

Green Power Development and Energy Efficiency Improvement Investment Program (Tranche-1) - 2021

The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Investment Program (Tranche-1) for the year ended 31 December 2021 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. 28,509.80 million 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 Development. The balance amount of Rs. 5,183.60 million 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 July 2024.

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 Program as at 31 December 2021, 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)	Depreciation amounting to Rs. 138.7 million relating to 51 vehicles capitalized up to 31 December 2021 had been accounted as the CEB	138.7	A separate disclosure on this regard has been made in the project financial statements.	Appropriate accounting treatment for depreciation should be applied.

Capital Contribution instead of being accounted as provision for depreciation.

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| (b) | The estimated useful life time of the vehicles had been changed from 7 to 14 years in the year under review. However, depreciation relating to 19 vehicles, out of 42 vehicles of the part 1 of the Project had been calculated based on the estimated life time of 7 years. As a result, the depreciation for the year under review had been overstated by Rs. 16.6 million. | 16.6 | Noted and the error was corrected in year 2022. | The new useful life time of vehicles should be used to calculate depreciation. |
| (c) | According to the financial statements, 04 vehicles belonged to part 2 of the Project had been recognized as assets of part 1 whilst 42 vehicles belonged that part of the Project had been recognised as assets of part 2 of the Project. | - | The heading in the Note 4.01 has been stated erroneously as Part 01: Moragolla Hydro Power Project due to a typo error which actually should have been Tranche 1 Part 2 and 4.2 as Part 2: Enhanced transmission infrastructure capacity due to typo error which actually should have been Tranche 1 Part 1. However, the vehicles in Moragolla Power Project (Additional Disclosure Note 2.1) are correctly stated. | Appropriate disclosures should be made in the financial statements. |
| (d) | Five vehicles worth of Rs. 57.3 million used by part 3 of the Project and one vehicle worth of Rs. 25.7 million used by part 2 of the Project had been handed over to the CEB in the years of 2018, 2019, 2020 and 2021. However, those vehicles had further been included under the property, plant and equipment of the Project without being transferred from the books of accounts. | 83 | Since the vehicle is funded by ADB, it must be included in the Project financial statements to disclose the utilization of donor funds. However, an additional disclosure is made to state that the vehicle of the part 2 is transferred to the respective division and not in the ledger of the project division. | Apply an appropriate accounting treatment or disclosure of relevant information. |
| (e) | An interest amounting to Rs. 9.2 million received on a special foreign currency bank account maintained in a Licenced Commercial Bank for project operation activities up to 31 December 2021 had been accounted | 9.2 | Interest received on Special Foreign currency bank account will reduce the loan utilization since, interest inflow in the Advance Imprest Bank account is also | Apply an appropriate accounting treatment. |

as a CEB Capital Contribution instead of being shown separately in the financial statements.

utilized for the payments of project expenditures.

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| (f) | An interest amounting to Rs. 3.4 million received on a special foreign currency bank account in the year under review had not been shown separately in the cash flow statement as per the LKAS 7. | 3.4 | The Interest received on special foreign currency bank Account will reduce the loan utilization since interest inflow in the Advance Imprest Account is also utilized for the payment of Projects Expenditures. | Prepare and present the cash flow statement fairly with relevant information. |
| (g) | Various borrowing costs such as interests, commitment charges, etc. born by the Government during the implementation period of the Project had not been reflected in the financial statements of the Project, even if those expenses were part of working progress of the project. | - | This particular loan agreement is entered into between Government of Sri Lanka and ADB. Therefore, commitment charges and interest relevant to this loan is paid by Ministry of Finance. | Apply an appropriate accounting treatment or make disclosures in the financial statements with relevant information. |
| (h) | Two loan disbursements totalling Rs. 4.2 million received under the Loan Agreement No. 3146 during the year under review had been utilized by Sri Lanka Sustainable Energy Authority. However, those loan disbursements had not been reflected in the financial statements of the Project. | 4.2 | Since it is disbursed by a different entity outside CEB, it cannot be accounted without a proper transaction base. | Ensure the said disbursements are related to the Project and act accordingly. |
| (i) | The CEB and the Project had not followed a consistent accounting policy in accounting for depreciation. Therefore, the financial statements prepared by the CEB and the Project operated under the CEB could not be reliably compared in audit. Accordingly, a sum of Rs. 21.7 million had been deducted from the current year's depreciation of assets of the Project. | 21.7 | As it was considered that the impact of depreciation is immaterial when compared to the balance in WIP and CEB Contribution we did not do the prior period disclosures. | The same accounting principles for the entity's financial statements as well as the Project's financial statements should be applied. |

