

Supporting Electricity Supply Reliability Improvement Project (Agreement No. - 3409 SRI) - 2023

The audit of financial statements of the Supporting Electricity Supply Reliability Improvement Project 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 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.24,228.15 million and out of that US\$ 115 million equivalent to Rs.17,392.24 million was agreed to be financed by Asian Development Bank. The balance amount of US\$ 45.2 million equivalents to Rs.6,835.91 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 30 September 2021. However, the date of completion of the activities of the Project had been extended up to 31 March 2025.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the paragraph 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023, 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

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 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	Response of the Management	Auditor's Recommendation
(a)	As per the statement of ADB, the actual disbursement was Rs.2,560.2 million which equivalent to USD 8.1 million and as per the information provided by the Project Management Unit, the Replenishments received to the project was Rs.3,239.9 million which equivalent to USD 10.6 million. However, the difference had not been reconciled by the project.	During the course of consolidation replenishment of the advance account has been duplicated by an oversight since the advance account was transferred from PMU 7 to PMU 4 for administrative purposes. However, there is no impact on individual PMU ledger records or ADB loan balances shown in the project financial statements. The effect on consolidated accounts will be rectified in the next financial statements, as audit correction entries are not allowed for CEB.	Reconciliation should be prepared to identify the difference. After that, misstatements should be rectified.
(b)	The closing balance of the CEB contribution amounting to Rs.3,262.4 million had been taken to the statement of financial position based on calculation of Note No. 9; However, no separate ledger account had been maintained for the Ceylon Electricity Board (CEB) contribution.	Access to view the general ledger has also been provided to the auditors. It is ambiguous how to maintain a separate ledger for CEB contribution as CEB is maintaining GL under the branch accounting system. Further, all the current accounts are tallied before closing the financial statements of the entity. Detailed calculation of the composition of CEB contribution could be provided if necessary further to Note No. 09.	Separate ledger account should be maintained by project management unit.

- (c) Net foreign exchange Gain amounting to Rs.16.4 million raised on translation on balance of imprest account (USD balance) in to LKR had not been presented in the financial statements as foreign currency Gain. All the exchange gain and losses were transferred to the AGM Projects cost center in order to be charged to CEB's income statement during the year 2023, hence there are no exchange gain/losses as those cannot be capitalized. Foreign exchange gain balance should be presented on the face of the financial statement of financial position.

2.2 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Audit Issue	Response of the Management	Auditor's Recommendation
Section 80 of the project administration manual	According to the Section 80 of the project administration manual, CEB should maintain a project web page that will be updated regularly will include the (i) bidding procedure, bidder, contract awards (ii) Use of funds disbursed under the project and (iii) Physical progress. However, the above requirements had not been fulfilled by the implementing agency.	Noted. This will be rectified.	Action should be taken to comply with the requirement of the project administration manual

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

No	Component /Sub Component	As at 31 December 2023		Audit Issue	Reason for the delay
		Expected physical performance percentage	Performance achieved percentage		
(a)	Package 4 Construction of 285km of 33kV tower lines and 13Nos of two section single Busbar gantries	100	64.7 (Progress by 31/03/2024)	The Project was awarded to contractor on 30 May 2019 and the total contract value was USD 40.48Mn. The effective date of this contract is 28 October 2019 and the contract period is 730 days. The schedule date of completion is 27 October 2021. Although more than two years have passed from the initial completion date, the project had not been completed as at 31 th March 2024. An extension of time (EOT) had been granted for the three times and the last completion date as per the third EOT is 8 th September 2024. As per progress report of 1 st quarter of 2024, the physical progress of the contract was 65 percent. The main reasons for the delay were due to Covid epidemic and travel restrictions, material supply delay, slow performance of the contractor etc .	Due to new technology of Helical Anchoring, difficulties are experienced in construction of tower lines with Helical foundations, objections from third party for construction of tower lines and Clearance issues in gantry lands

Response of the Management

Expedited the solving of third party objections and land clearance issues through PUCSL. The Contractor was instructed to prepare a catch up plan in view of completing the project before the expiry date of loan and carry out the work accordingly. Closely monitoring the Contractor's site works and make sure it is in line with the catch up plan.

Auditor's Recommendations

Action should be taken to expedite the works and it is needed monitor the work of contractors closely to achieve the expected outcome.

