

Supporting Electricity Supply Reliability Improvement Project (Loan-3409- SRI) -2021

The audit of financial statements of the Supporting Electricity Supply Reliability Improvement Project 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 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 (ADB). 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 of the Project, the Ceylon Electricity Board is the Executing and 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 equivalents to Rs.23,068.80 million and out of that US\$ 115 million equivalents to Rs.16,560 million was agreed to be financed by the Asian Development Bank. The balance amount of US\$ 45.2 million equivalents to Rs. 6,508.8 million is expected to be financed by the Government of Sri Lanka. The Project had commenced its activities on 29 June 2017 and scheduled to be completed by 31 March 2022 and subsequently been extended to 31 March 2023.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project 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 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 Deficiencies	Management Response	Auditor's Recommendation
(a)	The motor vehicles valued at Rs. 200 million disclosed in the financial statements which falls into category B had to be depreciated by considering the useful life of 14 years. However, the above mentioned vehicles depreciated erroneously by considering the useful life as 7 years. As a result, an over provision of Rs. 29.67 million had been made in the financial statements as at 31 December 2021.	This has been corrected in the year 2022	Correction should be made according to the requirement.
(b)	Liquidated damages amounting to Rs. 25 million shown as payable during the previous years had been recorded as other income during the year under review.	This has been corrected in the year 2022	Correct accounting treatment should be applied.
(c)	Eventhough the total maximum amount that could be deducted as per the contract agreement from the two contractors was Rs.20.9 million, a sum of Rs. 25.2 million had been disclosed as the liquidated damages in the financial statements.	This has been corrected in the year 2022	Correct amount should be brought into Account.
(d)	The property, plant and equipment had been understated by Rs. 26 million, as the expenses incurred on valuation and survey of lands had been considered as other expenses and shown under the work in progress.	The ledger card is attached herewith	Valuation and survey expenses should be recognized under the property, plant and equipment.
(e)	The confirmations of the availability of the inventory remained at provincial stores amounting to Rs. 4,244.4 million had not been rendered to audit.	A list of Material Transfer Notes and Goods Received Notes maintained by DD2 had been rendered to the audit for audit purposes.	Proper register should be maintained at DD2 as well as in the distribution stores enabling to get confirmations from the relevant stores.

- (f) The interest income amounting to Rs. 845,386 received on a special foreign currency bank accounts maintained at a License Commercial Bank for the operation of the Project up to 31 December 2021 had been accounted under the work-in-progress instead of being shown separately in the financial statements. Further, it was observed that the interest income had not been presented separately in the cash flow statement as per the LKAS 7.
- The interests received to a special foreign currency bank accounts maintained at People's Bank as well as interest paid for funds received to imprest accounts (from ADB) are recorded under Work in Progress and net amount of WIP shown separately in the financial statements. Also, Interest received on Special Foreign currency bank account will reduce the loan utilization.
- Proper disclosure needed.
- (g) According to the statement of work in progress, the total expenditure incurred for the year ended 31 December 2021 on packages 1,2,3,4,5 and 6 was Rs. 3,295.8 million. However, the amount disclosed in the work in progress amounting to Rs. 244.3 million under the Capital Contribution of the Ceylon Electricity Board could not be verified as there were no records rendered to audit to identify separately.
- The total work in progress amount comprises of the total of all the expenditure code balances.
- Proper records had to be maintained and should be rendered to audit.

