

Green Power Development and Energy Efficiency Improvement Investment Program (Tranche-1) - 2023

The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Investment Program (Tranche-1) for the year ended 31 December 2023 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 Ceylon Electricity Board (CEB) and the Asian Development Bank (ADB). 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 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 Development (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 July 2014 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 paragraph 2.1 of this report, the accompanying financial statements give a true and fair view of the financial position of the Program as at 31 December 2023, 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 paragraph 2.1 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)	A sum of Rs. 341.1 million had been credited to the AFD (Agence Francaise De Development) contribution without receiving any replenishment. This entry had been passed on the releasement of retention of contract of Enhanced Transmission Infrastructure Capacity and contractor payment of Tranche II through imprest account. As a result, AFD Contribution had been overstated and CEB Contribution had been understated by the same amount	This is a presentation error in the project financial statements which has no impact to the general ledger of the project. This has been accurately recorded in the ledger accounts of the project. However, due to an oversight, this amount was incorrectly added to the AFD contribution when preparing the project financial statements manually. Nevertheless, this does not affect the ledger records of the project accounts as this is merely a presentation error. This will be adjusted and resubmitted if permitted please.	AFD Contribution should be accounted accurately in project financial statements.
b)	Payment made to the contractor of Green Power Development and Energy Efficiency Improvement Investment Program (Tranch II) amounting to Rs. 206.3 million from Special Foreign Currency Bank account of Enhance Transmission Infrastructure Capacity part during the year under review had not been included in the Work In Progress of Other Divisions balance as at 31 December 2023. As a result, Work In Progress balance had been understated by the same amount.	This is a presentation error in the project financial statements which has no impact on the general ledger of the project. This has been accurately recorded in the ledger accounts of the project. However, due to an oversight, this amount was not considered when preparing the project financial statements manually. Nonetheless, this does not affect the ledger records of the project accounts as this is merely a presentation error. This will be adjusted and resubmitted if permitted please.	All payments made through Special Foreign Currency Bank account should be recorded in the relevant ledger account when preparing the project financial statements.
(c)	When making the cash flow statement, depreciation amounting to Rs.34.6 million for the year should be taken as a non cash item. However, accumulated depreciation as at 31 December 2023 amounting to Rs 175.2 million had been taken as non-cash items. As a result, depreciation amount in the Cash Flow Statement had been overstated by Rs. 140.5 million.	This will be amended and resubmitted if permitted please.	Depreciation amount relevant to the year should be taken to the cash flow statement.

- (d) Closing balance of CEB contribution amounting to Rs. 3,477 million was taken to the statement of financial position based on calculation of Note No. 12 of the financial statements without maintaining a separate ledger account for Ceylon Electricity Board contribution by showing individual transactions. Therefore, proceeds from CEB had been shown as payment of Rs. 528.5 million in the statement of cash flow.
- It is ambiguous how to maintain a separate ledger for CEB contribution as CEB is maintaining GL under the branch accounting system. Before closing the entity's financial statements, all measures are taken to clear and tally the current accounts of the division. Detailed calculation of the composition of CEB contribution could be provided, if necessary, further to Note No. 12.
- A separate ledger account should be maintained for CEB Contribution.

3. Physical Performance

3.1 Physical progress of the activities of the Project

No	Component/ Sub Component	As at 31 December 2023		Audit Issue	Reasons for delays
		Expected physical performance percentage	Performance achieved percentage		
(a)	Part 01 – Hydro Power Generation Developed and Connected to the Grid Construction of the Moragolla Hydro Power Plant				
(i)	Lot A1 – Preparatory Works	100%	77.7%	The contract was awarded on 24 April 2018 and it was initially expected to complete on 06 May 2020. An extension of time (EOT) had been granted for the four times and the last completion date with time extensions is 13 July 2024. Although more than three years had been passed from the initial completion date, the project has not been completed even as of 31 December 2023 and had experienced significant delays due to poor contractor performance. Further, as per the ADB mission report, the contract's physical progress as at 30 October 2023 was 77.7% which is same as the progress	Delay in appointment of PMU. Consultancy procurement delay by CACPC decision. Dam redesign and delay in EIA approval by MASL and other reasons.

even as at 31 December 2023 and no progress has shown for the period of two months as per the available information.

Response of the Management The Resident camp, Diversion road construction works are still not completed. Currently, no work in progress at site due to financial issue of the Contractor.

