

Green Power Development and Energy Efficiency Improvement Investment Programme - Tranch II - 2020

The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Investment Programme- Tranch II for the year ended 31 December 2020 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. 3483SRI 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 Programme

According to the Loan Agreement of the Programme, then 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.

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 Programme as at 31 December 2020, statement of expenditure and its cash flows for the year then ended in accordance with the 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 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

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

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 sufficient deficiencies in internal control that I identify during my audit.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

No	Accounting Deficiencies	Amount	Management Responses	Auditor's Recommendations
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		Rs. (million)		
(a)	Nine motor vehicles procure from the proceed of the Loan during the year under review had been shown under the work-in-progress instead of being shown separately. Further, the depreciation thereon had not been brought to the financial statements as at 31 December 2020.	40.03	The vehicles are not capitalized since the project is not yet capitalized.	The vehicles of the Programme should be disclosed separately in the financial statements.
(b)	According to the financial statements, a sum of Rs.1,803 million claims had been withdrawn as at 31 December 2020. However, according to the records maintain by the Department of External Resources the corresponding value was Rs.1,595 million. The explanatins had not been submit for this unidentified difference to audit.	208.5	Direct payments relevant for agreement CLK 1022 01 for pkg 04 K are recorded in ERD statement and reconciliation maintained for difference around 5Mn.	The information shown in the financial statements should be agreed with the corresponding records.
(c)	Net exchange gain had been shown under the interest bearing loan instead of being shown separately under the non-current liabilities in the financial statements.	292.16	Noted.	Foreign exchange gain need to be shown separately.

2.2 Non-Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non-Compliance	Management Respons	Auditor's Recommendation
(a)	Management Audit Circular No.2/2016 of 10 June 2016 issue by the Secretary Ministry of Finance	An Internal Auditor had not been appointed as instructed by the Circular.	Internal auditor for each project is not appointed in the CEB	The transaction of the Programme should be audited by the Internal Audit Section of the Ceylon Electricity Board.
(b)	Paragraph 09 of the Management Service Circular No. 01/2019 of 15 March 2019	The Project Steering Committee had not been established. Further, it was observed that the physical progress of the activities implemented by the Programme had not been regularly reviewed by the Implementing Agency.	The physical progress of the activities implemented by the Programme had been reviewed regularly.	Need to adopt with Circular instruction and action should be taken to establish Project Steering Committee.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Programme

The Programme work had been commenced with a delay more than 2 years from the schedule date of 31 July 2016. Therefore, there was a risk of additional costs on contracts such as price changes, commitment charges and extending the duration of the project period.

No	Components	Responses of the Management	Auditor's Recommendations
(a)	Demand-side Management for Energy Efficiency According to the Programme Administration Manual, the contract for Smart Networks and Measurement consulting services should be implemented at a cost of US\$ 11.1 million equivalent to Rs. 1,617.82 million. However, it had not been commenced until 26 July 2021.	The very same scope of work is planned to be implemented with different project implementation strategy without utilizing the services of a consultant.	The activities of the Programme should be properly planned and identified in order to achieve the objectives of programme.
(b)	Improvement of Efficiency of Medium Voltage Network		
(i)	According to the progress reports, procurement process on augmentation of Beligaha and Ethulkotte primary substation and construction of primary substation at Raththanapitiya had been taken more than 3 ½ years to select a suitable contractor, due to various reasons. The contract was awarded on 8 July 2020 for US\$ 7.973 million and commenced operations on 21 September 2020. It was also revealed that the land selected for this purpose in Raththanapitiya had not been acquired for the relevant purpose till 26 July 2021.	Loan Effective date was delayed for 06 months, due to delay in granting the approval by the Attorney General Department.	Action should be taken to expedite the works and need to monitor the works of contractors closely.
(ii)	According to the information received, 42.18 and 16.5 percent of low physical and financial progress had been indicated on construction of 33kv tower lines and gantries under the package-4. Further, it was observed that the out of 211 towers, only 113 towers had been completed foundation only under the 56 kilometres long tower line and no any erection works had been completed as at 31 December 2020.	Reason for 16.5 % of financial progress is that according to the planned schedule, equipment shipments for Towers, Insulators, conductors etc. are to be delivered within the year 2021 and only the payments for foundation work were processed within 2020.	Action should be taken to expedite the works and need to monitor the works of contractors closely.

