

## **Green Power Development and Energy Efficiency Improvement Investment Program (Tranche-1) 2024**

---

The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Investment Program (Tranche-1) for the year ended 31 December 2024 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 Ceylon Electricity Board and the Asian Development Bank. 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 Facility Administration Manual of the Project, the Ministry of Power and Energy is the Executing Agency and the Ceylon Electricity Board is the Implementing Agency of the Project. The objectives of the Project are to enhance clean power generation, system efficiency and reliability. The activities of the Project 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.28,515 million and out of that US\$ 180 million equivalent to Rs.23,330 million was agreed to be financed by the Asian Development Bank and the Agence Francaise de Development. The balance amount of Rs.5,185 million is expected to be financed by the Ceylon Electricity Board. The Project had commenced its activities on July 2014 and scheduled to be completed by 31 March 2020. However, the date of completion of the activities of the Project had been extended up to 13 July 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 2024, 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 skepticism 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 Progress of the Activities of the Project**

The main activities of the Project comprises with 05 components and other 03 activities called Supervisory Control and Data Acquisition (SCADA) Supported Distribution Control Center for Western Province South -1, Pumped Storage Hydro Project and procurement of material/equipment as

spares and tool for transmission network requirement were implemented under the Project using the saving of the proceeds of the loan. The following observations are made.

<b>Audit Observations</b>	<b>Management Responses</b>	<b>Auditor's Recommendations</b>
(a) <b>Morogolla Hydropower Plant Project</b>		
(i) According to the progress report, the contract for preparatory work was awarded on 27 March 2018 and it was initially expected to be completed on 06 May 2020 and subsequently, it had been extended in 05 times (EOTs) up to 10 November 2021. However, the contract had been terminated on 29 August 2024 with outstanding works of resident camp and diversion road construction, due to poor performance of the contractor. The physical and financial progress remained at 77 percent and 65 percent respectively as at 31 December 2024, without completion of the project.	Agreed with this statement.	Action should be taken to achieve the expected objective by implementing proper monitoring process.

- |       |  |   |   |
|-------|--|---|---|
| (ii)  | According to the progress report, the contract for civil works was awarded on 04 October 2019 and it was initially expected to be completed on 14 September 2023 and subsequently it had been extended three times up to 11 September 2024. Eventhough the expected physical progress of the contract was 94 percent as at 31 December 2024, it had been achieved only 80 percent progress. The financial progress reported as 81 percent as at 31 December 2024.              | Agreed with this statement.   | Action should be taken to achieve the expected objective by implementing proper monitoring process. |
| (iii) | According to the progress report, the Mechanical and Electrical Facilities contract was awarded on 13 May 2020 and expected to be completed by 30 November 2023 initially. However, it had been extended up to 24 August 2025. Although the expected physical progress was 94 percent as at 31 December 2024, it had been achieved only 89 percent as at 31 December 2024.   | Agreed with this statement  | Action should be taken to achieve the expected objective by implementing proper monitoring process. |
| (iv)  | According to the progress report, the overall physical and financial progress of the Morogolla Hydropower Plant Project was 84.8 percent and 84.3 percent respectively at the end of the year under review. As a result of that, the expected outcome of 30.5 MW capacity plant that contribute to the development of hydropower generation by reducing fossil fuel power generation could not be achieved by the project during the last 10 years loan period and within last | The project experienced delays due to several factors, including the discovery of an endemic fish species, Lebeo-fishari (gadaya), in the Moragolla Dam area, which impacted the design process. The project is now expected to be completed by 31 December 2025. | Action should be taken to achieve the expected objective by implementing proper monitoring process. |

05 years contract period which was originally scheduled. These delays of the project may cause huge loss for the country.

**(b) (SCADA) Project**

The contract for design, manufacture, test, deliver, install, complete and commission of SCADA Supported Distribution Control Center for Western Province South -1 had been awarded at a cost of USD 5,945,117 + Rs.11.61 million equivalent to Rs. 2,003.21 million on 17 May 2023 and expected to complete within 547 days from the effective date on 05 September 2023. Out of the allocation of USD 6.8 million made from the saving of the Green Power Development & Energy Efficiency Improvement Investment Programme (Tranch 1), the Project was able to disburse only USD 3.43 million and Rs. 1.16 million at the end of the loan. However, according to the progress report received, the physical progress was 81 percent, even it was expected 95.6 percent. The financial progress reported as 58 percent as at 31 December 2024.

The project was transferred to the Green Power Development and Energy Efficiency Improvement Investment Program (Tranche 1) under ADB Loan 3147. At that time, no other loan savings were available and this transfer ensured maximum utilization of loan savings for the benefit of the country.

