

Green Power Development and Energy Efficiency Improvement Investment Program (Tranche-1- 2020

The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Investment Program (Tranche-1) 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 2.09 (a) of Article II of the Project Agreement No. SRI 47037 dated 20 November 2014 entered into between the Asian Development Bank and the Ceylon Electricity Board. 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 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.28,509.80million and out of that US\$ 180 million equivalent to Rs.23,326.20 million was agreed to be financed by the Asian Development Bank and the Agence Française de Développement (AFD). The balance amount of US\$ 40 million equivalent to Rs.5,183.60million is expected to be financed by the Ceylon Electricity Board. The Program had commenced its activities on 02 February 2015 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 November 2023.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Program as at 31 December 2020, statement of project 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 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 Deficiencies -----	Amount ----- Rs. Million	Management Responses -----	Auditor's Recommendations -----
(a)	Borrowing costs such as interest and commitment charges incurred during the implementation of the Project born by the Government are not reflected in the financial statements contrary to the accounting policy specified in note no 2.3.6.	-	Green Power Development Energy Efficiency Improvement Programme Tranche -1 is funded by ADB loan no 3147 – SRI, this particular loan agreement is entered between the Government of Sri Lanka and ADB. Therefore, commitment charges and IDC relevant to this loan is paid by Ministry of Finance. Since it is born by a different entity outside CEB even though it is relevant to the Project, CEB cannot account the cost without the transaction base.	Action should be taken to apply appropriate accounting policies.
(b)	Depreciation for the capitalized vehicles up to 31 December 2020 had been accounted in the CEB Capital Contribution instead of accounting as provision for depreciation which should be deducted from the gross carrying value of the vehicles.	105	As per the Accounting Standards, cost, accumulated depreciation and current period depreciation of the capitalized assets have been recognized correctly in the Project financial statements. However, in order to comply with the current practice of maintaining the asset centrally, cost of the asset and accumulated depreciation is transferred to AGM projects. Since the cost of vehicles imported under the loan proceeds of the Project are collectively funded by ADB (CIP value of vehicles) and CEB (Taxes), showing of assets at its gross value is	Action should be taken to apply an appropriate accounting treatment for depreciation.

needed for its fair presentation of fund utilization and it is more informative for the purpose of Project accounts.

The related credit entry is shown under CEB contribution to meet the requirements of special purpose accounts. The statement of CEB contribution in Project Financial Statements is not an actual ledger figure but it is representing workings of the CEB part of contribution of the Project.

For the purpose of complying with accounting standards the assets have been depreciated and charged to working progress account. Once the project is completed all these assets are depreciated and related accumulated depreciation provision is made and taken in to CEB books of accounts.

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|-----|---|---|---|--|
| (c) | Even though five vehicles to the value of Rs.33 million used by the part 3 of the project had been transferred to CEB in the year 2018, 2019 and 2020,those vehicles are still included in the property, plant and equipment of the Project. It was further observed that depreciation for the said vehicles had not been identified since those are not used by the project. | 33 (Net Carrying amount of the said vehicles as at 31 December 2020). | Project accounts show the cumulative working progress balance and how these assets are financed. Therefore, if motor vehicles are excluded from the financial statements, the particular financing entry cannot be shown as well in the Project accounts.
The depreciation of the assets is taken in to the accounts for the period which they have used for the Project, amounting to Rs. 24 million. | Action should be taken to apply an appropriate accounting treatment or disclosure of relevant information. |
| (d) | Even though assets used by the part 1 and 2 of the projects activities had not been identified as the property, plant and equipment of the project, depreciation amounting to Rs.39 | 39 | It is the current practice used by the Project division to record all the assets pertaining to the Project Division (Ownership is in the name of CEB) in centralized location | Action should be taken to apply an appropriate accounting treatment or disclosure of |

million for the said assets had been identified up to 31 December 2020 and accounted in the CEB Capital Contribution and the work-in-progress.

(AGM – Cost center). Accordingly, at the first point, the assets are recognized and recorded in relevant project cost center and then the value will be transferred to the AGM cost center in order to maintain centralized asset data base within the division relevant information.

Depreciation will be calculated for all the Project assets by the AGM cost center and current period depreciation is transferred to relevant Project cost center, based on the assets used by the individual Projects in order to recognize the current period depreciation charge in the WIP statement of Projects.

(e) Interest received on special foreign currency bank account amounting to Rs. 5.8 million up to 31 December 2020 had been accounted in the CEB Capital Contribution instead of shown as separate item of the part 2 of the project.

5.8

Interest received on Special Foreign currency bank account will reduce the AFD loan utilization since, interest inflow in the AFD Advance Imprest Bank account is also utilized for the payments of project expenditures.

Action should be taken to apply an appropriate accounting treatment.

Therefore, interest income received on Special Foreign currency bank account will reduce the borrowing cost and capital expenditure of the Project, accordingly, it has been accounted as reduction in capital expenditure and increase in Special Foreign Currency bank account balance. This accounting treatment is also in accordance with the provisions of the LKAS 23 (Borrowing Cost). CEB contribution is not an actual Ledger account, it is a

working prepared for the purpose of special purpose Project accounts.

