

## **Supporting Electricity Supply Reliability Improvement Project - 2023**

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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. 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 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 31 March 2024.

### **1.3 Qualified Opinion**

In my opinion, except for the effects of the matters described in the Table 2.1 of this report the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2023, financial performance 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 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 Accounting Deficiencies

No	Accounting Deficiencies	Response of the Management	Auditor's Recommendations
(a)	Although the Mobilization Advance of Rs. 10 million had been fully recovered, the relevant accounting entries had not been done in the financial statement. As a result, the Civil Works had been understated and the Mobilization Advance account had been overstated by similar amount.	It is now rectified in 2024 that Rs. 5,710,025 and Rs 4,380,388 have been debited in to Civil Work Account and Rs. 5,710,025 and Rs 4,380,388 credited in to Mobilization Advance Account.	The correct value should be stated in the financial statements.
(b)	In relation to two contracts, sum of Rs.1.2 million had been deducted as retention money from the amounts payable to the contractors. However, due to absence of ledger adjustments, the civil works account and the balances of the retention money account had been understated by that amount.	As it is rectified in 2024, the project will prepare and submit Financial Statement for 2024 accordingly.	The correct value should be stated in the financial statements.
(c)	The VAT amount paid by the project, a sum of Rs. 3.5 million had been deducted by the Board from the VAT payable to the Inland Revenue Department in the year 2023. However, due to the omission of related adjustments in the project financial statements, the Civil Works account and the GOSL Imprest Account had been overstated by that amount.	As per submitted input VAT claims, the Cost Division claimed Rs 3,495,146.73 from Department of Inland Revenue.	The correct value should be stated in the financial statements.

**3. Physical Performance**

**3.1 Physical Performance of the activities of the Project**

Project component	Activity	As at 31 December 2023		Audit issue	Management Response	Auditor's Recommendations
		Expected physical performance	Performance achieved			
		Percentage	Percentage			
Construction of 2.0 ton / day ice making factory and refrigeration system.	–	100	0	The procurement process for the construction of the ice-making factory and refrigeration system was suspended due to the unavailability of an electricity supply. As a result, the anticipated benefits intended for the fishing community on three islands have 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 complete the works as planned.