

Mannar Wind Power Generation Project - 2023

The audit of financial statements of the Mannar Wind Power Generation Project for the year ended 31 December 2023 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 (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 04 March 2019 and scheduled to be completed by 31 December 2021. However, the date of completion of the activities of the Project had been extended up to 30 June 2024.

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 2023, statement of expenditure and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 2.1 of this report.

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 Deficiency	Response of the Management	Auditor's Recommendation
A sum of Rs. 1,024.1 million had been incurred by the CEB for replacement of four damaged blades of the plant in November 2021, after handing over the wind power station to the CEB and commissioning. However, without adjusting the above replacement cost in the financial Statement of the CEB, it had been accounted in the Working Progress of the project.	An amount equivalent to USD 3,025,406 being the cost of replacing four nos. of damaged wind turbine blades due to lightning strikes, has been withheld from the final retention payment to the EPC Contractor. However, it is to be noted that Lightning is a force majeure condition. CEB has to bear the cost either by the insurance or otherwise, if the contractor confirms that the blade damages occurred during the wind farm operational period. CEB still disputes this and the issue is pending. Hence the said amount remains under WIP until a firm resolution is made.	Capital expenditure incurred after the handing over the assets to CEB should be accounted in the books of CEB.

2.2 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance	Response of the Management	Auditor's Recommendation
Section V C (31) of the Project Administration Manual.	According to the Section 31 of the Project Administration Manual it should be maintained separate books and records by funding sources (GOSL and ADB) for all expenditure incurred. However, General Cash Book for this project and project division had been maintained for recording of receipts and payments of the project and project division instead of being maintained a separate cash book. Further, the balance of the CEB contribution was taken to the statement of financial position based on calculation of Note No. 13 of financial statements without maintaining a separate ledger account by showing individual transaction for CEB contribution.	For Mannar Wind Power Project, a separate cost center is maintained where a separate books of accounts and records for the project are maintained, facilitating the generation of a separate trial balance. A centralized cash book is maintained with the intention of strengthening the internal controls whilst all the relevant receipts and payments are transferred to each project at the end of each month, in order to avoid the aggravations that could occur.	Separate Cash book should be maintained as per the requirement of the Manual.

3. Issues relating to the Land Acquisition

No of plots of land			Response of Management	the Auditor's Recommendations
Expected to be acquired	Acquired as at 31 December 2023	Ownership transferred		
Land acquired- WTG Locations (38), Access Roads (7) & Accommodation site (1)	Acquired (Possession by 38a order)	Vesting Certificate orders had not been taken for 57 sub plots.	Land Acquisition is carried out by the Divisional Secretary (Mannar Town) as per the provisions in the Land Acquisition Act and the balance proceedings are still in progress.	Vesting certificate of lands need to be taken immediately to avoid future conflicts.