

Jaffna and Kilinochchi Water Supply and Sanitation Project - 2021

The audit of the consolidated financial statements of the Jaffna and Kilinochchi Water Supply and Sanitation 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 4.05 of Article IV of the Loan Agreement No.2710-SRI (Ordinary Operations) and Section 4.03 of Article IV of the Loan Agreement No.2711-SRI (SF) (Special Operations) dated 08 February 2011 and Section 4.03 of Article IV of the Loan Agreement No. 3603-SRI and No. 3604-SRI(Additional financing) dated 15 December 2017 entered into between the Democratic Socialist Republic of Sri Lanka 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 Loan Agreements, then Ministry of Water Supply and Drainage, presently the Ministry of Water Supply is the Executing Agency and the National Water Supply and Drainage Board, Provincial Irrigation Department of Northern Province and Local Authorities in the Northern Province are the Implementing Agencies of the Project. The objectives of the Project are to improve water supply and sanitation infrastructure for residents living in the areas of the Project and to protect and manage the water resources of the Jaffna Peninsula. As per the Loan Agreements, the total estimated cost of the Project under the components implemented by the National Water Supply and Drainage Board amounted to US\$ 147.45 million equivalent to Rs. 16,474.59 million. Out of that US\$ 76.45 million equivalent to Rs.8,541.76 million was agreed to provide by the Asian Development Bank and US\$ 48 million equivalent to Rs.5,363.04 million was agreed to provide by the Agence Francaise De Development. The balance of US\$ 23 million equivalent to Rs. 2,569.79 million required to be contributed by the Government of Sri Lanka. However, Loan from Agence Francaise De Development had been cancelled on 06 October 2015 due to some activities of the Project had been suspended, because of the restructuring the Project scope as water source from Irranamadu tank to a Desalination Plant. Therefore, additional loan agreement had been entered by Government of Sri Lanka with Asian Development Bank on 15 December 2017. As per the Additional Loan Agreements, the total estimated cost for activity of the Project amounted to US\$ 153 million equivalent to Rs. 23,256 million. Out of that US\$ 120 million equivalent to Rs.18,240 million was agreed to provide by the Asian Development Bank. The balance of US\$ 33 million equivalent to Rs. 5,016 million required to be contributed by the Government of Sri Lanka. The Project commenced its activities on 15 February 2011 and scheduled to be completed by 14 August 2017. Subsequently, period of the Project had been extended up to 30 June 2026.

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 2021, 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 this 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 and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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 **Accounting Deficiencies**

Accounting Deficiencies

Responses of the Management

Auditor's Recommendations

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| <p>(a) As per the consolidated financial statements of the Jaffna and Kilinochchi Water Supply and Sanitation Project, the disbursements of the Loan No. 2711 as at 31 December 2021 was Rs.7,811.45 million and the corresponding amount was Rs.9,512.01 million as per the statements of the Department of External Resources. However, action had not been taken by the Project to reconcile the difference of Rs. 1,700.56 million.</p> <p>(b) As per the financial statement of the National Water Supply and Drainage Board, the work-in- progress of the activities carried out by the Project as at 31 December 2021 was Rs.11,033.72 million and as per the financial statements of the Project, it was Rs.13,344.01 million. Even though the Project had identified the unreconciled balance of Rs. 811.05 million, the action had not been taken by the Project to rectify the difference in the financial statements.</p> | <p>To pass journal entries for differences between accounted expenditures in the books of the Project and reported expenditures in ERD DRMS-814 report, the Project prepared a detailed one reconciliation to tally both expenditures.</p> <p>, By identifying the transactions, the Project prepare and submit a detailed reconciliation of work in progress to tally both NWSDB' balances and the Project every year.</p> | <p>The Project had reconciled during the year disbursement difference only. However, action should be taken to reconcile the total difference.</p> <p>Action should be taken to reconcile the unreconciled balance of Rs.811.05 million.</p> |
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3. Physical Performance

3.1 Physical and Financial Progress of the Activities of the Project

Activities	Physical Progress as at 31 December 2021		Responses of the Management	Auditor's Recommendation
	Expected	Actual		
(a) Laying of Jaffna city Area Distribution Net work	284km	47km	The contract of Distribution Network in Jaffna City Area was commenced on 03 May 2021. The construction of OIC building at Old park is 95 percent completed under this contract and 112 km laying was completed as at 31 May 2022. Anyhow, prevailing economic crisis, fuel shortage and drastically increase of CIDA price indices is also affecting the progress of the Contract.	Action should be taken to expedite the contract activities.
(b) Construction Chunnakan Water Supply Scheme	50km	Biding Document prepared	It is decided with ADB that the bid for Chunnakam water supply scheme will be advertised after awarding SWRO plant and M&E SCADA contract in order to make sure the funds availability for the Contract awarding. However, in the prevailing situation of the Country, all the estimated and expected cost for the ongoing Contracts and evaluating contracts has increased drastically and it is not possible to include this project under JKWSSP scope.	Action should be taken to expedite the procurement process.

