

## **Wind Power Generation Project - 2019**

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The audit of financial statements of the Wind Power Generation Project for the year ended 31 December 2019 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 enhance clean and reliable 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 USD 56.70 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 2021.

### **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 2019, 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 this 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 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 Deficiency

Accounting Deficiency	Amount Rs.	Impact	Management Response	Recommendation
The Camera & Lence Equipment purchased in 2019 had been recognized as expenses instead of recognizing as fixed assets.	240,925	This Asset can be misused due to unavailability records.	Purchasing of DSLR camera (RS 240,925) has been recorded as expenses (E4200-Furniture and Equipment) when	Assets should be recorded as project assets to avoid misuse.

generating pay slip entry by PMU. The error has been identified and rectified in the April 2020 financial statements.

### **3. Physical Performance**

#### **3.1 Physical and Financial Progress of the activities of the Project**

- As per Project Administration Manual, the activities of the Project were expected to be commenced on 31 June 2018. However, it had been commenced on 25 March 2019, due to delays in procurement process in line with compliance issues. Therefore, out of the allocation of US\$ 72.64 million equivalent to Rs.13,364 million made by the Lending Agency for the year under review and contribution amounting to Rs.320 million made by Ceylon Electricity Board, only US\$ 10.28 million equivalent to Rs.1,860.09 million representing 13.9 per cent and a sum of Rs.546.14 million representing 170.67 per cent respectively had been utilized during the year under review. Further, budgetary contribution made by the Ceylon Electricity Board exceeded by Rs.226.14 million mainly due to expenses of Rs.104.65 million on land acquisition had not been included in the budgetary allocation and additional payment of custom duty of Rs.83.72 million etc.
- According to the progress report submitted, physical progress of the Project was 48.34 per cent and it was behind the expected progress of 65.75 per cent. The main reason for delays are covering up duties of two key positions such as project director and accountant performed by the employees of the Ceylon Electricity Board on acting basis and vacancies remained in the post of engineers, supervisors and field staff.
- Out of 42 plots of land, 20 plots of land had only been acquired and other had been handed over to the Project as at 31 December 2019.
- Piling works, anchor cage installation, pile cap of foundation work of Wind Turbine Generation had been completed only 63.6 per cent, 40.9 per cent and 44.4 per cent respectively out of the plan made for the year 2019. However, no foundation backfilling works had been done out of 22 quantity expected to be completed during the year under review.

- According to the progress report, 40.9 per cent of the civil works of accommodation building and 72.7 per cent of civil works of administration building had been completed during the year under review.

### 3.2 Issues Related to Human Resources Management

Cadre Positions -----	Approved Cadre -----	As at 31 December 2019 -----		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.	Many attempts have been made to recruit staff. This is a function to be supported by the management. Board approval has been requested by end of the year to fill middle level supervisory staff and technical staff on contract basis.	Cadre requirements should be identified properly and prompt action should be taken to fill the vacancies in time.
Project Director	1	0	1			
Electrical Engineers	4	3	1			
Accountant	1	0	1			
Electrical Superintendents	8	4	4			
Civil Superintendents	4	2	2			
Mechanical Superintendent	3	1	2			
Secretary	1	0	1			
Drivers	10	6	4			
Skilled Field Employees	12	0	12			
Unskilled Field Employees	4	1	3			
<b>Total</b>	<b>48</b>	<b>17</b>	<b>31</b>			

### 3.3 Issues Relating to the Project Monitoring Unit

<b>Key Cadre Positions</b>	<b>Period of the service in the PMU</b>	<b>Whether employed in other entities</b>	<b>Employed on contract basis/acting basis</b>	<b>Impacts</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
Project Director	14 Months	Yes	Acting basis	Project activities had not been properly monitored.	Project Director was appointed permanently with effect from May 2020.(Supporting document is attached for reference in annexure- 10)	Position should be filled without delay.
Accountant	3 years	Yes	Acting basis	Project expenses may not be properly monitored and deadline of financial reporting may not be achieved.		Position should be filled without delay.

### 3.4 System and controls

<b>No</b>	<b>Reference to the Laws Rules and Regulations</b>	<b>Non Compliances</b>	<b>Impacts</b>	<b>Management Response</b>	<b>Auditor's Recommendations</b>
(a)	Treasury Circular No.842 dated 31 December 1988.	Fixed Asset Register of the Project had not been maintained properly by Project Management Unit.	Assets may not be efficiently used by the project.	Fixed asset register has been maintained by PMU in the format issued for government departments (circular 77 of 1907) and excel version of fixed asset register tallied with the financial statements is maintained by the AFM projects branch for the MWPP project. Action will	Asset register should be maintained as per the circular.

be taken to rectify errors in the register.

- (b) Section V C (31) of the Project Administration Manual. No separate Ledger Account had been maintained by the Ceylon Electricity Board to record the transactions of the project, Specially 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. Expenses of the project may not be clearly identified and may cause to omission of expenses. The Additional Finance Manager Projects branch is maintaining a separate set of ledgers and accounts for Mannar Wind Power Project except separate bank account. Separate ledger accounts should be maintained by the project as per the requirement of Circular.
- (c) Financial regulations 134(3) and Management Audit Circular No.05 of 26 July 2010. The transactions of the Project had not been subjected to audit of the Internal Audit Section of the Ceylon Electricity Board. Internal control had not been properly implemented. A comprehensive internal audit for the transactions carried out by the project was carried out in 2017 by the internal audit section of CEB. Project activities should subject to the audit of Internal Audit Division during the project period.
- (d) Public Enterprise circular No.PED 03/2016 dated on 29 April 2016. The Project had paid the Pay As You Earn (PAYE) tax of Rs.18,913,212 from its owned fund without deducting it from the salaries of the respective Project cost is being increased by charged ineligible expenses. This is in accordance with the general policy of the CEB. PAYE tax should deduct from employees' salaries and remitted to the Inland Revenue Department.

employees  
during the  
period under  
review.

- (e) Financial regulations 751
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| Inventory book of the project had not been maintained properly by Project Management Unit | Existence and usage of assets for the project activities cannot be verified. | Inventory register is maintained by PMU according to the format issued by circular 77 of 1907 for government departments. Excel version of inventory register also maintained by PMU. Action will be taken by PMU to rectify errors in the Inventory Register. | Inventory books should be maintained properly. |
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