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)	Public Enterprises Circular No PED 01/2018 dated 18 September 2018 of the Ministry of Finance and Mass Media	Two Sport Utility Vehicle and sixteen four wheel driven double cabs at the cost of Rs. 46.8 million and Rs. 153.5 million respectively during 2019 and 2020. The approval of procurement of vehicle had not been sought through the Chairmen and the Secretary to the line Ministry from the Department of Public Enterprises as required by the Circular.	As CEB had no vehicles to be allocated to project activities, a few vehicles were supplied under the project scope after getting the approval from a committee established in the ministry of power and energy.	Need to comply with Circular instructions.
(b)	Public Enterprises Circular No PED 28 dated 31.01.2005.	Necessary approval from the Director General Public Enterprises had not been obtained to hire vehicle at a cost of Rs. 8.5 million during the year under review.	According to the circulars and guidelines of the Ceylon Electricity Board, all the necessary approvals were obtained from the relevant procurement entities.	Need to comply with Circular instructions.
(c)	Financial Regulation 507	Physical verification of stores and fixed Assets as at 31st December had not been carried out.	As per CEB regulations and guidelines physical verification of stores and fixed Assets as at 31 December. Verification documents are forwarded to Department of Auditor general from the respective divisions for audit purposes.	Need to comply with Financial Regulation
(d)	Management Audit Circular No. 02/2016 dated 10 June 2016 issued by the Secretary of the Ministry of Finance and Financial Regulation 133	Action had not been taken to recruit an Internal Auditor for the Project.	Internal Audit branch carries out overall audits of projects and hence no separate Internal auditor is appointed in CEB.	The transactions of the Project should be audited by the internal audit section of the CEB.

- | | | | | |
|-----|--|---|---|---|
| (e) | Para 2.1.2 and 2.2.1 of the Management Service Circular No 01/2019 dated 05 March 2019 | According to the information furnished, staff position of PMU by 31 December 2021 approved carder was 74 and the allocated staff was 93. However, it was observed in audit that the Package 1, 2 and 3 are handled by the DGM (P&D) DD1 under Addl. General Manager (DD2) of CEB. A separate PMU has been set up under 1 Addl. General Manager (DD1) of CEB on 02 May 2016 to execute Package 4,5 and 6. In addition an Addl. General Manager (Projects) has been appointed to execute Package 7. Further it was observed that a sum of Rs. 385 million and Rs 44 million had been incurred as personnel expenses for the year ended 31 December 2021 by the Package 1 to 6 and Package 7 respectively. | Not replied | Approval should be obtained as per the Circular instructions. |
| (f) | Paragraph 9 of the Management Services Circular No 01/2019 dated 05 March 2019 issued by the Ministry of Finance | Action had not been taken to Establish a Steering Committee for Project. | Project progress is monitored regularly by CEB. | Need to comply with Circular instructions. |

2.3 Confirmation of Balances

No	Account Details	Amount as at 31 December 2021		Description of the corresponding record	Management Responses	Auditor's Recommendations
		As per financial statements Rs.	As per corresponding records Rs.			
(a)	Work-in-progress Distribution Division 02	4,244,417,042	Could not confirm as separate registers had not been maintained on receipt of Project inventories by the Provincial stores	Confirmations and inventory records from relevant Stores	List of Relevant GRN's and MIN's were maintained by the DD2 and submitted to the audit.	Separate registers should be maintained on receipt of Project inventories by the Provincial stores.
(b)	Trade and Other Payables for 2021	6,092,924	Balance confirmations not obtained	Confirmations not supported with the financial statements	Copies of the letter of the calling balance confirmations forwarded are attached herewith (Annexure 53)	Action should be taken to confirm the balances and replies to be sent to the Audit.

3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

No	Component	/Sub Component	As at 31 December 2021			Audit Issues	Management Responses	Auditor's Recommendations
			Expected physical performance	Performance achieved				
				Physical	Financial			
(a)	Package 1							
	Lot 1:		100	100	89.97	According to the Project Activities Planned for the 4 th Quarter of 2021, Materials supply to be ended by 1st Quarter of 2019 and payments be completed by the end	Under Lot 1, package 1 all the goods had been delivered to the CEB. Final 10 % of payment had been set off against	Action should be taken to deduct liquidated damages from the contractors.
	Concrete poles -8.3m, 1000kg (15,000)							
	Lot 2:		100	100	99.99			
	Concrete poles -8.3m, 1000kg							

(15,000)			
Lot 3: Concrete poles -8.3m, 1000kg (20,000)	100	100	99.10
Lot 5: Concrete poles –Pre-stressed 11m, 350kg (2,000)	100	100	99.32

of 2nd Quarter of 2020. However, it was observed in audit that the payment had not been settled even as at 31 December 2021. The completion certificates of the relevant contract had not been rendered to ADB and to the audit. the liquidated damages due to the late delivery.

