

## **Supporting Electricity Supply Reliability Improvement Project (The Ceylon Electricity Board - The Asian Development Bank - Loan Agreement No.3409-SRI) - 2024**

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The audit of financial statements of the Supporting Electricity Supply Reliability Improvement Project 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 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. 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 Project, the Ceylon Electricity Board is the Executing and the 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 equivalent to Rs.24,228.15 million and out of that US\$ 115 million equivalent to Rs.17,392.24 million was agreed to be financed by the Asian Development Bank initially. However, it had been revised up to US\$ 90 million equivalents to Rs. 13,611.31 million. The balance amount of US\$ 45.2 million equivalents to Rs.6,836 million is expected to be financed by the Ceylon Electricity Board. The Project had commenced its activities on 29 June 2017 and scheduled to be completed by 31 March 2022. However, the date of completion of the activities of the Project had been extended up to 31 March 2026.

### **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 in 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 Progress of the Project

Out of the 08 Packages implemented by the Ceylon Electricity Board under the SESRIP Project, activities of the Package 04, 07 and 11 had been carried out during the year under review. The following observations are made.

	<b>Audit Observations</b>	<b>Management Responses</b>	<b>Auditor's Recommendations</b>
	<b>Package 04</b>		
(a)	The contract for construction of 285 Km of 33 KV tower lines and 13 Nos. of 33 KV gantries had been awarded at a cost of USD 23,291,732 + LKR 3,025,335,717 approximately Rs. 6,782 million on 30 May 2019 and expected to be completed within 730 days on 27 October 2021. However, it had been given Extension of Time (EOT) in 04 instances up to 31 March 2025 by 1251 days and further extension is being proceeded by the Project. Accordingly, EOT will be over 02 times of the initial construction period. Eventhough Time Extensions had been given to the contractor as above, the financial and physical progress as at 31 December 2024 were 70.5% and 73.8 % respectively. As a result of these excessive time extensions, delay in achieving expected outcome of improvement of reliability of the medium voltage network, extension of rural electrification network and absorption of renewable inputs of the Project were observed.	Main reasons for the delay in construction were due to covid pandemic, financial instability in Sri Lanka, Contract Disputes. It is expected to complete the project within the extended time period.	Action should be taken to complete the project to achieve the expected objectives by establishing comprehensive monitoring process.
(b)	According to the progress report as at 31 December 2024, out of 285 km of 16 lines, only 38.2 km of 02 lines at Maho Grid to Ma-Eliya Gantry and Ampara GSS to Uhana Ganty had shown	The line was changed to Yakabadda Gantry to Waligama GSS. (newly proposed).	Action should be taken to achieve the expected objectives by implementing proper monitoring process.

100 percent completion of works and no any works had been commenced in 21 km of Matara GSS to Yakabedda line as at 31 December 2024.

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| (c) | Out of the 13 Gantries expected to be constructed under the Project, works of any Gantry had not been completed at the end of the year and 07 Gantries remained in completion percentage between 25 percent to 50 percent. Further, no any works had been commenced in one gantry in Warukandeniya at the end of the year under review. | Due to the unavailability of stringing equipment the stringing progress is still around 38%. Contractor informed that he will increase the number of gangs to achieve the targets. | Action should be taken to complete the project to achieve the expected objectives by establishing comprehensive monitoring process. |
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## 2.2 Contract Administration

<b>Audit Observation</b>	<b>Management Response</b>	<b>Auditor's Recommendation</b>
According to the payment terms B1 relating to the advance payment of Installation of Static Var System at Biyagama Grid Substation, if mobilization advance payment have not been repaid prior to the issues of the completion certificate for the work or prior to the termination, the whole of balance then outstanding shall immediately become due and payable by the contractor to the Employer. However, unrecovered mobilization advance of Rs. 240,000 in LKR portion and USD 4,695.20 equivalent to Rs. 884,951 in USD portion had been recovered from the retention amount (held for any other purpose) which was released on completion certificate contrary to the said provision.	The advance remaining at the project completion due to unutilized items in the Contract. Hence, advance remaining due to unutilized amount (Loan Saving) being recovered at the project completion by recovering it from the retention payment released on the completion certificate.	Action should be taken to comply with the condition of the contract

## 2.3 Utilization of Funds

	<b>Audit Observations</b>	<b>Management Responses</b>	<b>Auditor's Recommendations</b>
(a)	<p>Out of the allocation of USD 90 million made by the Asian Development Bank, a sum of USD 71.34 million equivalent to Rs. 17,315.02 million representing 79 percent had been utilized at the end of the year under review after laps of 08 years from the commencement of the activities of the Project. Therefore, a sum of USD 18.65 million required to be disbursed further before loan closure on 31 March 2026.</p>	<p>There are 15 months remaining until 31 March 2026, and the objective of the PMU is to fully utilize the allocated funds prior to the completion of the loan period.</p>	<p>Action should be taken to expedite the physical progress of the project by utilizing the proceed of the loan effectively.</p>
(b)	<p>Out of USD 71,344,591 equivalent to Rs. 17,315.02 million a sum of USD 4.17 million equivalent to Rs. 1,275.12 million which paid through Special Foreign Currency Bank Account from 20 September 2023 to 11 December 2024 had remained as paid but not yet claimed in the financial statements without being taken action to liquidate from the ADB loan.</p>	<p>Actions have been taken to liquidate from ADB once the local agents' contractor numbers (PCSS number) are received from ADB.</p>	<p>Loan fund should utilized effectively.</p>
(c)	<p>According to the allocation of the loan amount, a sum of US\$ 6.3 million had been allocated for the interest and commitment charges. All the allocation had been fully utilized by the end of the year under review. Out of that USD 874,035.85 equivalent to Rs. 185.29 million including USD 15,447.83 equivalent to Rs. 4.54 million incurred by the CEB during the year as commitment charges as at 31 December 2024, due to delay in disbursement of proceeds of Loan. Further, it was observed that</p>	<p>The delays in project completion have occurred due to various unforeseen and unavoidable circumstances. Project extensions are granted only for valid and justifiable reasons. Accordingly, it is inevitable that the incurrence of commitment charges is inevitable under these conditions.</p>	<p>Action should be taken to utilize the funds effectively.</p>

part of commitment charge on unutilized budget allocation was uneconomical and the commitment charges imposed in future on undisbursed amounts of loan will have to be incurred out of the CEB funds. Therefore, it will be an additional burden to the CEB.