

Green Power Development and Energy Efficiency Improvement Investment Program Tranche II - 2019

The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Investment Program Tranche II for the year ended 31 December 2019 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 Article IV of the Loan Agreement No. 3483-SRI and 3484-SRI dated 19 December 2016 entered into between the Ceylon Electricity Board 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 The Agence Française 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 Project

According to the Loan Agreement, the Ceylon Electricity Board is the Executing Agency and Implementing Agency of the Project. The objectives of the Project are enhance clean power generation system efficiency and reliability. The activities of the Project are implemented under 3 components namely transmission infrastructure enhancement, efficiency of medium voltage improvement and demand side management for energy efficiency improvement. As per the Loan Agreement, the estimated total cost of the Project was US\$ 264.7 million equivalent to Rs 39453 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 US\$ 30 million equivalent to Rs 4,372.5 million agreed to be financed by Agence Française de Development. The balance amount of Rs 80 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 10 July 2017 and scheduled to be completed by 31 December 2021.

1.3 Opinion

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2019, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for 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 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.

- 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.

2. Comments on Financial Statements

2.1 Accounting Deficiencies

Nos	Accounting Deficiencies	Impacts	Management Responses	Auditor’s Recommendations
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(a)	Two different policies had been used to record the fixed assets of the Program and one cost center had only recorded the value of fixed assets Rs.2.2 million in the financial statements as at 31 December 2019.	The real value of the assets of the Programme had not been represented.	The assets of Rs. 2.2 were solely purchased for the project “Medium Voltage Network Efficiency Improvement” and recorded & depreciated in cost center 977.00 in financial statements. In order to maintain a uniform method, arrangements	Programme should be followed a uniform method to record it’s assets.

will be made to transfer the Cost of the Assets & Cumulative Depreciation immediately to Assets Register maintained by Addition Finance Manager DD4 Branch.

- (b) Annual Bonus of Rs.5.86 million paid out of the Program fund to the Program staff had been erroneously debited to the idle time account of the financial statements. Balance of the idle time account had been overstated. The project accountant has retrieved data from trial balance in the system, manually entered and formatted figures in the given format. At the time of formatting, Rs. 5.86 million bonus payments had been erroneously posted to the idle time account. However, this amount is related to the bonus and hence will be corrected in the idle account in due course. It should be corrected in the relevant ledger accounts.
- (c) According to the amended Loan Agreements Nos 3483 / 3484 (SF)-SRI of 5 September 2019, the Program to be started to continue the remaining works under the Loan Agreement nos. 2892/2893 (Clean Energy and Net Work Efficiency Improvement Program) for construction of 220/33 kilo-volt Mannar grid substation under the subject to utilizing savings of the Programme. Accordingly, a sum of US\$ 1.6 million had been incurred by the Programme funds and no proper accounting treatments had been adopted for the expenditure reported in the financial statements. The real value of asset and liabilities had not been represented in the financial statements. Amounts utilized during the year 2019 for the remaining works under the Loan Agreement nos. 2892/2893 - Clean Energy and Net Work Efficiency Improvement Program had been recorded under the project Accounts-2019 of Loan No. 2892/2893 as those expenses are related to that project component and we have made a disclosure in the Notes (Page 22) of our Financial Statements for the year 2019. All these expenses should be recorded under the Programme accounts.

2.2 Non-Compliance with Rules and Regulations

No	Reference to the Rules and Regulations	Non- Compliances	Impacts	Management Responses	Auditor's Recommendations
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(a)	Circular No. MOFP/ERD/2007/02 of 07 August 2007 of the Ministry of Finance and Planning,	The financial statements of the Programme for the year under review required to be submitted to the Auditor General on or before 31 March 2019 had been submitted for audit only on 28 May 2020.	Delays in submission of audited financial statements in time.	Due to the COVID 19 global pandemic the above deadline for submission of Financial Statements couldn't be met.	Need to adopt circular instruction
(b)	Paragraph 09 of the Circular no. 01/2016 of 24 March 2016 of Department of Management Service	The Project Steering Committee had not been established	The physical progress of the activities implemented by the Programme had not been reviewed regularly.	Monthly progress review is being carried out by CEB 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	Action should be taken to establish Project steering Committee.
(c)	Circular No.DMA/D/2015 of 15 June 2016 of the Department of Management Audit	Action had not been taken to recruit an Internal Auditor for the Programme.	Monitoring mechanisms over the activities of the Programme is remain weaken.	Currently, the auditing of the mentioned project is within the preview of the Internal Audit Branch of CEB and is being allocated to an Internal Auditor who is currently responsible for carrying out the internal audit	The transactions of the Programme should be audited by the Internal Audit section of the CEB.