Action should be taken to expedite the physical progress of the project.

**2.2 Contract Administration**

	<b>Audit Observations</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
(a)	According to the paragraph 5.9 of the Section 6 of the bidding document, it is required to carry out the system tests for the SCADA/ADMS hardware and software application and Remote Terminal Units value at USD 3.76	Approval process for the FATs had been initiated by the PMU on 2024-02-08 and after rescheduling several times owing to the delays in the approvals, these FATs were rescheduled to 2024-04-01	Should be strictly complying with the said condition of contract to ensure quality assurance of the contract.

million. Although the, readiness for the Factory Acceptance Test (FAT) to carryout the inspection had been informed by the contractor from 09 January 2024 and 17 reminders had been sent by the contractor up to end of March 2024, such FAT had not been carried out as required and made a decision to wave off the FAT by the General Manager of CEB on 06 May 2024. Thereby, amount of USD 3.76 million worth of hardware and software required for the above project had been delivered to the project based on the FAT carrying out by the contractor with the concurrence of employer instead of being carrying out an inspection by the employer.

after obtaining the approval of the selection committee.

However, no response had been received from the Ministry within a reasonable period of time, hence considering that this Project was funded by ADB Loan No. 3147, which was supposed to expire on 2024-07-13 and the latest date of shipment of materials in the Letter of Credit was 2027-06-13, GM, CEB dated 2024-05-06 instructed to waive off all the FATs under this Project to ensure the maximum utilization of ADB funds and timely delivery of goods to the site.

- (b) As per the Clause 18.1 of the Section 07 of the General Condition of Contract, the supplier shall, within 28 days of the notification of the contract award, provide the performance security for the due performance of the contract in the amounts and currency specified in the Special Condition of Contract (SCC) for the above contract. However, such performance security had been furnished by the contractor on 19 March 2024 after 54 days from the notification of the contract awarded on 23 January 2023 for Supply and Delivery of 245kv and 145kv Outdoor Switchgears under the Package No 05 Lot 04 Sub Lot C1.

The contract was awarded on January 28, 2024. The contractor submitted the performance security on March 19, 2024, which is 50 days beyond the required timeframe. To mitigate this issue, CEB ensured that the bid security provided by the contractor remained valid until the submission of the performance bond.

Should be strictly comply with the conditions of the contract.

## 2.3 Utilization of Funds

<b>Audit Observations</b>	<b>Responses of the Management</b>	<b>Auditor's Recommendations</b>
(a) Out of the allocation of USD 29 million made under the ADB Loan No 3146, USD 18.11 million equivalent to Rs. 3,808.51 million except USD 60,137 disbursed by Sustainable Energy Authority and out of the allocation of USD 121 million made under the ADB Loan No. 3147, a sum of USD 101.46 million equivalent to Rs.27,684.44 million had been utilized for the activities of the Project at the end of 10 years period. Further, Euro 22 million allocated under the AFD Loan No.CLK 101105 M and out of that Euro 20.62 million equivalent to Rs.3,793 million had been disbursed as at 31 December 2023. Out of the advance received from the AFD loan, Euro 316,604.19 equivalent to Rs. 96.43 million remained in the special foreign currency bank account will have to be refunded to the lending agency without being utilized, due to expiration of the use of fund on 31 December 2023.	The balance amount will be refunded after the issuance of the audit report on the project financial statements for the year 2024.	Action should be taken to utilize the proceeds of the loan effective manner.
(b) According to the information received, a sum of USD 113.86 million had been allocated for the construction of Morogolla Hydro Power Project implementation under the GPDEEIP –I and contracts were awarded at a cost of USD 94.65 million. Out of that a sum of USD 79.76 million representing 84 present had only been disbursed at the end of the loan closure, which is due to delay in activities of the project. Thereby, another loan of USD 15 million had to be obtained from the ADB to complete the balance work of the Project.	Agreed with this statement	Action should be taken to expedite the physical progress to utilize the proceeds of loan effectively.

- (c) As per the External Resource Department (ERD) Statement, the commitment charges of USD 1.41 million equivalent to Rs.283.41 million on ADB Loan No. 3147 and Euro 322,030 equivalent to Rs. 57.32 million had been paid by the Government of Sri Lanka on behalf of the Project. Thereby, it was observed that part of commitment charges incurred on unutilized budget allocation was uneconomical.
- The project incurred the commitment fee as stipulated by the loan terms which is inevitable.
- Action should be taken to utilize the fund without delay to minimize the commitment charges.