

Supporting Electricity Supply Reliability Improvement Project -2018

The audit of financial statements of the Supporting Electricity Supply Reliability Improvement Project for the period from 29 June 2017 to 31 December 2018 (For the period of eighteen months) 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 Article 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 Asian Development Bank.

1.2 Implementation, Objectives, Funding and Duration of the Project

According to the Grant Agreement of the , the Ministry of Power & Energy is the Executing Agency and Lanka Electricity Company (Private) Limited is the Implementing Agency of the Project. The objectives of the Project is 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 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 2018, statements of expenditure 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 section of Auditor's Responsibilities for the Audit of the Financial Statements appeared in 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 Public Sector 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.

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 the 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 Non Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Impact	Management Response	Recommendation
----- Circular No. MOFP/ERD/2007/02 of 07 August 2007 of the Ministry of Finance and Planning.	The financial statements of the Project are required to be submitted to the Auditor General on or before 31 March 2019. However, the financial statements of the Project for the year under review had been submitted for audit only on 13 February 2020.	Donor requirement may not be fulfill due to delay in submission of audited financial statements.	This is a new project and accounting and administration work streamlining activities related to the project commenced end of the year 2018. we were not in position to allocate dedicated staff. Subsequently in the year 2019, the Board of Directors was dissolved and unable to obtain the Board approval for the financial statements.	----- The requirement of submission of Financial Statement on due date Should be complied with the circular.

4. Physical Performance

4.1 Physical Progress of the activities of the Project

Component	Activity	As at 31 December 2018		Delay/ Audit Issue	Impact	Managemen t Response	auditor's Recommendations
		Expected physical performance Units/ percentage	Performance achieved Units/ percentage				
Establishment of renewable energy micro grid system	Calling Bids/ Quotations for renewable energy micro grid pilot project.	Scheduled to be issued on Quarter 2018 as per Project Administration Manual.	Implemented on 07 November 2018(Quarter-4)	07 months	Possible delays in completion of procurement activities.	Need to expedite complete works according to the Project administration manual/project plan.	Recruitment of Consultants and LECO was initiated in Q4-2016 and the engagement of consultants by early design work. The declaration of loan effectiveness was delayed and became effective only in Q3-2017 due to the signing of agreement of main project. Due to the novelty of the project concept, designing phase took some time than expected.
	Awarding the Contract	Scheduled to be awarded Q4- 2018.	Awarded on 11 February 2020.	13 months		Do	Extending the tender submission dead line three times, extending evaluation time and non-availability of procurement committee members have been a contributory factor to the delay and contract could be only awarded in Quarter-2020.

4.2 Contract Administration

Audit Issue -----	Impact -----	Response of the Management -----	Auditor's Recommendations -----
A work plan for the project period had not been prepared.	Delayed the implementation of activities.	Single turnkey contractor does the entire design ,procurement and installation. Initial and interim work plan and disbursements schedules for the project was prepared and submitted to the ADB, but due to the delays it was not implemented accordingly. The revised plan and disbursement schedule was submitted to the ADB on 17 June 2020. Now the contract agreement has been signed and expected to complete the project by June 2021.	An approved project work plan should be followed.