

Wind Power Generation Project - 2018

The audit of financial statements of the Wind Power Generation Project for the first accounting year ended 31 December 2018 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 provision in the 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 (ADB). 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 Agreement of the Project 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. As per the Loan Agreement, estimated total cost of Project was US\$ 256.70 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 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 2021.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the Table 2.1 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance 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.

In preparing the financial statements, management is responsible for assessing the Project ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Project or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Project's financial reporting process.

The Project is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Project.

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. Comments on Financial Statements

2.1 Accounting Deficiencies

Accounting Deficiency	Amount Rs. million	Impact	Management Response	Recommendation
An Advance made on statutory payments for acquisition of plots of land had been accounted under the work-in-progress.	4.55	Overstatement of the value of work-in-progress and understatement of balance of other debtors by similar amount.	Accepted and corrective action will be made.	Need to rectify the accounts.

3. Physical Performance

3.1 Physical and Financial Progress of the activities of the Project

The activities of the Project are implemented under 03 components of increasing wind power generation capacity, improving system reactive power management and strengthening capacity of borrower in project engineering design review and supervision etc. According to the information received, the activities under wind power generation had been initiated in 2013 and implemented by the Transmission Division of the Ceylon Electricity Board. The respective activities had been transferred to the Project Implementation Division of the Ceylon Electricity Board during the year under review and a sum of Rs. 307.86 million had been invested by the Ceylon Electricity Board up to 31 December 2017. According to the Project Administration Manual, the wind power generation activities expected to be commenced by 31 June 2018 had been commenced on 25 March 2019, due to delays in applying of procurement process. Therefore, out of the allocation of US\$ 32.25 million equivalent to Rs.5,000 million made by the Lending Agency and contribution amounting to Rs.239.63 million made by Ceylon Electricity Board, only US\$ 13 million equivalent to Rs.2,373 million and a sum of Rs.482.64 million respectively had been utilized as at 31 December 2018.

3.2 Issues Related to Human Resources Management

Cadre Position	Cadre Approved	As at 31 December 2018		Impact	Comments of the Management	Auditor's Recommendations
		Actual Cadre	No. of vacancies			
Project Director	1	0	1	Activities of the Project may not be properly coordinated, implemented and monitored.	Request had been made to fill the vacancies.	Cadre requirement should be identified properly and prompt action should be taken to fill the important vacancies.
Electrical Engineers	4	3	1			
Accountant	1	0	1			
Electrical Superintendents	8	3	5			
Civil Superintendents	4	2	2			
Mechanical Superintendent	3	1	2			

3.3 System and controls

	Audit Issue	Impact	Management Response	Auditor's Recommendation
(a)	Register of Fixed Asset of the Project had not been maintained proper manner by the Project Management Unit as required by the Treasury Circular No. 842 of 31 December 1978.	Physical verification of fixed assets could not be implemented.	Register of Fixed Asset will be maintained by the Project after completion of the physical verification of asset in 2019.	A Register of Fixed Asset need to be maintained in proper manner.
(b)	No separate Ledger Account had been maintained by the Ceylon Electricity Board to record the transactions of the Project as per the Section V C (31) of the Project Administration Manual. The General Cash Book of the Project Division had been used for the records of receipts and payments of the Project instead of being maintained the separate cash book.	Transaction related to the operations of the Project may not be clearly identified	Since there is no separate Bank Disbursement Account opened for this Project, transactions are recorded in the General Cash Book of the Ceylon Electricity Board-Projects Division.	Separate set of accounting records need to be maintained for the Project.
(c)	The transactions of the Project had not been subjected to audit of the Internal Audit Section of the Ceylon Electricity Board as required by the Financial Regulation 134(3).	Weaken controls on the activities carried out by the Project.	No comment received.	Project activities need to be subjected to audit of Internal Audit Division.
(d)	The Project had paid the Pay As You Earn (PAYE) tax of Rs.18.91 million on behalf of the employees and no action had been taken to deduct it from the salaries of the respective employees during the period under review.	Increases of the cost of the Project.	The PAYE Tax liability of the employees is borne by the Board itself.	Need to be recover the PAYE tax paid from the Ceylon Electricity Board.
(e)	According to the Circular No. MOFP/ERD/2007/02 dated 7 August 2007 of the Ministry of Finance and Planning, the financial statements of the Project should be submitted to the Auditor General on or before 31 March of each financial year. However, financial statements of the Project had been submitted only on 10 April 2019.	A major requirement not fulfilled.	Noted and the future action will be taken to submit the financial statements before deadline.	The financial statements should be submitted for the audit before the deadline.

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| (f) | Annual Physical verification of the assets as per Financial Regulations 756 had not been carried out since 2016. | Existence and usage of assets for the project activities cannot be verified. | Action has been already taken to carry out physical verification of assets for the year 2019 at both project office and site office. | Physical verification of the assets should be done. |
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