

Supporting Electricity Supply Reliability Improvement Project -2021

The audit of financial statements of the Supporting Electricity Supply Reliability Improvement Project for the year ended 31 December 2021 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. 9186-SRI dated 19 December 2016 entered in to between the National Water Supply and Drainage Board 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 Project and Grant Agreement of the Project, then Ministry of City Planning and Water Supply, presently the Ministry of Water Supply 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 3 islands in the Jaffna area of the Northern Province (Nainativu, Analativu and Eluvaitivu). As per the Grant Agreement entered into between Democratic Socialist Republic of Sri Lanka and Asian Development Bank to finance externally, the estimated cost of the Project amounted to US\$ 2 million equivalents to Rs.288 million 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\$ 1.25 million equivalents 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\$ 0.75 million equivalents 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 had commenced its activities on 19 March 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 Qualified Opinion

In my opinion, except for the effects of the matters described in the table 2.2 of my report, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2021 and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for Qualified 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 Presentation of the Financial Statements

Audit Issue	Response of the Management	Auditor's Recommendation
According to Circular No. MOFP/ERD/2007/02 of 07 August 2007 of the Ministry of Finance and Planning, the financial statements of the year ended 31 December 2021 are required to be submitted to the Auditor General on or before 31 March 2022. However, the financial statements of the Project had been submitted only on 04 August 2022.	Due to prevailing economic and financial crisis situation in the country causes consequential impact on working limited staff, limiting to working hours, shortage of fuel and transportation which were delayed in submitting the Project's financial statements for the year ended 31-Dec-2021 to National Audit Office on or before 31-Mar-2022.	Annual financial statements of the year should be submitted as required by the circular and take actions to avoid delays in future.

2.2 Accounting Deficiencies

Audit Issue	Amount	Response of the Management	Auditor's Recommendation
As per the financial statement of the Project, the value of work in progress was shown as Rs. 208.88 million. However, as per the financial statement of the National Water Supply and Drainage Board it was shown as Rs.258.86 million. In this regard action had not been taken to reconcile the difference.	49.98 Rs. Mn	Currently, the Project is preparing detailed Work in Progress (WIP) reconciliation to submit to the Finance Division, NWSDB to tally the Project's incurred expenditures with NWSDB's expenditures.	Immediate action should be taken to reconcile of Project work in progress balances with corresponding NWSDB records.

3. Physical performance

3.1 Physical progress

The activities of the Project consist of two components namely, the Supply and installation of 150 m³/day seawater reverse osmosis plant with related civil works and construction of a 2.0 ton / day ice-making factory and refrigeration system at Nainathivu Island. Out of that, tender calling for construction of 2.0 tons / day ice making factory and refrigeration system was suspended due to the unavailability of electricity supply from CEB's hybrid power system Project. As a result, the Project had shown no any physical progress during the year under review was observed. However, overall Physical and financial progress of the Project as at 31 December 2021 was 89 percent and 72.53 percent respectively. Components wise progresses as at 31 December 2021 are as follows.

No	Project component	Audit issues	Responses of the Management	Auditor's Recommendations
(a)	Supply and installation of the 150 m ³ /day sea water reverse osmosis plant with related civil works.	Even though the Payment of operation and maintaining tools under the contract had been made on 16 December 2021, operation and maintaining tools relating the plant had not been provided by contractor even up to 31 August 2022.	All the defects are rectified already except the partial supply of O&M tools. These tools are not available in the local market and delaying to supply due to the prevailing crisis of the State. These tools will be provided within end of September 2022 by importing from abroad.	Instructions should be given to provide the related tools without further delaying.
(b)	Construction of 2.0 ton / day ice making factory and refrigeration system.	ADB had decided to drop this component from the Project scope at the ADB mission.	It is decided to drop this proposal from the procurement list of the Contract by Donor Agency (ADB) at the ADB Mission during.	Action should be taken to discuss with donor agency to use saving grant amount for another improvements of the Project.

3.2 Contract Administration

No	Audit issues	Responses of the Management	Auditor's Recommendations
(a)	Contract for supply and installation of 150m ³ /day seawater reverse osmosis (SWRO) plant with related civil works had been completed and handed over on 31 December 2020. According to that, the operational and maintenance period was completed by 31 December 2021, Even though the Payment was made for the operation and maintaining tools under the item No.14 of Bill No. III on 16 December 2021, tools relating the operation and maintaining were not provided by the contractor even up to 31 August 2022. Further, it was observed that, approximately 90 m ³ of water is being produced daily basis by 28 February 2022 instead of the plant capacity of 150m ³ per day due to power failure and delays in the completion of water towers and distribution pipe network at 3 islands.	These tools are not available in the local market and delaying to supply due to the prevailing crisis of the State. These tools will be provided within end of September 2022 by importing from abroad. Also, Construction of Water Towers at Islands and Distribution Networks are completed already and O&M section of NWSDB started to provide household connections at Nainathivu Island.	Instructions should be given to provide O&M tools without further delaying and expedite the supplying of household connections.

- (b) The main live hood of the community of Nainathivu island is fishing and a need for a preserving fish has been a long- term expectation in the island. Therefore, Asian Development Bank had planned to grant financing for the construction of 2 tons per day small ice making factory and refrigeration system in order to address the needs of people of the Nainathivu island. However, the operation of the ice making plant is depending on the electricity supply available from CEB's hybrid power system project on Nainathivu island. Therefore, tender calling for ice making factory had been postponed until the construction of hybrid energy system project were started. Nevertheless, ADB had decided to drop this component from the Project scope at the ADB mission during the 24 to 27 February 2022 due to hybrid energy systems will not be financed by ADB.
- This is depending on the CEB's hybrid power system project and it is beyond control of the NWSDB. It is decided to drop this proposal from the procurement list of the Contract by Donor Agency (ADB) at the ADB Mission. Action should be taken to discuss with donor agency to use saving grant amount for another improvements of the Project.
- (c) The Project had planned to provide 1,170 Nos of water connections in 3 islands of Nainathivu Analathivu and Eluvaitivu respectively through the sea water reverses osmosis (SWRO) plant. However, construction of new water towers and distribution pipe laying works for the water connection were not included in the project scope and it was scheduled to be completed by a similar ADB project of Jaffna Kilinochchi water supply project. Nevertheless, the progress of water towers in these islands was ranging 88 percent to 92 percent as at 31 December 2021 and only 14,594 meters of pipe laying works out of 29,700 had been completed by 31 December 2021. Further, it was observed that both water towers and pipe laying works had not been fully completed even up to 30 June 2022. As a result, only 175 nos. of connections had been provided through the existing water tank at Nainathivu island by 31 December 2021.
- Construction of Water Towers at Islands and Distribution Networks are completed already and O&M section of NWSDB started to provide household connections at Nainathivu Island. Need to expedite the supplying of household connections.

3.3 System and Controls

Audit Issue	Response of the Management	Auditor's Recommendation
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Transaction of the Project had not been subject to the Internal Audit of the Water Supply and Drainage Board, as required by the Circular No.05 of 26 July 2010 of the Department of Management Audit.	This is to inform you that by referring National Audit Office's audit observation in regard to transactions of the Project had not been audited by Internal Audit Division, NWSDB, the Project requested to carry out the Project's audit and submit audit reports as well.	Action should be taken to carried out an internal audit.