

## **Supporting Electricity Supply Reliability Improvement Project - 2022**

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The audit of financial statements of the Supporting Electricity Supply Reliability Improvement Project 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 4.05 of Article IV of the Loan agreement No.3409-SRI dated 19 December 2016 entered into between the Ceylon Electricity Board and the Asian Development Bank . My comments and observations which I consider should be reported to Parliament appear in this report.

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

According to the Loan Agreement , the Ceylon Electricity Board is the Executing and the Implementing Agency of the Project. The objective of the Project is to enhance the efficiency and reliability of the electricity supply and distribution systems. As per the Loan Agreement, the estimated total cost of the Project was US\$ 160.20 million equivalent to Rs.24,228 million and out of that US\$ 115 million equivalent to Rs.17,392 was agreed to be financed by Asian Development Bank. The balance amount of US\$ 45.2 million equivalents to Rs.6,836 million is expected to be financed by the Ceylon Electricity Board. The Project had commenced its activities on 29 June 2017 and scheduled to be completed by 29 November 2023.

### **1.3 Qualified Opinion**

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 of the Project as at 31 December 2022, 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.

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. Comments on Financial Statements**

### **2.1 Accounting Deficiencies**

No	Accounting Deficiency	Management Response	Auditor's Recommendation
(a)	Credit balance of Asian Development Bank as at 31 December 2022 had not been translated into LKR value of the reporting date in accordance Sri Lanka Accounting Standards -21 and as a result, the loan balance 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 terms of Sri Lanka Accounting Standards.
(b)	Liquidated damages amounting to Rs.20.8 million shown under the payables in prior years had been recorded as other income in 2021. However, this had been rectified by crediting that amount to Liquidated damage account under the Income.	This claim relates to the liquidated damages of Package 1 Lot 1, carried out by Distribution Division 02. The particular amount had been recorded under R1300 as other income in the financial statements for the year 2021. The auditor's opinion was to transfer the income to the relevant income code R1315 (liquidated damages) as per the audit carried out for the year 2021 which we complied with during the year 2022.	According to the prior year audit observation, the Liquidated damage should not be shown under the income of the project. Correct accounting treatment should be applied.
(c)	Asian Development Bank had agreed to finance US\$ 115 million for the project and, it had been reduced to US\$ 90 million. However, it was not disclosed in the financial statements.	Action will be taken to disclose this figure in the year 2023.	Specific information should be disclosed in the financial statements.

## 2.2 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Audit Issue	Management Response	Auditor's Recommendation
Section 4.3 of the Management Services Circular No. 1/2016 dated 23 March 2016.	The bonus aggregating to Rs.24.5 million up to 31 December 2022 had been paid to the project staff by using funds of the project.	This is in accordance with the CEB's policy and the guidelines pertaining to all CEB employees.	Circular instructions relating to foreign funded projects should be strictly followed.

### 3. Physical Performance

#### 3.1 Physical and Financial Progress of the Activities of the Project

No	Component /Sub Component	As at 31 December 2022			Delay/ Audit Issue	Reasons for Delay
		Expected physical performance	Performance achieved	Physical Financial		
(a)	<b>Package 4</b>					
	Construction of 270kV ,33kV tower lines 13Nos of 33kV 2 SSBB gantries	100	45.10	39.39	Contract was awarded 30 May 2019 and scheduled to be completed on 27 October 2021 and significant delays in construction were observed	Reasons for the delay had not been submitted.
(b)	<b>Package 5</b>					
	Lot 1: Supply and Delivery of Material: Three phase energy meters and Modems (25,000 nos),	100	100	99	“Training on Installation, operation and maintenance of the complete system had not been completed even as at 31 December 2022.	Do

#### Management Response

#### Package 4

Soil investigation and tower spotting of 5 lines are 100% completed. Profile designing is 100% completed for 3 lines. For all the other lines soil investigation, tower spotting and profile designing is more than 50% and ongoing. Choisy line Profile designing is 80% and tower spotting is 90% completed. Matara Line Soil testing and profile designing is 80% completed. Foundation Construction works of 14 lines have started and ongoing. From those 14 lines, foundations of Maho – Maeliya line is 100% completed. Tower erection works of 3 lines have started and ongoing.

		Foundation Construction is 45.25% completed. Overall physical progress of the project is 52.29% and the Financial progress is 55.58%.
<b>Auditor's Recommendation</b>	<b>Package 5</b>	The balance payment is for "Training on Installation, operation and maintenance of the complete system (Place of Training: Sri Lanka)".
<b>Audit Issue</b>	<b>Package 4</b>	Action should be taken to expedite the works and need to monitor the work of contractors closely.
<b>Management Response</b>	<b>Package 5</b>	Prompt action should be taken to obtain the required training from the supplier enabling optimum utilization of equipment purchased.

### 3.2 System and Controls

<b>Audit Issue</b>	<b>Management Response</b>	<b>Auditor's Recommendations</b>
The action had not been taken by the project to maintain a proper fixed asset register to record the Property, Plant & Equipment transferred to the Project.	A fixed asset register is properly maintained at the Finance Branch DD 1 & Projects Division and it had been submitted to the auditors during the audit.	Action should be taken to maintain a fixed asset register continuously.

### 3.3 Issues relating to the Land Acquisition

<b>Audit Issue</b>	<b>Management Response</b>	<b>Auditor's Recommendations</b>
Although 16 plots of land are expected to be acquired by the CEB to construct gantries, only 4 plots of lands had been acquired.	Actions are being taken to acquire all the land plots required for the project.	Action should be taken to expedite the land acquiring process.