

Supporting Electricity Supply Reliability Improvement Project - 2022

The audit of financial statements of the Supporting Electricity Supply Reliability Improvement Project for the year ended 31 December 2022 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 into 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 Grant Agreement, then Ministry of City Planning and Water Supply, presently the Ministry of Water Supply and Estate Infrastructure Development is the Executing Agency and 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, the estimated total cost of the Project was US\$ 2 million equivalent to Rs.288 million was agreed to be financed by the Japan Fund for Poverty Reduction administered by the Asian Development Bank (ADB). 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 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 2022 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 scepticism 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 Unsettled Balances

Description	Amount Rs.Mn	Period unsettled	Response of Management	the Auditor's Recommendations
According to the financial statement of the Project, the value of work in progress was Rs.229.06 million and in the financial statement of NWSDB it was mentioned as Rs.283.25 million. Accordingly, it was observed that Rs. 54.19 million unreconciled balance between above two financial statements.	54.19	One year	The Project is currently preparing a detailed work in progress reconciliation as at 31-Dec-2022 with guidance of the Finance Division, NWSDB totally with both the Project and NWSDB expenditures	Action should be taken to reconcile the balances to identify the deference

2.2 Non Compliance with Laws, Rules and Regulations

No	Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Response of Management	the Auditor's Recommendations
(a)	Section 9.3 of the Management Circular No.01/2019.	Although the Steering Committee Meeting should be held once in 02 months, none of the meeting was held from the beginning of the Project by the end of the year under review.	Responsibility of arranging the Project Steering Committee is delegated to the executing agency and this is beyond the control of NWSDB.	Action should be taken to follow the circular instructions.
(b)	Financial Regulation No.128(1) e, No.507, No.756	Annual board of survey should be completed in each year before submission of the annual financial statements, However, the board of survey of the Project had not been done up to 31March 2023.	The NWSDB will conduct the Board of Survey and report will be forwarded from this year end.	Action should be taken in accordance with the Financial Regulations
(c)	4 : 6 of Chapter XV of the Establishment Code	A written agreement and/or bond is required in all cases regardless of whether the cost of the study or training is borne in whole or in part by the Government of Sri Lanka, or by a foreign government or agency, However, two officers were participated for RO	The NWSDB will take necessary action to follow up the regulation for Foreign training to the employees in future.	Action should be taken to comply with Rules and Regulations.

Specialist Training programme which was held in the United States of America incurring to Rs. 8,341,355 under the Project grant without having written agreement or bond as per the said provisions.

3. Physical Performance

3.1 Physical progress of the activities of the Project

No	Project component	Audit issue	Management Response	Auditor's Recommendations
(a)	Supply and installation of the 150 m ³ /day sea water reverse osmosis plant with related civil works.	Although the Contract of this activity had been completed and handed over as at 21 October 2021, approximately 70 m ³ of water was being produced daily since 2021 and 204 water connections were only been provided out of the target of 1662 families live in the three islands. Accordingly, the expected outcome of the Project did not reach to the beneficiaries.	The Main task of establishing hybrid renewable energy system did not make progress due to the changing Government policy, which is beyond the control of the National Water Supply and Drainage Board.	Action should be taken to fulfill the objectives of the beneficiaries without delay.
(b)	Construction of 2.0 ton / day ice making factory and refrigeration system.	Tender calling has been suspended due to the unavailability of electricity supply from CEB's hybrid power system Project. As a result, the benefits expected to be provided to the fishing community in this three islands from the ice factory which planned to be implemented under this grant had been lost.	It is unable to implement the Ice cubes making Plant due to non-availability of CEB's Hybrid Power System and it is beyond control of the NWSDB	Action should be taken to maximize the use of foreign aid.

3.2 Contract Administration

Audit Issue	Response of the Management	Auditor's Recommendation
Seawater reverse Osmosis plant was commissioned from July 2020 and its warranty period is exists for five years up to June 2025. Since the unit is not operating at maximum capacity even by February 2023, there is a risk of not being able to cover the internal faults that may occur when the unit is operating at full capacity within the warranty period.	The SWRO plant was tested in full capacity according to the Contract document. The Warranty will cover all defects of the whole plant and it is not depending on the operating capacity.	Immediate action should be taken to operate the unit in maximum capacity.

3.3 Payments made out of the Project objectives

Audit Issue	Response of the Management	Auditor's Recommendation
Mechanical engineer and a civil engineer had been participated to a foreign training programme relating to the seawater reverse osmosis (SWRO) desalination plant spending to Rs 8.3 million of project funds, which needed to be participated two mechanical engineers according to the contract document and also civil engineers are not perform any duties related to the above plant.	Reply had not been received	Qualified and relevant officers should be selected to the training programmes and action should be taken to recover the funds, paid out of the project objectives.