

## **Supporting Electricity Supply Reliability Improvement Project ( The National Water Supply and Drainage Board - The Asian Development Bank - Agreement No.9186- SRI ) - 2024**

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The audit of financial statements of the Supporting Electricity Supply Reliability Improvement Project for the year ended 31 December 2024 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 Urban Development, Construction and Housing 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 section 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 2024, 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**

<b>Accounting Deficiencies</b>	<b>Response of the Management</b>	<b>Auditor's Recommendations</b>
The retention amounting to Rs. 11.5 million releasing to the contractor had been erroneously credited to the Civil Works account. As a result, the value of the Civil Works shown in the financial statements had been understated by similar amount.	Comments had not been given.	The error should be corrected.

### 3. Physical Performance

In parallel with the USD 115 million project involving the Asian Development Bank and the Ceylon Electricity Board, the National Water Supply and Drainage Board initiated a project valued at USD 1.25 million, to support the improvement of electricity supply reliability. Initially, the project was proposed to be implemented on the three islands of Nainativu, Analativu, and Delft. However, Eluvaitivu Island was later selected in place of Delft and the project was implemented accordingly. As of December 2024, the project is in its final stages however, it was observed that, of the four project objectives identified at the beginning, only the construction of the seawater desalination plant and the commencement of water production have been achieved.

#### 3.1 Physical Performance of the activities of the Project

Project component	As at 31 December 2024		Audit issue	Management Response	Auditor's Recommendations
	Expected physical performance Percentage	Performance achieved Percentage			
Supply and installation of the 150 m <sup>3</sup> /day sea water reverse osmosis plant with related civil works.	100	100	Although the Seawater Reverse Osmosis (SWRO) plant, designed to produce 150m <sup>3</sup> of water daily, was completed and handed over in October 2021 to serve island communities in the Jaffna Peninsula, actual production remains below 100m <sup>3</sup> per day. The audit observed that the plant has not reached its intended capacity, even after a significant time since completion.	Due to poor power supply from CEB these issues cause over 11 hours of daily production downtime, limiting output to around 90m <sup>3</sup> /day.	Actions should be taken to achieve target and fulfill the objectives of the beneficiaries

### 3.2 Issue relating to the Project monitoring unit

Audit issue	Response of the Management	Auditor's Recommendation
<p>The seawater desalination plant, handed over in October 2021 at a cost of Rs. 185 million, was equipped with two reverse osmosis (RO) units, but within less than three years at audited date of March 2024 the RO1 membranes became inoperative and, although it was repaired at a cost of Rs. 5.23 million in 2025, the RO2 unit was taken out of service in the same month, leaving only one unit operational at any time. The audit highlighted that poor supervision, absence of a service agreement with a qualified provider, and lack of proper maintenance have led to frequent breakdowns, high avoidable costs, and limited capacity, undermining the plant's ability to provide a continuous safe water supply to the island communities.</p>	<p>Currently, the rectification work is underway</p>	<p>Action should be taken to operate plant effectively to achieve project desired objectives.</p>