

Green Power Development and Energy Efficiency Improvement Investment Program -Tranche II 2024

The audit of financial statements of the Green Power Development and Energy Efficiency Improvement Investment Program Tranche II 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 4.04 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 and Section 3.4.4 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 Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Project Administration Manual of the Project, the Ministry of Power and Energy is the Executing Agency and 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 03 components namely transmission infrastructure enhancement, efficiency improvement of medium voltage network and demand-side management improvement for energy efficiency. As per the Loan Agreements, the estimated total cost of the Project was US\$ 260 million equivalent to Rs.39,808 million and out of that US\$ 180 million equivalent to Rs.27,985 million was agreed to be financed Asian Development Bank and Agence Francaise de Development. The balance amount of US\$ 80 million equivalent to Rs.11,823 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 30 June 2022. 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 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 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 Activities of the Project

The Project comprises with 03 components namely (a) Transmission Infrastructure Enhancement (b) Efficiency Improvement of Medium-Voltage Network and (c) Demand-side Management Improvement for Energy Efficiency. The activities of the Project were implemented under 13 packages for above (a) and (b). In addition to the above, material/equipment as spare parts and tools for transmission network had been procured from the saving of the loan during the year under review. The following observation is made thereon.

Audit Observation	Response of the Management	Auditor's Recommendations
<p>The contract for construction of Padukka - Horana 132 KV, 25 km transmission line under Package 2 Lot B2 had been awarded at a cost of USD 3,835,437 on 28 February 2019 and scheduled to be completed on 31 March 2024 after 04 Extension of Times by 710 days. However, the contract had been de-scoped on 04 January 2024 by removing balance civil works and installation works by 70% and revised the contract price as USD 2,798,112 and balance works to be completed by CEB. However, it was observed that plant and mandatory spare parts supplied from abroad at a cost of Rs. 954.98 million out of the proceeds of the loan had not been handed over to CEB which was in the contractor stores and commenced the balance works even on the date of audit on 02 June 2025 by the CEB. Therefore, the expected objective of the Project could not be achieved.</p>	<p>This balance construction work has been assigned to a different Branch in CEB. Accordingly, store verification has been completed and material to be taken over by July 2025 and balance project work to be completed by December 2026.</p>	<p>Prompt action should be taken to complete the balance works to achieve the objective of the Project.</p>

2.2 Contract Administration

Audit Observations	Response of the Management	Auditor's Recommendations
<p>(a) Package 12-Lot A</p> <p>As per the Clause 18.1 of the Section 07 of the General Condition of Contract for Supply and Delivery of 220 kv Outdoor Switchgears and Aluminum Tubular Busbars from the supplier under Package 12-Lot A, 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 for foreign portion of CNY 207,701 had been furnished by the contractor on 01 February 2024 after 65 days and performance security given as a bank draft for local portion of Rs.435,000 had been furnished by the contractor on 29 April 2024 after 153 days from the notification of the contract award on 27 November 2023.</p>	<p>The contract was awarded on November 27, 2023. The contractor submitted the performance security on February 01, 2024, which is beyond the required timeframe. On December 21, 2024, the contractor requested a 28 days extension till January 22, 2024 for bonds submission due to challenges they are facing in obtaining bonds from banks due to unfavorable downward economic situation in Sri Lanka.</p>	<p>Should be strictly complied with the said conditions of the contract.</p>
<p>(b) Package 8 Lot B</p> <p>It was observed that balance progress payment of Rs. 225.99 million of Package 8 Lot B had been made to the contractor on 06 invoices which submitted by the contractor through the direct payments and special foreign currency bank account against the performance bond bearing no. 003BGTEE2402141 for Rs.163.54 million obtained on 05 September 2024 and performance bond bearing no. 003BGTEE2401447 and 003BGTEE2500090 for USD 199,500 obtained on 27 June 2024 and 10 January 2025 respectively, without such condition included in the contract.</p>	<p>Before the loan closure, the Engineer to the project, AGM (Projects), approved to certify and release payments on valid bank guarantees submitted by the contractor with the intension of fully utilizing ADB loan and avoid unnecessary financial burden on CEB.</p>	<p>Should be strictly comply with the said conditions of the contract.</p>

- (c) According to the performance bond submitted to the audit for above contract, it was observed that bond obtained for Rs. 163.54 million valid up to the 31 March 2025 and bond obtained initially for USD 199,500 valid only up to 30 September 2024 and again it had been obtained as a new bond for the period cover from 10 January 2025 to 31 March 2025. Therefore, Project Management Unit (PMU) had not been taken action to obtain performance bond for the USD portion even the construction period is still continually.
- The PMU requested the contractor to extend the USD 199,500 bank guarantee prior to its expiry. In response, the contractor informed that there is a delay in the extension due to issues with their dollar account.
- Action should be taken to obtain performance security to cover entire period.
- (d) **Package 09**
A sum of Rs. 13.86 million equivalent to USD 46,349.19 had been paid to the contractor for the invoice no. SC109/INV/EREC/29/LKR dated 19 June 2024 submitted for balance works of civil works, installation and other services through the special foreign currency bank account on 26 August 2024 against the advance payment guarantee obtained as cheque bearing no.792718 dated 25 July 2024 at the end of the project, without such condition included in the contract.
- This was done with the intention of fully utilizing the ADB loan, considering the financial situation of CEB as it was the best option to be followed to complete the work at earliest by avoiding extra financial burden on CEB.
- Action should be taken to strictly comply with the condition of contract.
- (e) Out of the aforesaid balance works of civil works, installation and other services amounting to Rs.13.86 million, a sum of Rs.4.70 million valued works had been reduced from the scope of works according to the TEC Report dated 02 January 2025 subsequently. However, it was observed that total amount had been already released to the contractor as an advance. As a result of that, a sum of Rs. 4.70 million of proceeds of ADB loan had been remained with the CEB without being utilized for the relevant project.
- The amount of Rs. 4.70 million remains in the CEB accounts, as the contractor's cheque of Rs. 13.86 million issued to the General Manager of CEB has already been deposited. The TEC decision made on January 02, 2025, was based on the system conditions prevailing at that time.
- Project fund should be utilized effective manner.

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| (f) | As per the Clause 24.5, Project Manager shall notify the contractor in writing of any defects and/or deficiencies available and satisfy that the Facilities or that part thereof have reached completion and issue Completion Certificate. However, Completion Certificate had been issued on 10 June 2024 pursuant to the Clause 24 of the General Condition of the contract with 43 defects in electrical works and 270 defects in civil works of the package 09 without rectifying the defects. | At the time of issuance of Completion Certificate, the contractor has completed the all testing and commissioning works required for the intended operation of the facility (Connecting Subhadanawi 350MW Power Plant). Hence Completion Certificate was issued with attached list of defects to enable that the facility can be put into intended operation. | Prompt action should be taken to rectify the defects as per the condition of contract. |
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2.3 Utilization of Funds

Audit Observation	Response of the Management	Auditor's Recommendations
The commitment charges of Rs. 112.02 million had been incurred under the loan No. 3483 during the period of the Project by the Ceylon Electricity Board and as per the ERD statement, a sum of Euro 325,984 equivalent to Rs. 72.62 million of commitment charges had been incurred by the Government of Sri Lanka on behalf of the Project. Therefore, it was observed that part of commitment charges incurred on unutilized budget allocation was uneconomical.	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.	Action should be taken to utilize the allocated fund without delay in order to minimize the additional cost.