- (f) Interest on special foreign currency bank account amounting to Rs. 2.8 million received during the year had not been presented separately in the cash flow statement as per the LKAS 7 and depreciation amounting to Rs.24.1 million relating to part 3 of the project had not been included in the non-cash items of the cash flow statement.
- 24.1 Action will be taken to include the depreciation relating to part 3 of the project in the non-cash items of the cash flow statement.
- Action should be taken to present the cash flow statement correctly.

2.2 Non- Compliance with Rules and Regulations

No	Reference to the Rules and Regulations	Non-Compliances	Management Responses	Auditor's Recommendations
(a)	Financial regulation 134(3) and Management Audit Circular No.05 of 26 July 2010.	The transactions of the Project had not been subjected to audit of the Internal Audit Section of the CEB. However, a comprehensive internal audit for the transactions carried out by the part 2 of the project was only carried out in 2020 by the internal audit section of CEB.	A comprehensive Internal Audit for the transactions carried out by the project tranche 1 part 2 was carried out in 2020 by the internal audit section of CEB.	The project should be audited by the Internal Auditor to assure the efficiency and effectiveness of the project.
(b)	Public Enterprise circular No.PED 03/2016 dated on 29 April 2016 and Department of Inland Revenue Circular No. SEC/2020/03(revised) dated on 08 June 2020.	The Project had paid Pay As You Earn (PAYE)/ Advanced Personal Income Tax (APIT) and tax on tax amounting to Rs.47.7 million up to 31 October 2020 out of its owned funds without being deducted them from the salaries of the respective employees.	CEB has paid APIT on employees up to October 2020 and Employees are bearing APIT from Nov. 2020 according to the Board Decision.	Action should be taken to implement the Board decision continuously.
(c)	Section 4.3 of the Management Service Circular No.1/2016 dated 23 March 2016	Contrary to the provision, leave encashment and bonus aggregating to Rs. 83.1 million up to 31 December 2020 had been paid to the project staff.	This is in accordance with the CEB's policy and the guidelines pertained to all CEB employees.	Need to comply with the provision of the Circular.

3. Physical Performance

3.1 Physical Progress of the activities of the Project

Component	Activity	As at 31 December 2020		Delay	Reasons for delays
-----	-----	-----	-----	-----	-----
		Expected physical performance	Performance achieved		
		-----	-----		
		percentage	percentage		
Part 01- Hydropower Generation Developed and Connected to the Grid	(a) Construction of the Moragolla Hydro Power Plant			Though initial schedule completion date was by June 2019, it will be expected to complete by November 2023. The contract for main civil works (Lot A2) was awarded on 04 October 2019 when it was after the initial schedule completion date. Though the contract for the consulting services (Lot 3) on Lot A1 and Lot A2 was awarded on 24 October 2016, the contract for Lot A1 and Lot A2 were awarded in May 2018 and October 2019 respectively. This portion of work is scoped out of the Scope of the project.	<ul style="list-style-type: none"> • Delay in procurement of Lot A2 and Lot B due to request by MASL for dam redesign and issues in the approval process. • Overall delays due to Covid- 19 pandemic including the following. • Delay due to import restrictions, especially for explosives for blasting. • Delay in issuing of visa for foreigners and travel restrictions from foreign countries.
	i. Lot A1	} 100	55		
	ii. Lot A2		7.5		
	iii. Lot B		-		
	iv. Lot 3		-		
	v. Lot C		100		
(b) Construction and installation of 0.5 km, 132 kv associate transmission infrastructure					
Part 02 – Enhanced Transmission Infrastructure Capacity	i.Lot A ii.Lot B1 iii.Lot B2	100 100 100	92.4 78 100	Though Initial schedule completion date of the all activities was by June 2019, it will be expected to complete the four on going activities by August 2021.	<ul style="list-style-type: none"> • Easter Sunday attack. • Adverse whether condition, issues of subcontractors and restriction imposed on transportation of filling materials. • Overall delays

					due to Covid- 19 pandemic situation.
Part 03: Efficiency of Medium Voltage Network. Improved	Installation of around 92 km of 33kv Medium Voltage Lines and Gantries around Vavunathivu and Madampe	100	98.9	According to the board minute no. 20.03.049 dated 25 February 2020, this part of the project had been concluded due to several legal cases and handed over the balance works to Distribution Division 02 of Board.	• Delays in clearance of land.
Part 04 – Demand Side Management for Energy Efficiency improved	(a) Metering pilot Project (b) Thermal storage pilot project (c) Smart building pilot Project	100 - -	100 - -	The implementation of Smart metering pilot project had been completed on 29 July 2019 after lapse 11 months from the scheduled date. Further, construction works under the Thermal Storage Pilot Project and Smart Building Pilot Project had been cancelled subsequently due to external environmental changes taken place around the concepts of Demand side by management projects.	-
Part 05 – Capacity development support provided	(a) Provision of consulting service for institutional capacity for power sector development, system and dispatching and energy efficiency improvement	-	-	The said provision of consulting service had not been initiated.	-

(b) Provision of consulting service for project management of new projects for the second tranche.

