

Mannar Wind Power Generation Project -2024

The audit of financial statements of the Mannar Wind Power Generation 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 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 (CEB) and the Asian Development Bank (ADB). 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 Ceylon Electricity Board is the Executing Agency and the Implementing Agency of the Project. The objective of the Project is to increase clean power generation in Sri Lanka by increasing wind power generation capacity, improving system reactive power management and strengthening capacity of borrower in project engineering design review and supervision. As per the Loan Agreement, the revised estimated total cost of the Project was US\$ 216.70 million equivalent to Rs.33,702.09 million and out of that US\$ 160 million equivalent to Rs. 24,883.87 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 22 February 2018 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 2026.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.1 of this report, 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 Qualified 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. Comments on Financial Statements

2.1 Accounting Deficiencies

	Accounting Deficiencies	Response of the Management	Auditor's Recommendation
(a)	A sum of Rs. 1,024.23 million incurred by Ceylon Electricity Board on the replacement of 04 damage blades of the wind power farm had been recognized as other debtors in the project financial statements instead of being capitalized in the respective assets as per the LKAS 16. As a result, current assets in the financial statements had been overstated by similar amount.	The said amount was recognized as sundry debtors in the financial statements.	Adhere to the LKAS.
(b)	Information such as schedules and supporting documents for the remaining capital expenditure balance of Rs. 324.48 million and contractor balance of Rs. 297.73 million included under the work in progress were not submitted to audit. Therefore, balances of Rs. 622.21 million could not be verified in the audit.	Comment had not been received.	Action should be taken to submit the relevant schedules and supporting documents to verify the balances.

3. Physical Performance

3.1 Physical Progress of the Activities of the Project

Audit Observation	Response of the Management	Auditor's Recommendation
According to the Loan Agreement, the main 03 output called (a) Increased Wind Power Generation Capacity (b) Improved System Reactive Power Management and (c) Project Engineering Design Review and Supervision Support to CEB had been completed as at 31 December 2024. However, asset constructed under the System Reactive Power Management had	Extension provides the necessary timeframe for the project team to finalize all deliverables and outputs. Accordingly, it is expected that all project activities will be fully completed prior to the revised loan closing date, ensuring the achievement of the Project's intended objectives.	Action should be taken to resolve the issues and complete the project within the project time period.

not been capitalized by the end of the year under review. Further, a dispute arisen regarding the recovery of cost of US\$ 3.02 million equivalent to Rs. 1,024.23 million incurred by the Board in 2023 for replacement of 4 blades under Mannar Wind Power Project- Phase I and non-restoration of Radar-based Bird Detection System by the Main EPC contractor had remained unsolved even at the end of the year under review.

3.2 Utilization of Funds

	Audit Observation	Response of the Management	Auditor's Recommendation
(a)	<p>Out of allocation made under the loan amounting to US\$ 160 million, a sum of US\$ 151.84 million equivalent to Rs. 31,509.26 million had been utilized as at 31 December 2024 and there is US\$ 8.16 million to be disbursed by the end of year 2024. Further, out of the funds of US\$ 8.91 million equivalent to Rs. 2,757.30 million utilized during the year under review, US\$ 7.98 million equivalent to Rs.2,469.88 million had been utilized after getting the concurrence of the ADB for the procurement of material/equipment required for transmission line network by the other division of the CEB.</p>	<p>There are no issues or irregularities related to fund disbursement.</p>	<p>Action should be taken to utilize the proceeds of the loan effectively.</p>
(b)	<p>According to the allocation of the loan amount, a sum of US\$ 12.40 million had been allocated for the interest and commitment charges and all allocation had been fully utilized by the end of the year under review. Out of that a sum of US\$ 989,767.45 equivalent to Rs.200.03 million including Rs.3.08 million incurred by CEB</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.</p>	<p>Action should be taken to utilize the proceeds of the loan without further delay.</p>

during the year had been incurred as commitment charges as at 31 December 2024, due to delay in disbursement of proceeds of Loan. Further, it was observed that part of commitment charge on unutilized budget allocation was uneconomical. 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.

3.3 System and Control

Audit Observation	Response of the Management	Auditor's Recommendation
According to the Management Audit Circular No. DMA/2010(05) of 26 July 2010, internal audit activities related to the Project had not been carried out by the Internal Audit Section of the Ceylon Electricity Board.	Due to the limited resources available within the Internal Audit Branch, it is not feasible to audit all projects annually.	Circular instruction should be followed.