

## **Supporting Electricity Supply Reliability Improvement Project - 2019**

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The audit of financial statements of the Supporting Electricity Supply Reliability Improvement 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 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. My comments and observations which I consider should be report to parliament appear in this report.

### **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 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 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 2019, 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 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. Contract Administration

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
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<p>The selected bidder for designing, construction, installation and commissioning of Renewable Energy Micro grid Pilot Project had not quoted mandatory spare parts for two years operation of Micro grid system. However, Technical Evaluation Committee recommended the bid subject to agreeable solution pertaining to above bid item prior to the award of the 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.</p>	<p>Project cost may be un necessarily increased.</p>	<p>This matter was discussed at a meeting had with the contractor before awarding the contract. Since the Contractor has 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.</p>	<p>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.</p>