

Supporting Electricity Supply Reliability Improvement Project – (Agreement No. 0486-SRI) – 2023

The audit of financial statements of the Supporting Electricity Supply Reliability Improvement 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 2.09 of Article II of the Project 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 entire amount 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. However, the date of completion of the activities of the Project had been extended up to 30 September 2022.

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 2023, 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 Comments on Financial Statements
2.1 Non Compliance with Laws, Rules and Regulations

No.	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of the Management	Auditor's Recommendations
(a)	Memorandum of Understanding (MOU) between the Lanka Electricity Company (Private) Limited and the University of Moratuwa,			
	(i) Section 7	A joint working legal Contract reflecting Agreement (MOU) shall be signed between the parties not later than 3 months after signing of Agreement (MOU). Even though MOU had been signed on 16 October 2018 joint working legal Contract had been signed on 27 March 2024 with a delay of 5 years from the date of MOU signed. Further, the project had been completed on 02 September 2022 without above Contract.	The signing of the MOU was delayed due to various components such as establishing and disbursing research funding mechanisms, managing O & M contracts, designating solar generation as a net plus account, and setting up the metering system.	Action had to be taken as per the MOU provision.
	(ii)Section 1 and Section 3.9	A website have be developed and maintained, where the data from Micro- grid pilot project, any research projects and advances made under this agreement may be made available to all public in general at the discretion of the	The website will be developed on time with the latest developments in the Micro Grid Lab.	Action need to be taken as per the MOU provisions.

committee. The web site will also be used as a collaborative platform with other universities in the country, international universities and other private and public entities interested in using the Lab for research and development activities. However, website had not been developed yet.

(iii)Section 3.8

The Steering committee shall meet Quarterly and monitor the progress of the activities under this agreement. Although the committee had been appointed, no committee meeting had been held during the year under review.

In the absence of a functional agreement and an action plan for R & D activities, the activities of the Steering committee were very limited and their primary focus was on project implementation and decision-making on grant awarding.

The steering committee should be performed as per the MOU provisions.

(iv)Section 3.10

The committee shall aggregate research proposals for the forthcoming year at the end of each year and prepare a research plan and budget. Even though project was completed as at 31 December 2022, above requirement had not been fulfilled. As a result of that, relevant

The contract agreement has been signed and the research and development fund has already been established, the research budget will be allocated accordingly, and the UOM will openly advertise the call for

Action should be taken to fulfil the requirement of MOU without delay.

key performance research proposals.
 indicator as per section
 3.12 had not been
 achieved.

3. Physical Performance

3.1 Other Matters

Audit Issue	Response of the Management	Auditor's Recommendation
<p>(a) As per the Section 13.3.3 of General condition of contract and special condition of work contract (Design, supply and Installation of Renewable energy Micro grid pilot project), the performance security shall become null and void, or shall be reduced pro rata to the contract price of a part of the facilities for which a separate time for completion is provided, 540 days after completion of facilities or 365 days after Operational acceptance of the facilities, whichever occurs first.</p> <p>Completion certificate and operational acceptance certificate had been issued on 02 September 2022 and 16 September 2022 respectively. Further, initial performance security had been expired on 28 February 2022. However, extended performance security from 28 February 2022 to the date of 365 days after the operational acceptance (16 September 2023) had not been obtained.</p>	<p>Agree with the auditor's comment. There have been no further issues since the project was successfully completed.</p>	<p>Need to comply with 13.3.3 of General condition of contract and special condition of work contract.</p>
<p>(b) As per the cabinet memorandum and Grant Agreement, the project was expected to be completed by 30 September 2021 and according to the Initial time schedule provided by work contractor, scheduled completion dates of LECO micro – Grid Pilot was 18 September 2021 and LECO R & D lab was 17 January 2021.</p> <p>However, It was observed that, Completion certificate had been issued on 02 September 2022 with a 11 month delay from the initial expected completion date.</p>	<p>Agree with the auditor's comment. There have been no further issues since the project was successfully completed.</p>	<p>Need to comply with the requirement of cabinet memorandum and Grant Agreement.</p>