

Supporting Electricity Supply Reliability Improvement Project - 2020

The audit of financial statements of the Supporting Electricity Supply Reliability Improvement 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 2.09 of Article II of the Grant Agreement No. 0486-SRI dated 19 December 2016 entered into between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank. My comments and observations which I consider should be reported to Parliament appear in this report.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement, the Ministry of Power and Energy is the Executing Agency and Lanka Electricity Company (Private) Limited is the Implementing Agency of the Project. The objectives of the Project are to support the establishment of hybrid renewable energy systems through the construction of a renewable energy micro-grid system in the Western province. The activities of the Project are implemented under component namely establishment of renewable energy micro grid system. As per the Grant Agreement, the estimated total cost of the Project was US\$ 1.8 million equivalent to Rs.268.36 million and it was agreed to be financed by Asian Development Bank. The Project had commenced its activities on 29 June 2017 and scheduled to be completed by 30 September 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 expenditure and its 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 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. Physical Performance

2.1 Physical and Financial Progress of the Activities of the Project

No	Component	Audit Issue	Management Responses	Auditor's Recommendations
(a)	Works and consultancy services	Out of the total grant proceeds, US\$ 1.5 million and US\$ 0.3 million had been allocated for works component and consultancy services respectively. Eventhough, the grant closing date as per the grant agreement was 31 March 2022, it had utilized only US\$ 0.159 million or 11 per cent for works component and US\$ 0.109 million or 37 per cent for consultancy services as at 31 December 2020.	Grant disbursements for the construction works were started only after the LC become operative with commitment letter from ADB which was received on 10/02/2021.	Prompt actions should be taken to expedite the activities of the Project in order to complete the Project within the scheduled time frame.
(b)	Installation of micro grid and the Research & Development Lab	The contract for design, supply and installation of renewable energy micro-grid system had been awarded on 11 February 2020 and the contract agreement had been signed on 03 July 2020. According to the project schedule, the contractor had agreed to complete the activities relating to installation of micro grid by 30 November 2021. However, initial activities such as identifying possible DC cable installation paths, possible location for battery container and diesel generator installation, etc. had only been completed. Import of required plants and machineries had not been completed even on the date of audit, eventhough only 05 months remains to complete the activities	As per the contract agreement, the expected completion data for the services should count as effective date plus the mentioned duration in the contract. Effective date is counted once the LC is issued to the contractor. The LCs issued to the contractor are only operative once ADB provide the commitment letter. ADB provided the commitment letter only in 09/02/2021 and 10/02/2021.	Prompt actions should be taken to expedite the activities of the Project and close supervision is required to make on the activities of contractor in order to complete the project within the project period.

of the Project.

Therefore, effective date should be 10/02/2021 and LCs can be opened only after that date. Certain equipment supply delays have been noted and have been called for clarifications from the contractor.

2.2 Contract Administration

Audit Issue

The selected bidder for designing, construction, installation and commissioning of Renewable Energy Micro grid Pilot Project had not quoted for mandatory spare parts for two years of operation of Micro grid system. However, Technical Evaluation Committee recommended the bid subject to agreeable solution pertaining to above bid item prior to award of contract. Subsequently, the contract had been awarded on 11 February 2020 as contractor had provided two year or more warranties for the other mandatory spare parts quoted.

Response of the Management

This matter was discussed during one of the meetings had with the contractor before awarding the contract. Since they have provided two year or more warranties for the equipment mentioned, it is considered that cost for the spare parts for two years also included with the offer.

Auditor's Recommendation

This matter should be considered along with warranty for the periods agreed by the supplier as the bidder is obliged to supply of mandatory spare parts for the two years operation of micro grid system.