

Green Power Development and Energy Efficiency Improvement Investment Program Tranche II - 2022

The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Investment Program Tranche II for the year ended 31 December 2022 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 4.04 of Article IV of the Loan Agreement No.3483 SRI and 3484 SRI dated 27 December 2016 entered into between the Democratic Socialist Republic of Sri Lanka and Asian Development Bank (ADB), and Section 3.4.4 of Article 03 of the Credit Facility Agreement No.CLK 1022 01K dated 17 October 2018 entered into between the Democratic Socialist Republic of Sri Lanka and Agence Francaise 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 of the Programme, the Ministry of Power and Energy, is the Executing Agency and Ceylon Electricity Board is the Implementing Agency of the Programme. The objective of the Project is to enhance clean power generation, system efficiency and reliability. The activities of the Project are implemented under 03 components namely transmission infrastructure enhancement, efficiency of medium voltage network improvement and Demand side management for energy efficiency improvement. As per the Loan Agreement, the estimated total cost of the Programme was US\$ 260 million equivalent to Rs.39,808.25 million and out of that US\$ 180 million equivalent to Rs.27,985.45 million was agreed to be financed Asian Development Bank and Agence Francaise de Development .The balance amount of US\$ 80 million equivalent to Rs.11,822.80 million is expected to be financed by the Ceylon Electricity Board. The Programme had commenced its activities on 10 July 2017 and scheduled to be completed by 31 December 2021. However, the date of completion of the activities of the Project had been extended up to 10 January 2024.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2 of this report, the accompanying financial statements give a true and fair view of the financial position of the Program as at 31 December 2022, 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 table 2 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

Accounting Deficiency	Management Response	Auditor's Recommendation
Credit balance of Asian Development Bank and Agence Francaise de Development as at 31 December 2022 had not been translated into LKR value of the reporting date in accordance with Sri Lanka Accounting Standards -21 and as a result the loan balances and development expenditure balance shown in the statement of financial position had been understated.	It is the practice of CEB to formulate project accounts under Additional General Manager (Projects) as a set of branch accounts. This has been duly accepted by the auditors and ADB throughout the history and no query has been raised so far. Under the Additional General Manager (Projects), all the projects are executed while recording loan disbursements and the relevant asset construction in line with CEB's policies and generally accepted principles. All the transactions are recorded in General Ledger under the historical cost convention as per the accounting standards. The relevant loans are maintained and administered and settled by the Finance Manager – CEB in line with the guidance of the Ministry of Finance as applicable. Hence, the loan is recorded under the GL of CEB headquarters.	The financial statements should be prepared in accordance with the Sri Lanka Accounting Standards.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

According to the Loan Agreement, the initial activities of the Program were schedule to be implemented under 03 main components of Transmission Infrastructure Enhancement, Efficiency improvement of Medium-Voltage Network and Demand – Side Management Improvement for energy efficiency purpose and expected to award contracts under six packages.

No	Component	Response of the Management	Auditor's Recommendation
(a)	The Construction of Package 2 of Lot B2 Padukka - Horana 132kV,25 km transmission line and 2nd Circuit Stringing of Habarana Valachchenai 132kV Transmission Line was commenced on 30th April 2020 and expected to be completed on 14th June 2023. According Information received 41.3 percent and 42.5 percent of low physical and financial progress had been shown thereon.	The contractor has informed several times about his inability to attend the construction and erection works due to price increases owing to the economic crisis situation in the country. This was informed to the CEB Board of directors and ADB. The CEB Board has informed to monitor the progress of balance material procurement and if it is satisfactory then to de-scope civil construction and material purchase to be done through the contract. The construction work will be done by CEB. The AFD, Funding agency has given the consent for the same.	Action should be taken to expedite the works and need to monitor the work of contractors closely.

- (b) The Construction of package 5 Augmentation of Primary Substations was commenced on 21st September 2020 and expected to be completed on 31st May 2023. According to Information received 55 percent and 73 percent of low physical and financial progress as at 31 December 2022 had been shown thereon.
- As at 31st May, 2023, overall physical progress was 63% and financial progress was 73%. Main reason for not achieving the desired progress was due to not handing over the Raththanapitiya PSS land to the Contractor. A land owner objection issue had been dragged for more than 3 years regarding the Raththanapitiya land and now it is completely settled. A reasonable Extension of Time (up to 15th November, 2023) was granted to the contractor to complete the balance works of all three PSS sites including Raththanapitiya PSS.
- Action should be taken to expedite the works and need to monitor the work of contractors closely.
- (c) The construction of package 9: 220kV Switching Station at Kerawalapitiya was commenced 14th August 2020 and expected to complete 30th September 2023. According to Information received 45 percent and 25.3 percent of low physical and financial progress as at 31 December 2022 had been shown thereon.
- The financial progress of Package 9: 220Kv switching station at Kerawalapitiya is 69% and physical progress is 65%. The project is expected to be completed by 30th September 2023.
- Action should be taken to expedite the works and need to monitor the work of contractors closely.
- (d) According to the Project Administration Manual USD 11.1 million had been allocated, for smart grid and metering pilot sub project. However the pilot project has not been implemented by June 2023.
- The estimated cost of the Katunayake Smart Metering Project was revised to 2.0 Mn USD. This was informed to ADB and consent from ADB was obtained.
- Contract administration activities should be performed efficiently.
- DPC approval for awarding the tender was granted on 1st November 2022. The bidder had already been requested to extend the bid validity and bid security before this date as the bid and bid security were expired.
- Due to the prevailing economic conditions of the country, bidder requested an escalation to the bid price and requested several clarifications regarding the payments and execution of the contract without extending the bid and the bid security validity. A positive response from the bidder has not been received so far.

3.2 System and Controls

Audit Issue	Management Response	Auditor's Recommendations
The Project had not taken action to maintain a proper fixed asset register to record the Property, Plant & Equipment transferred to the Project.	A fixed asset register is properly maintained at the Finance Branch for the entire Projects Division project-wise as submitted to you during the audit.	Fixed asset register should be continuously maintained from the inception of the project.