(b) **Package 2**

Lot 1: MV & LV hardware Canceled purchasing

Lot 2:	Removed from the scope		
Lot 3: PVC Meter Enclosures single ph. (100,000 nos)	100	100	90

According to the Project Activities Planned for the 4th Quarter of 2020, Materials supply to be ended by 3rd Quarter of 2018 and payments be completed by the end of 2nd Quarter of 2020. However, it was observed in audit that the payment had not been settled even as at 31 December 2021. The completion certificates of the relevant contract had not been rendered to ADB and to the audit. Under Lot 2, package 3 all the goods had been delivered to the CEB. Final 10 % of payment had been set off against the liquidated damages due to the late delivery. Action should be taken to deduct liquidated damages from the contractors

Output 3: Goods installation have not been completed.

(c) Package 3	Lot 3: Cables of 14 Km	100	100	99.99	The Supplier requested for price variation. It was observed in audit that according to the Project Activities Planned for the 4 Quarter of 2020, materials to be supplied by the end of 2 Quarter of 2018 and the payment be ended in 2 quarter of 2020. However, it was observed in audit that the payment had not been settled even as at 31 December 2021. The completion certificates of the relevant contract had not been rendered to ADB and to the audit. Output 3: Goods installation had not been completed.	Not replied	Prompt action should be taken to resoled the dispute.
(d) Package 4	Construction of 270kV, 33kV tower lines 13Nos of 33kV 2 SSBB gantries	100	41	34	When analysed the progress of the sixteen tower lines of DD1, DD2, DD3 and DD4 none of those tower lines had completed 100% Soil testing. The Puttalam GSS to Keeriyankalliya of 28.2 Km and Irankandy gantry to Kumburupitiya gantry of 7.5Km have completed only 35% and 40% respectively. Choisy Gantry to Thawalantenna 6 Km with 0% progress.	<ol style="list-style-type: none"> 1. Soil Testing; DD1- 71.7%, DD2-80.0%, DD3- 86% ,DD4-73% 2. soil testing 35% in Puttalam GSS to Keeriyankalliya, Soil Testing 100% in Irankandy gantry to Kumburupitiya and. 3. Choisy – 	Action should be taken to expedite the works and need to monitor the works of contractors closely

<p>Out of the sixteen only two tower lines had been completed profile designing. The lowest progress was Puttalam GSS to Keeriyankalliya of 28.2 Km with only 10% completion.</p>	<p>Thawalanthenna Line - At present environmental approval received for the line and the Line design work completed. After that soil testing work will commence.</p>
<p>The progress of 100% Tower spotting was observed in only two tower lines. However 0% on Puttalam GSS to Keeriyankalliya of 28.2 Km.</p>	<p>4. Profile design completed more than 70% in all 16 lines.</p>
<p>Whereas 20% to 40% progress were observed in Wimalasurendra GSS to Maskeliya gantry 10 km, Irankandy Gantry to Kumburupitiya gantry 7.5 km and Kappalthurai Gantry to 6th Mile Post gantry 13.6 km.</p>	<p>5. Tower Spotting 90% and balance remaining due to difficult terrains and Land owner objections</p>
<p>Choisy Gantry to Thawalantenna 6 km, Matara GSS to Yakabedda GT 21 km had not shown any progress.</p>	<p>6. Out of the sixteen 11 tower lines had started the foundation construction process Mahiyangana – Bibila – 55% Maho – Maeliya – 53%</p>
<p>Out of the sixteen only seven tower lines had started the foundation process. Three tower lines shown a progress of 29% to 36% whereas the other four shown</p>	<p>Ampara -Uhana- 39% Kappalturai- 6th Mile post – 21% Morawaka- Warukandeniya- 19%</p>

a very much less progress with below 5.4%.

Mallawapitiya –
Rathmallgoda- 16.9%
Wimalasurendra-

Land acquisition of thirteen Gantry lands had not been completed and construction initiated even as at 31 December 2021.

Maskeliya -16.3%
Kegalla- Gavilipitiya –
1.4%

Status of Design and Monitoring Framework
Output 2: Contract was signed in May 2019 & implementation is ongoing with delays.

7. 38A gazette issued for 9 Gantry lands out of thirteen. Bibila and Uhana Gantry lands are Government owned and cleared. Warukandeniya land pending approval from Land Commissioner Generals Department.

