

Kalu Ganga Water Supply Expansion Project (1) - 2021

The audit of financial statements of the Kalu Ganga Water Supply Expansion Project (1) for the first accounting 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 19 of Project Memorandum of the Loan Agreement No.SL-P 117 dated 07 July 2017 entered in to between the Democratic Socialist Republic of Sri Lanka and the Japan International Cooperation Agency. 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 Programme

According to the Loan 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 provide safe water and increase water supply efficiency in the southern area of the Western Province by expanding Kalu Ganga water supply facilities and restructuring water distribution networks, thereby contributing to the improvement of the living conditions of its people. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 39,069 million equivalent to Rs.55, 337 million and out of that Japan Yen 31,810 million equivalent to Rs.45, 056 million was agreed to be financed by the Japan International Cooperation Agency. The Project commenced its activities on 01 May 2018 and scheduled to be completed by 30 September 2023.

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 2021 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, forged, 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

	Accounting Deficiencies	Amount Rs. Million	Responses of the Management	Auditor's Recommendations
(a)	Recovery of advance payment amounting to Rs.1.86 million had been deducted from loan amount instead of being deducted from the payable account.	1.86	The Advance Payment has been paid from the funds allocated for the Consultancy Services Contract, through the proceeds of JICA Loan. Hence, recovering of the Advance Payment is done in 45 equal installments (value Rs. 1.86M) and is being deducted from the Interim Bills, which are disbursed from the proceeds of the loan.	Action should be taken to rectify the erroneous entry
(b)	As per the disbursement summaries of the Department of External Recourses (ERD) up to 31 December 2021, the actual disbursement amount of the loan was Rs.451.74 million, however it had been shown in the financial statements as Rs.449.88 million. The difference of Rs. 1.86 million had not been reconciled.	1.86	Not replied	Action should be taken to reconcile and rectify the loan disbursement

2.2 Non-Compliance with Laws, Rules and Regulations

Reference to the Laws Rules and Regulations	Non-Compliances	Responses of the Management	Auditor's Recommendations
(a) As per section 4 (3) of Article III of the loan agreement of the Project, the Borrower may, out of the loan, make a loan to National Water supply and Drainage Board (Sub Loan) for the implementation of the Project.	Sub loan agreement had not been signed between the Borrower and NWSDB even up to 31 December 2021.	This matter is beyond the mandate of the Project Staff or the NWSDB.	Action should be taken to obtain the clearance from treasury
(b) The Financial Regulation 626	Separate books of accounts should be maintained for each Project for the preparation of financial statements. However, a separate bank account and cash book for the Project had not been maintained.	Not Replied	Separate books of accounts should be maintained for Project

3. Physical Performance

3.1 Physical Progress

The Project consists of ten contract packages for construction activities and one consultancy service package. Out of ten contracts, detailed designing and construction works of the five contracts in Project-1 and detailed designing works only in respect of the balance five contract packages in Project -2 are planned to be completed under the Project. However, consultancy contract had only been awarded and commenced the detailed designing and assistance in procurement process. Hence, there was no any physical progress had shown of the Project up to 31 December 2021. According to that, progress of the detailed designing and assistance in procurement process of the Project are as follows.

No.	Project component /Contract	Scheduled Activity by 31 December 2021	Scheduled Period	Progress as at 31 December 2021	Delay/Audit issues	Responses of the Management	Auditor's Recommendations
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(a)	Consultancy services contract	Detailed Design for Project -1 and Project-2	Scheduled to be completed by 28 February 2022	Design works of contract packages 1, 3 and 5 are in Project -1 had not been completed as at 31 December 2021. Further, significant design progress of contract packages 6 to 10 in respect of the Project - 2 had not shown by 31 December 2021.	Possibility of delaying the awarding of contracts	Implementation Schedule is 12 months. However, we have completed the Details Designs of the above 2 Packages in only 6 months (in June 2022), negating heavy setbacks due to pandemic situation.	Action should be taken to complete the works in accordance to the work plan

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| (b) | Construction of Intake Facility and Water Treatment Plant, - Package 01 | Getting concurrence for bidding document | JICA for November to December 2021 | Bid document had not been prepared due to design work is in progress | Possibility of delaying the awarding of contract in scheduled period | Please note that the Design Period given in the Implementation Schedule is 12 months. However, the design progress was first affected due to COVID-19 pandemic and also due to accommodating the changes required in the scope. (It should be emphasized that the originally proposed Sludge Treatment System was changed from 'Filter Presses' to 'Sludge Centrifuges' and the designs were changed accordingly.) | Action should be taken to complete the works in accordance to the work plan. |
| (c) | Supply and Laying of Transmission Mains and Distribution Mains - Package 02 | Bid calling and closing | October 2021 to January 2022 | Design work has been completed. However, procurement process had not been commenced even up to 31 December 2021 | Possibility to delaying the awarding of contract in scheduled period | Detail Design work of the Contract Package -2 was completed well in advance of the prescribed Design period. Hence, there is no such delay. | Action should be taken to expedite the Procurement process |
| (d) | Construction of Ground reservoirs and | Getting concurrence for the Biding | JICA for November to December 2021 | Biding document had not been prepared due to | Possibility to delaying the awarding of | Implementation Schedule is 12 months. It should be emphasized that, the Detail | Action should be taken to complete the works in accordance to the work plan. |

pumping stations -
Package 03 document.

Package 03 is in design stage contract in scheduled period Design progress was hindered since one of the Ground Reservoir Sites (Delkada Land) was not accessible for survey/ investigations due to incomplete acquisition process. Hence, there would have been an un-avoidable delay.

- (e) Supply and laying off, balance part of Distribution feeder mains and secondary mains, Supply installation of DMA Equipment – Package 05
- Submission of bids to the tender contract division and TEC appointment to bid evaluation.
- December 2021 to first week of January 2022
- Bid calling had not been commenced due to Package 05 is in design stage
- Possibility to delaying the awarding of contract in scheduled period
- Implementation Schedule is 12 months. It should be emphasized that, the Detail Designs are still; being carried out mainly due to the complexity of the re-scheduled scope of this Package.
- Action should be taken to complete the works in accordance to the work plan.

3.2 Contract Administration

Audit Issue

The required Project staff for the design stage of the Project is 24. However, approval has been granted only for 9 staff by Department of Management services up to 31 December 2021. Accordingly, 15 Project staff needs to be filed for the Design stage and immediate action should be taken to recruit the required staff to the Project in order to expedite the Project works.

Response of the Management

The number of Project Staff required for the Detail Design phase is 24 and hence, all the measures are taken to recruit the balance staff. But slow response is observed from the Department of Management Services.

Auditor's Recommendation

Further actions should be taken to recruit the sufficient staff for Project works.

3.3 System and Controls

Audit Issue

- (a) As per the Financial Regulation 626, separate books of accounts should be maintained for each Project for the preparation of financial statements. However, a separate bank account and cash book for the Project had not been maintained.
- (b) 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.

Response of the Management

Not Replied

Not Replied

Auditor's Recommendation

Separate books of accounts should be maintained for Project

Action should be taken to implement an internal audit.