(c) **Enhancement of Transmission Infrastructure**

- (i) It was observed that physical progress on laying of transmission line of 144 km from Polpitiya to Hambantota and construction of 132/32 kv Hambantota grid substation under the package 1 had remained behind the target of 61 percent physical progress and 43 percent financial progress. According to the information received, out of 452 towers, 208 tower had been completed foundation only and erection works of 71 towers had been completed during the year under review. Due to the slow progress of works, contract period had been extended from 23 January 2021 to 20 September 2021.
- Development of Hambantota GSS 220kV was effective on December 04, 2018 and expected to be completed on December 02, 2020. However, Expected Plant and Mandatory Spare parts and arrival of Testing and commissioning engineers from abroad were delayed due to Covid-19 outbreak worldwide and affected the both physical and financial progress of the Project.
- Action should be taken to expedite the works and need to monitor the works of contractors closely.
- (ii) 100 kilometres from Habarana to Valachchenai at an estimated value of US\$ 3.21 million under the package 2 of transmission sub programme were required to be awarded fourth quarter of year 2016. Due to various reasons delays in getting approvals from Standard Cabinet Appointed Procurement Committee and ADB for draft bid documents delays were occurred. Further, physical and financial progress was 9.5 per cent and 12 percent respectively and construction work required to be completed at the 20 April 2022 had been commenced on 30 April 2020.
- Both Horana Padukka & Habarana Valachchenai funded by AFD loan. The AFD loan was effective only on May 2019. Accordingly, both contracts were awarded on June, 2019. However, Habarana Valachchenai contract was effective on Nov 2019 while fulfilling the requirement stipulated in contract agreement. Horana Padukka contract was effective on April 30, 2020.
- Action should be taken to expedite the works and need to monitor the works of contractors closely.
- (iii) Even though the Construction works of of grid substations at Nadukuda and Mannar under the component of enhancement of Transmission Infrastructure, should have been completed at the end of March 2020, the work had not been completed and it had been indicated of 88 per cent physical and 82 per cent financial as progress at 31 December 2020.
- Construction of Nadukuda GSS project was effective on March 16, 2018 and expected to be completed December 15, 2020. However, it was delayed in commissioning as OEM recommended commissioning experts from abroad couldn't be arrived due to travel restrictions of Covid-19 outbreak.
- Action should be taken to expedite the works and need to monitor the works of contractors closely.

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| <p>(iv) Eventhough construction of Colombo B grid sub stations single in & out connection from Colombo C – Kolonnawa 132kv 800sqmm cable and augmentation of Colombo C & Kolonnawa GSS under the package 3, construction works had been commenced on 15 October 2019 and sheduled to complete on 14 October 2021. However, the physical and financial progress was 44.5 per cent and 16 percent respectively.</p> | <p>Construction of Colombo B Grid Substation was awarded on 10th December 2018. However, the Subsidiary loan agreement between SL government and CEB was signed on 3rd May 2019. Hence, the contract agreement was signed on 2nd July 2019 and the contract effective date was 15th October 2019.</p> |
| <p>(v) Augmentation of Kotugoda, Kolonnawa, Horana, Padukka, Dehiwala and Madampe grid substation had been commenced on 22 October and physical and financial progress was 65.5 percent and 84 percent respectively.</p> | <p>Project commenced in October, 2018 and was expected to be completed in October 2020. However, COVID19 pandemic situation started in March 2020 caused significant delays in civil works.</p> |

Sound and efficient contract management system need to be implemented on monitoring and supervision of the works carried out by the contractor.

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3.2 Under Utilized Resources

Audit Issue	Response of the Management	Auditor's Recommendation
<p>It was observed that out of the total allocation of US\$ 260 million equivalent to Rs.37.89 million, a sum of US\$ 92 million equivalent to Rs. 13.38 million had only been utilized as at 31 December 2020. Further, according to the financial targets stipulated in the Programme Administrative Manual, it was expected be utilized US\$ 259.9 million equivalent to Rs. 37.9 million at the end of the year under review. However, only 35 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. 79.45 million had been recovered by the Lending Agency.</p>	<p>As per the Project Administration Manual, ADB SRI 3484/3483 loan was expected to be effective in January, 2017, but became effective only on July 2017. AFD Loan 8313 has become effective only on May 2019. Also, initial environment clearance and land surveys have taken sometime.</p>	<p>Need to adopt with the financial targets stipulated in the Programme Administrative Manual</p>

3.3 Extraneous Activities

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(a)	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. Further, it was observed that no action had been taken by the Project Monitoring Unit to transfer the ownership of the respective motor vehicles to the Implementing Agency and maintain a data base thereon.	During the said period 35 Nos. of Motor Vehicles had been supplied by the contractors and payments were made for those vehicles as per contract agreement. All the payments made to the contractors had been recorded under work-in -progress account. asset will be recognized.	Clauses of Contract Documents should be made for minimizing the risk to be occurred by Ceylon Electricity Board.
(b)	The supervision and monitoring of the activities of the Programme under the 03 Major Components were remained under the preview of 03 separate Divisional Heads of the Ceylon Electricity Board	Monthly progress review is being carried out by CEB and Board of directors for all the project components. Further, project progress reviews are being carried out by the Ministry of Power, Department of external resources and the Project monitoring Department of the Treasury.	The activities of the Programme should be supervised under a Project Director.