Civil Work Started
Rathmalgoda Gantry.

(e) **Package 5**

Lot 1: 100 100 99.5
Supply and Delivery of Material: Three phase energy meters and Modems (25,000 nos)

According to the Project Activities Planned for the 4 Quarter of 2020, payments to be completed by the end of 1 Quarter of 2020 for Lot 1. However, it was observed in audit that the payment had not been settled even as at 31 December 2021. Status of Design and Monitoring

Output 1 - Lot 1, all the payments were done except payment for the head-end system training which was quoted in the tender. Due to COVID pandemic this was delayed.

Action should be taken to expedite the remaining works.

Lot 4 : 100 100 92.5
Supply and Delivery of Material: Steel Meter Enclosures (25,000nos)

Output 2 - Equipment

	Lot 5- Supply and Delivery of Material: ABC 33 kV and Accessories (80.1km) , Surge arrestor and switch cutout (1200 Nos each)	100	100	96	Framework. Output 2: Equipment installation have not been completed.	installation of Lot 1 and 4 done by the provinces, the new meter installation work for Transformers carried out by each province with their labour capacity.
(f)	Package 6 Construction of Hybrid energy systems in 03 islands at Nagadeepa, Delft & Analitivu	100	-	-	Land at Nagadeepa to the extent of 450.28 perches had been purchased on 21 July 2020. Construction activities had not been started even as at 31 December 2021. However, the land allocation procedures for the land at Delft and Analitivu had not been completed even as at 31 December 2021. In Output 1: Total 2.27 megawatts of Hybrid mini-grid systems with 900 Kilowatt- hour storage capacity established in three small Islands yet to be awarded.	Cabinet has cancelled this specific tender. Project activities should be plane properly before entering in to the agreements with donors.
(g)	Package 7 Lot A1: Installation of 100 MVar BSC at Pannipitiya Grid Substation	100	82	77	Due to significant delays, overall Project duration could be extended.	Contract of Package 7 Lot A1 delayed due to the various reasons such as Covid – 19 pandermic , Delay in delivery of
	Lot A2:Installation of Static Var Systems (SVS) at	100	48	30		Need to take action to catch up the delays and ensure to complete the contract works

Biyagama Grid Substation
 Lot A3: Installation of
 124Mvar Breaker Switched
 Capacitor Banks in Colombo
 City Grid Substations and
 Replacing the Capacitor
 Banks at Thulhiriya Grid
 Substation

100

Not rendered
 Not rendered

material due to global effect of Covid-19 and Poor performance of the Contractor
 timely to avoid additional cost

3.2 Delays in commencements/ implementation/ completion of activities of the Project

No	Activity	Date scheduled to be commenced/ implement/ completed	Date of commencement/ implementation/ completion	Delay	Management Responses	Auditor's Recommendation
(a)	Establish Hybrid renewable energy systems in three small Islands - Analathivu, Delfts and Nainathivu	Contract required to be awarded by 3rd Quarter of 2016 and the activities of the contract were scheduled to commenced by 4th Quarter 2017.	Contract had not been awarded even as at 31 December 2021. Only the Land at Nainathivu had been purchased as at 31 December 2020.	More than 5 ½ years since the scheduled date of awarding and also more than 4 ¼ years since the scheduled date of commencement of activities as per the Project Administration Manual.	Cabinet has cancelled this specific tender.	Activities of the Project should be properly planned.
(b)	Improve the Reliability of the Medium Voltage Network	According to the Project Administration Manual, contract on construction of 270.5 km long 33 kV tower lines and 13 No. of 33 kV - gantries at an estimated value of US \$ 34.99 million was required to be awarded by 3rd Quarter of 2016 and the activities	Contract was awarded on 30 May 2019 at a cost of US \$ 40.5 million and the effective date of this contract was 06 July 2019. 13 Numbers of gantry lands have been	More than 2 ½ years since the scheduled date of awarding and the scheduled date of commencement of activities of Package 4 as per the Project Administration Manual.	38A gazette issued for 9 Gantry lands out of thirteen. Bibila and Uhana Gantry lands are Government owned and cleared. Warukandeniya land pending approval from Land	Action should be taken to expedite the works and need to monitor the works of contractors closely

of the contract were scheduled to be commenced by 4th Quarter of 2017.

surveyed to acquire for the Gantry construction under this Package.

