

Wind Power Generation Project - 2020

The audit of financial statements of the Wind Power Generation Project for the year ended 31 December 2020 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 (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 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 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 March 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 2020, statement of project 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	Responses of the Management	Auditor’s Recommendations
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		Rs.		
(a)	LKAS 8 – Accounting Policies, Changes in Accounting Estimates and	28,642,650	Full depreciated asset is the one that has accumulated depreciation equal to its cost	Fully depreciated asset should be reviewed to reflect the real value of

Errors

The useful lifetime of fully depreciated non-current assets which are being continuously utilized by the Project had not been reviewed as mentioned in the accounting policies. For instance, fully depreciated five numbers motor vehicles costing Rs.28,642,650.61 are being still using without estimating the real life time.

and the book value of the asset is 0. If the useful life has to be revalued, the cost of the asset also has to be revalued and if the asset has to be revalued all the assets in the same category have to be revalued.

A committee has been already appointed to review the useful life time of the non-current assets used in CEB including vehicles and according to the recommendations of the committee, necessary action will be taken to incorporate if any changes identified in useful life time of the fully depreciated assets.

- (b) Deposits balance of Rs.40,100,000 kept by the project at the Divisional Secretary had remained over the four years period without being settled.

These deposits have been done as a prerequisite to imitate land acquisition process as per the Sri Lanka Land Acquisition Act to deposit 25% of the tentative value of the lands that are going to be acquired. Once the compensation is enabled by the Land Acquisition officer of Mannar, this amount would be deducted as applicable from the actual valuations/awards.

Follow up actions should be taken in relation to land acquisition process.

A list of paid compensation has not provided by the Mannar Divisional Secretariat even though the requests were made from time to time. Anyway, balance confirmation requests for these deposits are sending in each year end to Divisional Secretariat along with the request for details of settlement.

Therefore, these balances are still remaining under Other

Deposits and cannot be removed or capitalized without the details of settlement to land owners.

2.2 Non Compliance with Rules and Regulations

No	Reference to the Rules and Regulations	Non Compliance	Responses of the Management	Auditor's Recommendations
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(a)	Financial regulation 134(3) and Management Audit Circular No.05 of 26 July 2010 and No.02/2016.	Neither Internal auditor had been recruited within the project staff nor transactions of the Project had been subjected to audit of the Internal Audit Section of the Ceylon Electricity Board during the year under review.	A comprehensive Internal Audit for the transactions carried out by the project was carried out in 2017 by the internal audit section of CEB.	Internal audit of 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)/ Advanced Personal Income Tax (APIT) and tax on tax amounting to Rs.15.76 million up to 31 December 2020 out of its owned funds without being deducted them from the salaries of the respective employees.	CEB has paid APIT on employees up to Oct. 2020 and Employees are bearing APIT from Nov. 2020 according to the Board Decision.	PAYE tax should be deducted from the employee's salary.
(c)	Section 4.3 of the Management Service Circular No.1/2016 dated 23 March 2016.	Contrary to the provision, leave encashment and bonus aggregating to Rs. 23.74 million up to 31 December 2020 had been paid to the project staff.	This is in accordance with the CEB's policy and the guidelines pertained to all CEB employees.	The Board should follow the circular requirement.
(d)	Section V C (31) of the Project Administration Manual.	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.	Opening a separate bank account for the project is a lengthy process and it requires board approval and it has to be done at the initial stage of the	Separate cash book should be maintained as per the requirement of the Manual.

project. Now project is at the completion stage and it not practically possible to open the bank account at this time. Separate cash book based on the transaction of the project can be obtained through the ledger system for reporting purposes.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	As at 31 December 2020		Delay/ Audit Issue	Reasons for delays	Response of the Management	Auditor's Recommendations
	Expected physical performance percentage	Performan ce achieved percentage				
Wind Power Generation Capacity Increased	100	87.60	Though initial schedule completion date was by December 2020, it will be expected to Complete by March 2021. Objective of the Long term Least Cost Generation Plan not be properly achieved.	Interruption due to Easter attack (2019 Apr) and COVID-19 pandemic situation and resulted impacts & non readiness of the Grid substation	As per the initial time schedule, the project completion date was 25 October2020 which was extended up to March 31, 2021 considering delays due to Easter Attack, Global pandemic situation and also due to import restrictions by GOSL which adversely affected the import of plant and mandatory sparesrequired under the contract agreement for timely completion of machine erections. Further delays are caused due to non-readiness of	Activities should be completed as planned to avoid unnecessary cost.

Collector Substation
in Nadukuda.

System reactive Power Management Improved 87 82 Though initial schedule completion date was by January 2021, it will be expected to complete by April 2021. Restrictions imposed on international travel and delays caused to supervisor's visit Activities should be completed as planned to avoid unnecessary cost.

3.2 Issues Related to Human Resources Management

Cadre Position	No of Posts			Response of the Management	Auditor's Recommendation
	Approved	Actual As at 31 December 2020	No. of vacancies		
Project Manager	3	2	1	Service of an existing Accountant was obtained on cover up basis throughout the project period without impeding the project activities.	Position should be filled at the beginning of the project for smooth functioning of the project financing activities.
Accountant	1	0	1		
Electrical Superintendents	8	4	4		
Civil Superintendents	4	3	1		
Mechanical Superintendent	3	1	2		
Secretary	1	0	1		
Data Entry Operator	1	0	1		
Auto CAD Draft man	1	0	1		
Drivers	10	9	1		
Skilled Field Employees	12	2	10		
Unskilled Field Employees	4	1	3		
Total	48	22	26		

3.3 Issues Relating to the Project Monitoring Unit

Key Cadre Position	Period of the service in the PMU	Whether employed in other entities	Employed on contract basis/acting basis	Management Response	Auditor's Recommendations
Accountant	3 years	Yes	Acting basis	Service of an existing Accountant was obtained on cover up basis throughout the project period without impeding the project activities.	Position should be filled at the beginning of the project for smooth functioning of the project financing activities.

3.4 Issues relating to the Land Acquisition

Expected to be acquired	No of plots of land		Management Response	Auditor's Recommendations
	Acquired as at 31 December 2020	Ownership transferred		
WTG Locations purchased (1)	1	1	The progress of the Land Acquisition (LA) process is under the control of the Land Acquisition Officer (LAO) who has been appointed by Land Ministry for the intended purpose. CEB/PMU have no official control over that process except for Initial application submission and depositing compensations/interests as and when directed by LAO, which were fulfilled on timely manner by CEB/PMU.	Ownership of lands need to transferred immediately to avoid future complicit.

The process of Ownership Transfer (Issuance of Vesting Certificates- Provision -42 of LAA) is the responsibility of Land Acquiring officer (Mannar) and is done after following all applicable sections of Sri Lanka Land Acquisition Act (LAA). Nevertheless, just after acquisitions under proviso 38(a)/emergency acquisition provision, transfer of the ownership cannot be issued without following due proceedings.

Till the ownership transfer occurs, from the date of acquisition emergency acquisition provision, such lands are considered as government lands handed over for the development activity to the project implementation agency.

A summary of such various stages under specific clauses are given below;

Section 35 13 Nos.
Section 11 7 Nos.
Section 33 25 Nos.
Section 15 14 Nos.
Section 6 /re-correction 1
Nos.
Reservations State owned
10 Nos.