

Mannar Wind Power Generation Project - 2021

The audit of financial statements of the Mannar Wind Power Generation 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 V(D) of the Project Administration Manual and Article IV Section 4.02 of the Loan Agreement No. 3585-SRI dated 22 November 2017 entered into between the Ceylon Electricity Board and the Asian Development Bank. My comments and observation 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 of the Project, the Ceylon Electricity Board is the Executing Agency and the Implementing Agency of the Project. The objectives of the Project is to increase clean power generation in Sri Lanka by (a) increasing wind power generation capacity, (b) improving System reactive power management and (c) strengthening capacity of borrower in project engineering design review and supervision. As per the Loan Agreement, the estimated total cost of the Project was US\$ 256.70 million equivalent to Rs. 39,923.06 million and out of that US\$ 200 million equivalent to Rs.31,104.84 million was agreed to be financed by Asian Development Bank. The balance amount of USD 56.70 million equivalent to Rs. 8,818.22 million is expected to be financed by the Ceylon Electricity Board. The Project had commenced its activities on 01 January 2018 and scheduled to be completed by 31 December 2020. However, the date of completion of the activities of the Project had been extended up to 31 March 2022.

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 2021, statement of expenditure and 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 the Project's internal control.
- 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 | Amount Rs. million | Responses of the Management | Auditor's Recommendations |
|-----|---|--------------------------|---|--|
| (a) | Accumulated depreciation amounting to Rs. 47.67 million relating to 12 vehicles up to 31 December 2021 had been accounted as the CEB Capital Contribution instead of being accounted for as provision for depreciation. | 47.67 | A separate disclosure on this regard has been made in the project financial statements. | Accumulated depreciation should be accounted for properly. |

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|-----|---|-------|---|---|
| (b) | The estimated useful lives of the vehicles of the project and CEB had been revised from 7 years to 14 years during the year under review. However, the total impact of depreciation on the vehicles of the Project amounting to Rs. 22.02 million had been adjusted in the current year financial statements by deducting from the depreciation of the year under review. | 22.02 | As it was considered that the impact of depreciation is immaterial when compared to the balance in WIP and CEB Contribution we did not do the prior period disclosures. | The same accounting principles should be applied to the financial statements of the entity as to the financial statements of the Project. |
|-----|---|-------|---|---|

2.2 Non-Compliance with Laws, Rules and Regulations

| No. | Reference to the Laws Rules and Regulations | Non-Compliances | Responses of the Management | Auditor's Recommendations |
|-----|---|---|---|---|
| (a) | Financial Regulation 134(3) and Management Audit Circular No. 05 of 26 July 2010 and No. 02/2016 | The Internal Audit had not been conducted in accordance with the Circular. | A comprehensive internal audit for the transactions carried out by the project was carried out in 2017 by the internal audit section of CEB. A request has been made from the internal Auditors in this regard. | Internal audit on Project activities should be carried out regularly. |
| (b) | Public Enterprise circular No. PED 03/2016 dated on 29 April 2016 and Department of Inland Revenue Circular No. SEC/2020/03(revised) dated on 08 June 2020. | The Project had paid Pay as You Earn (PAYE) tax and tax on tax amounting to Rs. 15.76 million up to October 2020 out of its owned funds without being deducted from the salaries of the respective employees. | CEB has borne the PAYE tax only up to October 2020. APIT from November 2020 was borne by the employees as per the decision taken at the Board. | PAYE tax should be borne by the employees. |
| (c) | Section 4.3 of the Management Service Circular No. 1/2016 dated 23 March 2016. | In contrary to the circular provisions, leave encashment and bonus aggregating to Rs. 31.87 million up to 31 December 2021 had been paid to the project staff. | This is in accordance with the CEB's policy and the guidelines pertaining to all CEB employees. | The Board should follow the circular instructions. |

(d) Section VC(31) of the Project Administration Manual. General Cash Book of the Project Division had been used to record the receipts and payments of the Project instead of being maintained a separate cash book. Now the Project has been completed and Power Plant has been commissioned. Therefore, opening a bank account at this stage is not feasible. However, a separate cash book based on the transactions of the Project can be obtained. Separate cash book should be maintained as per the requirement of the Manual.

3. Physical Performance

3.1 Physical progress of the activities of the Project

| Component | As at 31 December 2021 | | Delay/ Audit Issue | Reasons for Delays |
|---|--|---------------------------------|--|--|
| | Expected physical performance percentage | Performance achieved Percentage | | |
| Wind Power Generation Capacity Increased | 100 | 100 | Though initial schedule completion date was by December 2020, it had been completed by March 2021. Objective of the Long term Least Cost Generation Plan not be properly achieved. | Some of the items required by the Project were temporarily suspended by Extraordinary Gazette No. 2171/5 dated 16 April 2020 issued amending the Import and Export Control Act No. 48 of 1985, and the No. 28 of 1987. Approvals from authorities had taken significant time for processing those import clearances. |
| System reactive Power Management Improved | 100 | 98 | Though initial schedule completion date was by January 2021, it will be expected to complete by April 2022. | Restrictions imposed on international travel and delays caused to supervisor's visit |
| Response of the Management | Same to the Reasons for delays. | | | |
| Auditor's Recommendations | Activities should be completed as planned to avoid unnecessary cost. | | | |

3.2 Issues Relating to the Land Acquisition

| No. | No. of Plots of Land | | Management Response | Auditor's Recommendation |
|-----|---------------------------------------|------------------------------------|--------------------------|---|
| | Expected to be acquired | Acquired as at 31 December 2021 | Ownership Transferred | |
| (a) | WTG Locations purchased (1) | 1 | 1 | Noted. Ownership of lands should be transferred immediately to avoid future conflict. |
| (b) | WTG Locations (38) (101 Sub plots) | 38 (101 Sub Plots) | 47 Sub plots | |
| (c) | Access Roads (7) | 7 | 4 | |
| (d) | Accommodation site (1) | 1 (4 Sub Plots) | 2 Sub Plots | |