Auditor’s Recommendations Actions should be taken to expedite the works and it is needed to monitor the work of contractors closely to achieve the expected outcome and action should be taken to solve the financial issue with the higher level involvement

(ii) Lot A2- Main Civil Works	85.3%	59.7%	The contract was awarded on 04 October 2019 and it was initially expected to complete on 14 September 2023. An extension of time (EOT) had been granted for the two times and the last completion date with time extensions is 13 July 2024.
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Response of the Management The construction of the contractor’s camp buildings, laboratory, temporary access road to the dam including the baily bridge were completed. Moreover, excavation of the Diversion Tunnel, Adit-1, Adit-2, Adit-3, Headrace tunnel, Penstock Tunnel, Powerhouse substructure and Surge Tank excavation were completed. Currently, Powerhouse superstructure concreting, Dam concreting, Tunnel lining, Switchyard works are in progress.

Auditor’s Recommendations Actions should be taken to expedite the works and it is needed to monitor the work of contractors closely to achieve the expected outcome.

(iii) Lot B- Mechanical and Electrical Facilities	82.4%	54.1%	The contract was awarded on 30 May 2020 and it was initially expected to complete on 30 November 2023. An extension of time (EOT) had been granted for the one time and the date of planned completion with time extensions is 13 July 2024. Physical progress as at 31 December 2023 was 54.1% where a significant deviation with expected performance of 82.4%. Progress as at 31 March 2024 was 61%.
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Response of the Management	The design works related to hydro-mechanical and electro-mechanical works in progress. Moreover, Penstock Pipe installation is in progress. Placing Unit-1 and 2 Draft Tube Elbow, Placing of Spiral Case 1 & 2 and OHT Crane at Powerhouse and placing of Bottom Outlet and River Outlet at Dam are completed. Powerhouse Turbines, Generators & Accessories, Spillway Gates manufacturing works are completed at China and transportation works to site will be commenced soon.
Auditor's Recommendations	Actions should be taken to expedite the activities and it is needed to monitor the activities closely to achieve the expected outcome

3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendations
<p>According to the loan agreement and the implementation schedule of the facility administration manual, project was expected to complete by 2019. However, even after more than four years from the initial completion date, overall physical and financial progress of the Moragolla Hydro Power project as at 31 December 2023 was 64% and 47% respectively. Further, physical progress of the project as at June 2024 was 73%. According to the ADB mission report, no further extensions on the loan period granted and any further financial assistance for the work done beyond the loan closure is required to be sourced from alternative resources. As a result, aims of the overall programme to access clean and reliable power supply by enhancing clean power generation as per Cabinet Memorandum dated 7 May 2014 which addresses an urgent need of the country would not be achieved as expected.</p>	<p>Physical Progress of the Project as at June 2024 was 75.2% and the expected Physical Progress of the Project as at the Loan Closing date of 13 July 2024 is 97.5%.</p>	<p>Actions should be taken to expedite the works and it is needed to monitor the work of contractors closely to achieve the expected outcome.</p>

3.3 Underutilized Resources

No	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	<p>Allocation of the Green Power Development and Energy Efficiency Improvement Investment Programme (Tranche I) for the year under review was Rs. 14,966 million and out of that only Rs. 7,740 million had been utilized during the year. Further, allocation according to the Facility Administration Manual was US\$ 180</p>	<p>Given the reasons outlined in the above packages, fully utilizing the funds before the loan expiration date was not feasible.</p>	<p>Actions should be taken to expedite the works and it is needed to monitor the work of contractors closely to achieve the expected outcome.</p>

million (ADB and AFD funds) and out of that only US\$ 102.45 million (57% of allocated funds) had been utilized as at 31 December 2023. The ADB loan agreement were signed on 20 November 2014 and became effective on 02 February 2015. Even though more than eight years had been passed from the effective date of the loan agreement, funds allocated by the agreement would not be fully utilized even as of the loan expiry date of 13 July 2024. As a result project objectives to access clean and reliable power supply by enhancing clean power generation would not be achieved as expected.

- (b) According to the Facility Administration Manual, the country's long term challenge is to reduce high dependence on expensive fossil fuel energy and demand growth has been mostly met by expensive oil-fired thermal plants. However, major component of this project which addresses the above matter would not be achieved the expected progress. According to the Facility Administration Manual, total allocation of Part 1- Hydropower Generation Developed and Connected to the Grid, was US\$ 128.53 million and out of that only US\$ 46.42 million had been utilized as at 31 December 2023.
- Allocation according to the Facility Administration Manual for Moragolla Hydro Power Project was US\$ 113.86 million and out of that only US\$ 44.41 million had been utilized as at 31 December 2023.
- Actions should be taken to expedite the works and it is needed to monitor the work of contractors closely to achieve the expected outcome.