(b) Package 7

(i) Lot A1: 100 Installation of 100 MVAr BSC at Pannipitiya Grid Substation	78.6 (Progress by 31/03/2024)	The Project works were commenced on 1 st August 2019 and it was initially expected to complete on 21 st January 2021. An extension of time (EOT) had been granted for the four times and the last completion date as per the forth EOT is 30 th April 2022. Fifth EOT has been rejected by the Ceylon Electricity Board due to not submitting the required details by the contractor and the loan disbursements was LKR 97.1 million, USD 1.34 million and EUR 3.4 million as at 2023 December 31.	Reason for the delay had not been submitted.
		Although more than three years have passed from the initial completion date, the project has not been completed as at 05 March 2024 and site works have been on hold since the date of 19 th October 2023. It was on hold for more than three months.	
		As per Progress report for 1 st quarter of 2024, it was mentioned that disputes in testing and commissioning not yet resolved and leakages in installed capacitors has been identified.	

Response of the Management

Project was on hold due to contractual disputes on Extension of Time, Division of Responsibilities for Testing and Commissioning and Leakages identified in supplied Capacitors. Site work restarted on 1st March 2024 with the discussions restarted with the Contractor on January 2024. Manufacturer agreed to supply replacement capacitors for leakage capacitors identified and new capacitors received to site on June 27, 2024. Disputes on Extension of Time and Division of Responsibilities resolved and time extension granted till December 21, 2024. Testing Commissioning work is in progress.

Auditor's Recommendations

Action should be taken to expedite the works and it is needed monitor the work of contractors closely

(ii)	Lot A3: Installation of 124Mvar Breaker Switched Capacitor Banks in Colombo City Grid Substations and Replacing the Capacitor Banks at Thulhiriya Grid Substation	100 -	Contact was awarded to contractor on 4 th March 2022. Contract agreement was signed on 30 th March 2022 and mobilization advance was given on 10 June 2022. Subsequently contract had been terminated on 19 th July 2023 by the contractor. Reimbursements of mobilization advance were on 08 August 2023 and 23 August 2023. Accordingly, fourteen months (14 months) had been spent to collect the advance paid to contractor due to delay of termination of contract.
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Response of the Management Advance recovered by August 2023 which is One Month from the date of termination of this contract.

Auditor's Recommendations Action should be taken to comply with the requirement of condition included in the contract agreement.

3.2 Contract Administration

Audit Issue

As per the loan agreement, the effective date of the loan (No.3409 SRI)was 29 June 2017 and the initial loan closing date was 31 March 2022, subsequently, the loan was extended by three years in two times and the new loan closing date was 31 March 2025. According to last extension letter, it was mentioned that the loan was cumulatively extended by 36 months and this would be the final extension granted by ADB. However, individual physical progress of package 4 and 7 Lot A1 were 65 and 78 respectively, financial progress were 69 and 74 percent respectively as at 31 March 2024. It was observed that the 35 percent of the physical progress of the package 4 and 22 percent of the physical progress of the package 7 Lot A1 should have to be completed within the balance period of extension period of the contract (12 months).

Response of the Management

The funds are expected to be fully utilized before the loan expiration date.

Auditor's Recommendations

Action should be taken to expedite the works and it is needed to monitor the work of contractors closely

3.3 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendations
<p>In proper internal control system on accounting, financial statements of the project should be forwarded to audit within a reasonable time period (approximately within 02 months) after making the financial statements. The financial statements of the project for the year ended 31 December 2023 was forwarded to the audit on 04 April 2024.</p>	<p>The project financial statements are based on the entity's statutory financial statements, which shall be submitted to the auditor on or before the 28th of February of the subsequent financial year. Hence, we duly submitted the statutory financial statements on the 28th of February 2024 and the duly authorized project financial statements were submitted to the auditor by the 04th of April 2024. The draft reports and other schedules were made available in Excel formats for the audit well before the submission of duly signed, authorized project financial statements to save time.</p>	<p>Financial statements of the project should be forwarded to audit within a reasonable time period (approximately within 02 months) after making the financial statements.</p>

3.4 Issues relating to the Land Acquisition

Audit Issue	Response of the Management	Auditor's Recommendations
<p>Although the land acquisition was to be completed in the initial phase of the project, the acquiring process of the 8 lands was not completed by 31 December 2023.</p>	<p>Management comment had not been submitted</p>	<p>Action should be taken to expedite the land acquiring process.</p>