100

100

Response of the Management Same to the Reasons for delays

Auditor's Recommendation Part 01 - Take actions to complete the project activities by the expected completion date.
 Part 02 - Take actions to complete the on-going project activities by the expected completion date.
 Part 03 - The land should be acquired before commencement of project.
 Part 04 - The Project Activities should be executed as planned.
 Part 05 - Necessity of Parts should be identified before initiating the Project.

3.2 Contract Administration

No	Audit Issues -----	Management Responses -----	Auditor's Recommendations -----
(a)	The activities of the program comprised with 05 parts and the supervision and monitoring of the activities of such parts of the program were remained under the purview of various Divisional Heads of the Ceylon Electricity Board instead of the Additional General Manager who was responsible for the supervision of all donor funded projects handled by the CEB and hence coordination of the parts of the project is not in a satisfactory level.	First two parts are under the purview of the AGM Project Division and other parts are implemented under separate divisions of the CEB. The Project division is handling only the main Generation and Transmission related Projects and if any distribution part included in the scope of the Project, then that part will be covered by a PMU under distribution division.	Ensure the proper coordination in order to complete the remaining project activities as planned.
(b)	The original closing date of the ADB Loans (3146 / 3147) was 31 March 2020 and it was extended to 30 March 2021. It was further extended to 13 July 2024 due to not meeting the expected progress. As a result, project administration expenses and other expenses will increase and more commitment fee will have to be	This is mainly due to time extension granted to construction of Part 01 of the Project. The reasons for the delays have been outlined in the above. It is pertinent that extra expenses have to be incurred if time extension is granted beyond the	Actions should be taken to complete the remaining project activities within the expected completion date.

paid for the undisbursed balance. original completion date. Further, the objective of the Long Term Least Cost Generation Plan may not be achieved.

3.3 Matters in Contentious Nature

Audit Issue -----	Management Response -----	Auditor's Recommendations -----
<p>As per the BOQ of the Lot B2 of the part 2 of the Project, USD 158,065 had been allocated to import 3 vehicles. Even though the total actual CIF value of the imported 3 vehicles was USD 58,446, allocated amount of USD 158,065 had been paid to the contractor. In addition, the total import tax amounting to Rs.12.4 million had been reimbursed to the contractor. Accordingly, the Project had incurred an uneconomical expense when procuring the vehicles for the Project.</p>	<p>Initial Price bid has been decided at the bidding time with the approval of the SCAPC and CEB is bound to pay the contract price agreed according to the Lot B2 contract agreement signed on May 2016 and vehicles were imported in 2017. Even though price of the vehicle as per the CIF and offered price by the contractor is different, CEB has an obligation to pay the contractor according to the contract agreement price bid.</p> <p>If the actual price of vehicle and Contract BOQ price is compared for other 2 lots (A, B1) of the project, actual import price is more than the CIF price in the contract. Therefore, LOT B2 contract BOQ cost increase is minimized by the LOT A and LOT B1 Cost saving. So, it is an economical transaction to the project. According to the special contract condition 14.10 of contract no CEB/AGM/TR/2014/ICB/GPDEEIP 1-2/B2, if the exemption is not granted for duties, the custom and import duty paid by the contractor has to be reimbursed to the contractor. Therefore, taxes for vehicles are paid according to the contract condition.</p>	<p>Actions should be taken to procure the future required assets on actual cost.</p>

3.4 Issues Related to Human Resources Management

Cadre Position	No of Posts			Management Response	Auditor's Recommendation
	Approved	Actual As at 31 December 2020	No. of vacancies		
Part 1 – Moragolla Hydropower Plant					
Project Director	1	1	-	Action is in progress to hire the required number of staff.	Take actions to fill the required vacancies.
Project Manager – Civil works	1	1	-		
Project Manager – Mechanical works	1	1	-		
Project Manager – Electrical works	1	1	-		
Accountant	1	-	1		
Civil Engineer – Resettlement and Environmental Monitoring	1	1	-		
Engineer – Project Monitoring & Planning	1	1	-		
Electrical Engineers	5	2	3		
Mechanical Engineers	4	0	4		
Civil Engineers	5	3	2		
Engineering Assistant	1	1	-		
Accounting Assistant	1	-	1		
Environmental Officer - Environment Migratory Measures & Social Issues	1	-	1		
Land Officer	1	-	1		
Fire & Safety Officer	1	-	1		
Electrical Superintendents	4	2	2		
Mechanical Superintendents	4	1	3		
Civil Superintendent	16	14	2		
Surveyors	2	-	2		
Chief Clerk	1	-	1		
Secretary	2	-	2		
Clerks	7	5	2		
Data Entry Operator	3	-	3		
Circuit Bungalow Keeper	1	-	1		
Semiskilled Field employees	6	1	5		
Unskilled Field employees	7	2	5		
Drivers	24	17	7		
Office Assistants	3	1	2		
TOTAL	106	55	51		