial statements properly. Further, this has been rectified in the CEB financial statements in January 2023. Hence, this is irrelevant for projects Financial Statements.
- Action should be taken to reconcile difference in the financial statements

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Activity	As at 31 December 2022		Delay/ Audit Issue	Reason for Delay
		Expected physical performance percentage	Performance achieved percentage		
Part 01- Hydropower Generation Developed and Connected to the Grid	(a) Construction of the Moragolla Hydro Power Plant			Though initial schedule completion date was by June 2019, it will be expected to complete by November 2023. The contract for main civil works (Lot A2) was awarded on 04 October 2019 when it was after the initial schedule completion date.	The project was delayed due to consultancy services and delay with the procurement process .
	i. Lot A1	80.20	75.70		
	ii. Lot A2	50.00	38.90		
	iii. Lot B	40.00	27.10		

iv. Lot 3	83.48	83.48	Though the contract for the consulting services (Lot 3) on Lot A1 and Lot A2 was awarded on 24 October 2016, the contract for Lot A1 and Lot A2 were awarded in May 2018 and October 2019 respectively.
v. Lot C	100	100	

Response of the Management Management comment had not been submitted

Auditor's Recommendations Actions should be taken to complete the project activities by the expected completion date.

3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendations
The activities of the program comprised with 06 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 CEB.	These activities have been assigned various divisions of CEB, based on the availability of expertise pertains to each division. Hence, in the view of CEB, supervision and monitoring of activities are at a higher satisfactory level.	Ensure the proper coordination in order to complete the remaining project activities as planned.