activities of all the projects belong to the Project Division of CEB. In the existing settings, the project is subject to routine audits done on a systematic basis and further the activities of the same are being reviewed in various aspects such as current progress position, performance, asset utilization and expenditure, etc. on occasional basis along with other projects. Accordingly, we believe that satisfactory monitoring is being made upon the activities of the said project.

3. Physical Performance

3.1 Physical and Financial Progress of the activities of the Programme

According to the Loan Agreement, the activities of the Programme were schedule to be implemented under 03 main components of enhancement of Transmission Infrastructure, improvement of Efficiency of Medium-Voltage Network and Demand-side Management for energy efficiency purposes and expected to award contracts under seven packages. However, the respective activities had been commenced with delays over 02 years from the scheduled date of 31 July 2016 and continued operations without taking any actions to catch up the delays. The following observations are made.

No	Component	Impacts	Responses of the Management	Auditor's Recommendations
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(a)	Demand-side Management for Energy Efficiency	The objectives of the Programme would not be achieved.	The scope of work planned in Tranche 02 is smart metering in entire Katunayake CSC. Estimated cost is 8.85 million USD (8.1Mn USD for the goods and work plus 0.75 for consultancy services). The estimate is based on conditions prevailed at Tranche 01 planning stage. The very same scope of work is planned to be implemented with different project implementation strategy without utilizing the services of a consultant. The TEC is planning to submit the tender documents for BPC for approval (matter of few days). The present estimate is 3.27 million USD. The cost values referred in (i) are not understood. The same scope of work is being planned to be implemented at a lesser cost.	Need to consider the expectation of stakeholders and implement the scheduled activities of the Programme.
(b)	Improvement of Efficiency of Medium Voltage Network	Possible extension of the period of the Programme and overrunning of costs.	Procurement initiation was delayed as a result of new bidding documents being prepared for turnkey contracts for Primary Substations as well as the time taken for finalizing the land procurement and	Action should be taken to expedite the works and need to monitor the works of contractors closely.
(i)	According to the information received, procurement process on augmentation of Beligala and Ethulkotte primary substation and construction of primary substation at Rathnapitiya had been taken more than 2 1/2			

years to select a suitable contractor. Even though the contract had been awarded on 14 November 2019, the contract agreement had not been signed up to 31 December 2019. However, the land acquiring process had been taken more than 2 1/2 years, the selected land at Rathanapitiya for respective purpose had not been acquired even the date of audit on 1 June 2020.

acquisition process. Procurement process for land plot for Rattanapitiya PSS has to be suspended due to ownership disputes. Acquisition for the same land plot was initiated and Section 38 a. was published which transferred the physical possession of the Land plot to CEB, permitting construction of the PSS.Package 05 Contract was awarded on November 2019. As the Board of Directors was dissolved in November 18, 2019 and the Indian Contractor's inability to travel due to the Covid-19 Pandemic Contract signing was delayed. Contract effective date was then established after payment of mobilization advance and opening of letter of credit as per contract terms.

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| <p>(ii) The physical progress 23.5 per cent and financial progress 12.07 percent had been indicated on laying of distribution lines in Mahailuppallama, Ethagala,China Bay and Sooriyawewa Distribution Divisions and construction of Gantries at Mahailuppallama, Ethagala, Chinabay and Weniwelara under the package 4 of component of improvement of efficiency of medium voltage network. The procurement process on selection of suitable contractor for the construction had been delayed more than 2 years from the date of</p> | <p>Possible extension of the period of the Programme and overrunning of the costs.</p> | <p>PMU has to carried out right of way approval process and finalize line routes and preliminary works before advertising the bidding document. Bid evaluation and negotiation process was delayed due to price negotiations with the only eligible bidder to reduce the bid value and finalizing the discounted item wise cost of local components of the Contract. After the AFD loan agreement signing (May 03, 2019) was done, contract was awarded on May 16, 2019.Contract</p> | <p>Action should be taken to expedite the works and need to monitor the works of contractors closely</p> |
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commencement the activities of the Program due to price negotiations with SCAPC. Further it was revealed the contract had been awarded on 16 May 2019, the construction activities had not been commenced up to 31 December 2019 due to the delay of signing the agreement.

