

## **Green Power Development and Energy Efficiency Improvement Investment Program Tranche II - 2023**

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The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Investment Program Tranche II for the year ended 31 December 2023 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 and 4.03 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, the Ministry of Power and Energy, is the Executing Agency and Ceylon Electricity Board is the Implementing Agency of the Project. 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 Project 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 Project 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 30 June 2024.

### **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 2023, statement of project 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 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. Physical Performance

### 2.1 Physical and Financial Progress of the Activities of the Project

No	Component	As at 31 March 2024		Audit Issue	Reason for the Delay
		Performance achieved			
		Physical	Financial		
(a)	Package 8 Lot B Augmentation of Ambalangoda 132/33 kV Grid Substation, Augmentatation of Pannala 132/33kV Grid substation and Supply of 2 Spare Transformers of 132/33kV 31.5 MVA	76	64	<p>Only three months time have to be completed the project.</p> <p>As per the loan extension letter, the loan closing date of 30 June 2023 extended to 30 June 2024 .With this extension, both loans are cumulatively extended by 24 month and this will be the final extension granted by ADB.Works beyond the loan closing date will arise commitment charges in future. Although expedite project works will be underscoring the commitment to ensuring timely project completion.</p>	Reason for the Delay had not been submitted

#### Response of the Management

The project is effective since July 11, 2022 utilizing balance funds of the ADB loan. Estimate project duration is 18 months. Due to financial crisis and weather effects, it was unable to complete within that period (January 10, 2024). Hence, project extension was granted up to June 2024. The Contracts was closely monitored considering the loan validity period and was able to complete all major works in end June 2024.

#### Auditor's Recommendations

Action should be taken to expedite the works and it is needed monitor the work of contractors closely to achieve the expected outcome.

(b)	Package 9: 220kV Switching Station at Kerawalapitiya	96	89	<p>The project works was commenced on 14th August 2020 and expected to be complete 14 August 2022.Extension of time had been given until 27 February 2024. Even after more than one years from the initial completion date, physical progress was 96. As per the 1<sup>th</sup> quarter progress report 2024, the main reason of the physical progress delay was due to COVID 19 pandemic, closing of international airport and travel restrictions. Also detail design finalization was delayed due to non-response of original GIS manufacture in China ,</p>	Delay in equipment delivery
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material shortage in the market and issues arranging the manpower for the site works were major issues delayed this project.

**Response of the Management**

The progress of the project was seriously affected by COVID19 pandemic and specially negative economic situation of the country during this period. Along with above reasons which created disputes at site Project works were on hold. However, the project works re-assumed in January 2023 resolving most site issues. The switching station was energized in April 2024.

**Auditor’s Recommendations**

Action should be taken to expedite the works and it is needed monitor the work of contractors closely to achieve the expected outcome.

**2.2 Underutilized Resources**

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor’s Recommendations</b>
Allocation for the project according to the Facility Administration Manual was US\$ 260 million and out of that only US\$ 148.16 million had been utilized as at 31 December 2023.	COVID 19 pandemic, Easter attack, Shortage of fuel and price hike of construction materials (such as Cement, Steel, ) in the local market highlighted the reasons for delay in project activities . However, with all difficulties it was able to complete almost all project components by the end of June 2024.	Action should be taken to expedite the works and it is needed to monitor the work of contractors closely

**2.3 System and Controls**

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor’s Recommendations</b>
Even though the physical progress of 5 packages out of 7 packages was 100 percent completed as at 31 March 2024, the vehicles related to those completed packages had not been transferred to Ceylon Electricity Board up to 31 <sup>st</sup> May 2024. 45 vehicles worth Rs.430.7 million was with the project for the year under review without returning or handling over the some vehicles to the CEB.	Although the physical progress was 100% completed for 8 lots out of 12 lots, there were some defects to be rectified during the defect liability period, and the vehicles are required to carry out the remaining 4 lots. The existing vehicles procured for the completed project are being used since the Government banned the importation of vehicles in 2020. Therefore, all PMUs managed to use the existing vehicles for the rest of the packages.	Vehicles assigned to the completed packages should be handed over to the CEB.