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| <p>(c) Construction of Sea Water Reverses Osmosis desalination plant. Contract is scheduled to be completed in October 2021.</p> | <p>Contract has been awarded in January 2021. There was a significant delay in awarding of SWRO plant Contract during the Evaluation and approval process. Finally, SWRO Contract was awarded to M/S Suez International on 25 January, 2021 and the Contract Agreement signed between NWSDB and M/S Suez International on 23 Feb 2021. Then, the Works have been commenced on 08 Mar 2021.</p> | <p>Action should be taken to expedite the procurement process. Because Government have to pay commitment charges due to delay of fund utilization of the Project.</p> |
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3.2 Contract Administration

Audit Issues

- (a) Although the activities of the Project had not completed, repayment of the loan had been commenced in 2017. According to the statements of Department of External Resources, a sum of Rs. 1,569.05 million had been made as repayment to the Lending Agency as at 31 December 2021.
- (b) It was revealed that Project had not utilized funds under the Loan No.3603 even after lapse of three years and six months from the date of signing the loan agreement. Therefore, commitment charges amounting to Rs. 84.32 million had been charged up to 21 June 2021 by the Lending Agency against the undisbursed loan balances.

Responses of the Management

According to the Loan Agreements, ADB is charging interest and commitment charges and also shall repay principal amount the loan.

In accordance with Article ii of Loan Agreement for L3603, the Borrower shall pay to ADB interest and commitment charges and shall repay principal amount the loan. To comply with it, ADB is charging interest and commitment charges and reports those details to Department of External Resources.

Auditor's Recommendations

Action should be taken to expedite the Project activities.

Executing Agency is required to discuss with ADB regarding the reduction of commitment charges (because procurement delay occurred due to disagreement with ADB regarding the selected contractor)

(c) Although any payment had not paid under the Loan No. 3603 from December 2017 to 22 June 2021, the statements of the Department of External Resources shown interest charges amounting to Rs. 2.41 million up to 15 May 2021. However, the Project had not get action to rectify this issue with donor agency.

We all tried our best to expedite awarding process as soon as possible to complete the Contract by end of Sep 2023 to provide drinking water to the targeted beneficiaries in the districts.

ADB Capitalized commitment charges and recorded as loan disbursement. Further, they charged interest on that capitalized amount. Therefore, Executing Agency should discuss with Donor Agency regarding this matter.

3.3 Extraneous Activities

Audit Issue

The Project had incurred a sum of Rs.1.11 million from GOSL funds for the paper advertisement regarding the opening SWRO plant in Nainathivu which was constructed by Supporting Electricity Supply Reliability Improvement Project

Response of the Management

The Finance Division released funds to JKWSSP to pay Rs 1,112,112 under project awareness. Accordingly, it was paid.

Auditor's Recommendation

The Project should manage the expenditure effectively, efficiently and economically..

3.4 System and Controls

Audit Issue

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

Internal Audit Division for NWSDB carried out the Project's technical and financial auditing until 31st Dec 2018 The Internal Audit Division planned to visit JKWSSP for its auditing in February 2021. Because of Covid-19 pandemic situation in the country including imposed travel restrictions among the provinces, they were unable to visit JKWSSP.

Auditor's Recommendation

Action should be taken to implement an internal Audit.

3.5 Matters pointed out in previews audit report which remain unresolved

Audit Issues	Responses of the Management	Auditor's Recommendations
<p>(a) Under the revised scope of the project, it was scheduled to install a sea water reverse osmosis plant and construct allied water towers in order to provide water supply facilities for Jaffna Kilinochchi Region, and expected to complete by 2022. The works under the contract awarded to construction of 15 water towers at an estimated cost of Rs.1,140 million and laying of treated water transmission pipe at an estimated cost of Rs.5,536 million had completed as at 31 December 2018. However, all these completed construction works under the Project had remained idle over three years due to lack of proper water source.</p>	<p>Elevated Towers at Poonakary, Velanai, Mandaithivu, Kayts and Puttur are connected with the existing limited water sources and supplying water to beneficiaries. Altogether, 950 house connections are provided by using above 5 Towers. Additionally, 44 km long Transmission pipelines are put into operation by the O&M section of NWSDB to provide water supply to Poonakary, Nainathivu, Analaythivu and Eluvaithivu areas.</p>	<p>Action should be taken to utilize the completed construction works under the Project for the expected purposes.</p>
<p>(b) Eventhough the various construction works had been completed under the Project in Jaffna Districts, the ownership of the respective lands had not been get transferred to the National Water Supply and Drainage Board.</p>	<p>As per the time duration of land acquisition procedure and lease procedure, the transferring of the ownership to NWSDB getting delay.</p>	<p>The NWSDB should be taken immediate action to get transferred the ownership of the lands.</p>