effective date was then established after payment of mobilization advance and opening of letter of credit as per contract terms. This was delayed due to delay in and opening of a Special Foreign Currency Account for AFD funds disbursement as per AFD loan terms. Further, Work programme of the Package 04 has been shifted by 2 months due the Covid-19 Pandemic. Due to these reasons, the expected project completion for Package 4 is revised to February 28, 2022.

(c) **Enhancement of Transmission Infrastructure**

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| (i) | According to the progress report of the Program, work under the laying of transmission line of 144 kilometers from Polpitiya to Hambantota and construction of 132/32 kv Hambantota grid substation under the package 1 had remained behind the target of 37 percent and 26.8 percent respectively. According to the contract agreements the respective contract works should be completed within 2 years from the effective date and it is doubtful the contract works could be completed within the Program period. | Possible extension of the period of the Programme and the increase the related costs | Polpitiya – Hambantota Line contract was effective on August 08, 2018 and expected to be completed in Jan 23, 2021. However, the preliminary line route survey, Environment clearance, and acquisition of line route have taken some time to meet the statutory requirement. Once the construction activities started it was targeted to complete the project as scheduled. | Action should be taken to expedite the works and need to monitor the works of contractors closely |
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| (ii) | <p>According to the Program Administration Manual contract on laying of transmission line of 23.7 kilometers from Padukka to Horana valued at an estimate cost of US \$ 3.78 million, and contract of laying of transmission line of 100 kilometers from Habarana to Valachcheni at an estimated value of US \$ 3.21 million under the package 2 of transmission Sub Program were required to be awarded fourth quare of year 2016. Due to various reasons such as long period of time spent to prepare the draft bid documents, delays in getting approvals from SCAPC and ADB for draft bid documents, trade union actions of CEB Engineers, delay in appointing members to the board of CEB, the procurement process had been taken more than two years to award those contracts. However, the contract on laying of transmission line from Padukka to Horana was awarded on 20 June 2019 and other contract had not been awarded as at 31 December 2019. Even though the contract on laying of transmission line from Padukka to Horana had been awarded on 20 June 2019, the contractor had not been able to initiate the construction works up to 31December 2019 due to delay of fulfill of the initial requirements of the agreement.</p> | <p>Possible extension of the period of the Programme and the increase the related costs</p> | <p>Both Horana Padukka & Habarana Valachchenai are funded by AFD loan. The AFD loan was effective on May 2019. Accordingly, both contracts were awarded in June, 2019. However, Habarana Valachchenai contract was effective on Nov 2019 while fulfilling the requirement stipulated in contract agreement. Horana Padukka contract effectiveness was delayed due to public grievances against the line route.</p> | <p>Action should be taken to expedite the works and need to monitor the works of contractors closely</p> |
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| (iii) | According to the progress report of the Program, work under the construction of Nadukuda grid substation and augmentation of Mannar grid substation and laying of transmission line from Manna to Nadukuda under the package 2 had remained behind the target of 61.5 percent and 90.85 percent respectively as at 31 December 2019, due to the various reasons such as delays in awarding contract, Ester Attack of year 2019 and COVID-19 pandemic. According to the contract agreements, construction works should have been completed at the end of March 2020, However, the works had not been completed even the date of audit on 01 June 2020. | Possible extension of the period of the Programme and the increase the related costs | The completion date of Mannar Nadukuda Transmission line was shifted from March 2020 to Aug 17, 2020 due to COVID 19, construction restriction by ADB and DWC in the Vankalai bird sanctuary, etc. However, all construction activities were completed by Aug 07, 2020 and now energized.
The completion date of Nadukuda GSS was shifted to March 2020 to Aug 18, 2020 due to COVID 19, travel restrictions of OEM recommended commissioning experts outside the Sri Lanka. | Prompt action should be taken to completed the works. |
| (iv) | Even though the draft bid documents of construction on Colombo B grid substation and single In and Out connection from Colombo C to Kolonnawa grid substation and augmentation of Colombo C and Kolonnawa grid substation under the package 3 had been approved by the ADB on 20 February 2017, due to the various reasons such as delay in preparation of draft bid documents, delays in getting approvals from SCAPC and ADB for draft bid documents, trade union actions of CEB Engineers, delay in appointment of members to the board of CEB. Hence, procurement process had been taken more than two years to award the con- | Possible extension of the period of the Programme and the increase the related costs | Colombo Sub B project is funded by AFD and loan was effective on May 2019. Accordingly, the contract was effective on Oct 2019. Preliminary design works, Site surveying and soil investigation was initiated before construction works are commenced. Construction works are in progress. | Action should be taken to expedite the works and need to monitor the works of contractors closely |

