

Supporting Electricity Supply Reliability Improvement Project - 2018

The audit of financial statements of the Supporting Electricity Supply Reliability Improvement Project for the first accounting year ended 31 December 2018 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 4.02 of Article IV of the Grant Agreement No.9186-SRI(EF) of 19 December 2016 entered between the Democratic Socialist Republic of Sri Lanka and the Asian Development Bank along with Section 2.09 of Article II of the Project Agreement dated 19 December 2016 entered between the National Water Supply and Drainage Board. 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 of the Project, then Ministry of City Planning and Water Supply, presently Ministry of City Planning, Water Supply and Higher Education is the Executing Agency and the National Water Supply and Drainage Board is the implementing Agency of the Project. The objective of the Project is to support productive energy use for small isolated island and rural communities in Nainathivu, Analativu and Delfts islands in the Northern Province. As per the Grant Agreement, the total estimated cost of the Project amounted to US\$ 2 million equivalent to Rs.288 million and entire amount had been agreed to be financed by the Japan Fund for Poverty Reduction administered by the Asian Development Bank. Out of the estimated cost of the Project, allocation of US\$ 1.26 million equivalent to Rs. 180.72 million had been made for the activities of the Project expected to be carried out by the National Water Supply and Drainage Board whilst US\$ 0.74 million equivalent to Rs. 106.56 million had been allocated for the activities of the Project expected to be carried out by the Sri Lanka Sustainable Energy Authority. This report consisted with the observations made on the activities of the Project implemented by the National Water Supply and Drainage Board. The Project commenced its activities on 19 March 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, financial performance 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.

2.2 Non-compliance with Laws, Rules and Regulations

Reference to the Laws, Rules and Regulations	Non-compliance	Impact	Response of the Management	Auditor's Recommendation
Circular No. MOFP/ERD/2007/02 dated on 07 August 2007 of the Ministry of Finance and Planning	The financial statements of the Project for the year under review required to be submitted for audit on or before 31 March 2019 had been submitted only on 06 June 2019.	Possible delays in reimbursement of funds.	Not commented	Need to complied with the circular instructions.

3. Physical Performance

3.1 Physical progress of the activities of the Project

The activities of the Project consisted with 02 Components of supply and installation of Sea Water Reverse Osmosis Plant with related civil works and construction of ice making factory and refrigeration system. Out of that, the contract for supply and installation of Sea Water Reverse Osmosis Plant had only been awarded on 15 October 2018.

3.2 Contract Administration

Audit Issue	Impact	Comments of the Management	Auditor's Recommendation
As per the Terms of Reference of the Agreement for consultancy services entered on 07 June 2018, the Consultant is responsible to support to the National Water Supply and Drainage Board in designing and drafting of specification and bidding documents for small water desalination plant in Nainativu Island. However, the bids had been called on 28 March 2018 on the contract on supply and installation of Sea Water Reverse Osmosis Plant, before the date of agreement for consultancy services on 07 June 2018.	There were no opportunity to share the experience and co-ordinate the works of the respective Consultant	Eventhough there were no opportunities to share the experience of the respective consultant, his experience was put forwarded from pre-bid meetings.	Action should be taken to transfer the knowledge and experience of the Consultant to implement the activities of the Project.