2.2 Non-Compliance with Laws, Rules and Regulations

No.	Reference to the Laws 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.	An audit plan has been developed covering all the ADB projects including . The audit activities of this project will be commenced soon.	The Project should be audited by Internal Auditor to ensure the operating effectiveness and efficiency of the Project.
(b)	Public Enterprise Circular No. PED 03/2016 dated on 29 April 2016.	The Project had paid Pay As You Earn (PAYE) tax and tax on tax amounting to Rs. 47.8 million up to October 2020 out of its owned funds without being deducted them from salaries of the respective employees.	CEB has borne the PAYE tax only up to October 2020. APIT from November 2020 was borne by the employees as per the decision taken at the Board.	Board decisions should be implemented properly.
(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. 96.3 million up to 31 December 2021 had been paid to the project staff.	This is in accordance with the CEB's policy and the guidelines pertaining to all CEB employees.	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 2021		Delay/ Audit Issue	Reasons for delays
		Expected physical performance	Performance achieved		
		Percentage	Percentage		
Part 01 - (a) Hydropower Generation Developed and	(a) Construction of the Moragolla Hydro Power Plant			This plant had been initially schedule to be completed in June 2019, and later, it had been extended up to November 2023. Further, the contract for the main civil works (Lot A2) had been	The project was delayed due to following reasons Delay with the procurement of Consultancy service, Delay in procurement of Lot

Connected to the Grid	i. Lot A1	100	70	awarded on 04 September 2019, i.e, after the initially schedule completion date.	A2 and Lot B, COVID 19 pandemic, restrictions, especially for explosives for blasting, Delay in issuing of visa for foreigners, Non-availability of freight forwarding vessels and shortage of construction material.
	ii. Lot A2		23		
	iii. Lot B		10		
	iv. Lot 3		69		
	v. Lot C		100		
	(b) Construction and installation of 0.5 km, 132 kv associate transmission infrastructure				Though the contract for the consulting services (Lot 3) on Lot A1 and Lot A2 had been awarded on 24 October 2016, the contract for Lot A1 and Lot A2 were awarded in May 2018 and October 2019 respectively.
				It was revealed that, the said portion of works was out of the Scope of the project.	
Part 02 – Enhanced Transmission Infrastructure Capacity	i.Lot A	100	99.6	Eventhough the initially schedule completion date of the all activities was June 2019, it had been extended up to February 2022.	<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.
	ii.Lot B1	100	97.5		
	iii.Lot B2	100	100		
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	(a) Metering pilot Project	100	100	The implementation of - Smart metering pilot project had been completed on 29 July 2019 after lapse of 11	
	(b) Thermal	-	-		

improved storage pilot project				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 management projects.
(c) Smart building pilot Project	-	-		
Part 05 – Capacity development support provided	(a) Provision of consulting service for institutional capacity	-	-	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 - Necessary actions should be taken to complete the project activities by the expected completion date.

Part 02 - Take proper actions to complete the on-going project activities by the expected completion date.

Part 03 - Lands should be acquired before commencement of project.

Part 04 - Project Activities should be completed 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
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(a)	The coordination of the project was not at a satisfactory level as the responsibility for the activities of the program was assigned to different regional heads instead of the Additional General	The Project Division generally undertake Major Generation and Transmission Projects only and if any Distribution related work is within the scope of the project will	Ensure the proper coordination in order to complete the remaining project activities as planned.

Manager of the CEB.

be carried out by the respective Distribution Division.

- (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 may increase and more commitment fee would have to be paid for the undisbursed balance.
- This is mainly due to time extension granted to construct the 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 original completion date.
- Necessary actions should be taken to complete the remaining project activities by the expected completion date.

3.3 Matters in Contentious Nature

Audit Issue

As per the Bill of Quantities of the Lot B2 of the part 2 of the project, USD 158,065 equivalent Rs.24 million had been allocated for import 3 vehicles. Even though the total actual CIF value of the imported 3 vehicles was USD 58,446 equivalent to Rs. 8.9 million. However, the total amount in the Bill of Quantities had been paid to the contractor. Accordingly, it was observed that the Project had incurred an uneconomic expense amounting to Rs. 15.1 million on procurement of vehicles.

Management Response

Initial Price Bid has been decided on 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.

Auditor's Recommendation

Necessary actions should be taken to procure the future required assets on actual cost.

3.4 Issues Related to Human Resources Management

Audit Issue

There were 55 vacancies as per the approved carder of the project and 6 of those vacancies were directly affecting to the performance of the project.

Management Response

Actions will be taken to hire the required number of staff.

Auditor's Recommendation

Take actions to fill the required vacancies.