Commissioner Generals Department for long term lease. Civil Construction work started in Rathmalgoda Gantry.

Construction Work started in 11 Tower lines.

Out of 1211 only 204 foundations are completed and at 59 Towers locations foundation construction works are in progress.

Due to the covid pandemic outbreak of the country, adverse weather condition, Fuel crisis, and price escalation, the performance of the contractor recorded to be significantly low. Due to that the expected project target was not achievable.

Package 5 Lot 4 :

Supply and Delivery of Material: Steel Meter Enclosures (25,000nos) was required to be awarded by 3rd Quarter of 2016 and the activities of the contract were scheduled to be commenced by 4th Quarter of 2017.

Contract was rebid and awarded only on 22 August 2019. The activities commenced only on 08 October 2019.

More than 5 years since the scheduled date of awarding and also more than 4 years since the scheduled date of commencement of activities as per the Project Administration Manual.

Initially tender was published in 2017 October and later retendered in 2018 December. Goods were delivered during 2020.

Action should be taken to expedite the works and need to monitor the works of contractors closely

(c) Reactive power management in the transmission system Improved
 A sum of Rs. 2,941.92 million equivalents to US \$ 20.43 had been allocated to this Package. Contract was required to be awarded 1st Quarter of 2017 and the activities scheduled to be commenced by 2nd Quarter of 2018.

Lot 1: Install 100 MVAR Breaker Switched Capacitor at Pannipitiya Grid substation,	Contract had been awarded on 9 May 2019 at an estimated cost of US \$ 1.5 million, Eur 3.76 million Rs. 166.05 million. The activities of the contact were commenced only on 01 August 2019.	More than 2 ½ years since the scheduled date of award and more than two year since the scheduled date of commencement of activities as per the Project Administration Manual.	Not replied	Action should be taken to expedite the works and need to monitor the works of contractors closely
Lot 2: Static Var Systems (SVS) at Biyagama Grid substation.	Contract was awarded only on 28 May 2020. The activities of the contract had not been commenced on 08 October 2020	More than 1 ½ years than the scheduled date of awarding of Contract and more than a year since the scheduled date of commencement of activities as per the Project Administration Manual.	Not replied	Action should be taken to expedite the works and need to monitor the works of contractors closely
Lot 3: Install 124 MVAR Breaker Switched Capacitor Banks in Colombo City Grid Substations	Contract had not been awarded even as at 31 December 2021.	The Project would not be able to award the contract with in the Project period.	Not replied	Action should be taken to award the contract without

and Replacing the detuned Breaker Switched Capacitor Banks at Thulhiriya Grid Substation. (not in the Project Administration Manual).

further delay .

3.3 Matters pointed out in Previous Audit Reports which remained unresolved

No	Audit Issues	Management Responses	Auditor's Recommendations
(a)	Inventory balances disclosed in the financial statement of the Project could not be identified in the Provincial stores.	Not replied	Proper Inventory control need to be adopted at the Provincial stores on the inventory received from the Project
(b)	Long outstanding balances of Creditor	The long outstanding balances pointed out in the previous audit report was cleared (Package 1 Lot 1 & Package 2 Lot 3)	Action should be taken to resolve the issue relating to creditors
(c)	Copies of the approval of procurement of vehicle sought through the Chairmen and the Secretary to the line Ministry from the Department of Public Enterprises for the vehicles procured from the inception of the Project had not been received.	As CEB had no vehicles to be allocated to project activities, a few vehicles were supplied under the project scope after getting the approval from a committee established in the ministry of power and energy.	Proper approvals need to be obtained

3.4 Issues relating to the Land Acquisition

Audit Issue	Management Response	Auditor's Recommendation
Out of 14 plots of lands expected to be acquired including crown land and Ceylon Electricity Board to construct Gantries, none of the land had been acquired as at 31 December 2021.	Land handed over to CEB under Section 38A Gazette.	Action should be taken to expedite the land acquiring process.