tract even though the contract had been awarded on 2 July 2019 at an contract values of US\$ 3.7 million, Euro 3.1 million, CHF 3million and Rs. 598.072 million, the contractor had not been initiated the contract works up to 31 December 2019 due to the delay of fulfill of the initial requirements of the agreement.

3.2 Under Utilized Resources

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
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<p>It was observed that the Programme had utilized only US\$ 53 million equivalent to Rs.7.740 million as at 31 December 2019, out of the total allocation of US\$ 264.7 million equivalent to Rs.39,453 million. Further, according to the financial targets stipulated in the Program Administrative Manual, it was expected to utilize US\$ 190.4 million equivalent to Rs.27,751 at the end of the year under review and only 28 per cent of the respective targets had been achieved as at that date. As a result of the slow utilization of funds, the commitment charges amounting to Rs. 30.06 million had been recovered by the Lending Agency.</p>	<p>Possible extension of the period of the Programme.</p>	<p>ADB SRI 3484/3483 loan was expected to be effective in January, 2017, but became effective on July 2017. AFD Loan 8313 has become effective on May 2019. Also, initial environment clearance and land surveys have taken sometime. Accordingly, disbursement plan of all projects were shifted. Interest Chargers are paid for utilized funds and commitment chargers are paid for the unutilized funds.</p>	<p>Need to adopt with the financial targets stipulated in the Project Administrative Manual</p>

3.3 Extraneous Activities

Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
<p>According to the information received, the motor vehicles of the Program had not been imported directly and had procured through contractors. Due to that reason, the Program had to pay more than the invoice value of motor vehicles including the profit margin of contractors and overheads thereon. Even though a sum of Rs.165.707 million had been reimbursed by the Program to procure 28 no's of motor vehicles during the period from 2016 to 2019, the ownership of the vehicles are rest with the contractor as a result if contractor had abended the contract woks or condemn the vehicles with an accident, the Program has to bear the losses. Further, a sum of Rs 17.65 million had been paid as at 31 December 2019, as hiring chargers to the private parties, till the vehicles are supplied by the contractor.</p>	<p>Incurring of expenses not related to achieve the objectives of the Project</p>	<p>These are Lump sum EPC contracts and each and every price component may have their own profits and overheads. So, the price items do not reflects the actual price of each item may have priced by the contractor considering their cash flow.</p> <p>Ownership of all price items, vehicle as well as other assets of the project will be transferred to CEB once the project is completed</p> <p>Since the PMU was newly formed under Distribution Division 04 there were no any existing vehicles to be used for initial works. Hence limited number of hired vehicles was used only for the time period from PMU initiation to Contract Awards to execute preliminary works, Right of Way approval etc. Amount mentioned is the total value before Contract Awards</p>	<p>Need to be strengthen the controls on assets management.</p>

3.4 System and Controls

Audit Issues	Impacts	Responses of the Management	Auditor's Recommendations
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(a) The supervision and monitoring of the activities of the Project under the 03 Major Components were remained under the preview of 03 separate Divisional Heads of the Ceylon Electricity Board, thus it caused delays in implementation of the activities of the Program due to lack of proper coordination.	Supervision of the activities of the Project is weaken	Monthly progress review is being carried out by CEB 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.	Need to be strengthen controls on monitoring and supervision.
(b) According to Loan Agreement No. CLK 1022 01K dated 17 October 2018 , Agence Francaise had agreed to granted EURO 30 million to the Programme. However, the financial statements of year 2019,EURO 30 million had been erroneously disclosed as & US\$ 30 million .	Misstatements of financial statements	-	Need to rectify all the records which was misstatements