

Kandy City Wastewater Management Project - 2023

The audit of financial statements of the Kandy City Wastewater Management 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 the Loan Agreement No. SL- P 99 dated on 26 March 2010 entered between the Democratic Socialist Republic of Sri Lanka and the Japan Bank of International Cooperation presently known as 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 Project

According to the Loan Agreement of the Project, then Ministry of Water Supply and Drainage, presently the Ministry of Water Supply and Estate Infrastructure Development is the Executing Agency and the National Water Supply and Drainage Board is the Implementing Agency of the Project. The objectives of the Project are to improve the living environment and water quality of Mahaweli River through better sanitation facilities by constructing a proper system for collection, treatment, and disposal of waste water in Kandy City, including rehabilitation of sanitation facilities in densely populated areas, and thereby enhance the standard of living, health, and well-being of the people in the area. The estimated total cost of the Project is amounted to Japanese Yen 17,278 million which equivalent to Rs.21,982 million and out of that Japanese Yen 14,087 million which equivalent to Rs.17,922 million was agreed to be provided by the Japan International Cooperation Agency and the balance sum of Japanese yen 3,191 million which equivalent to Rs. 4,060 million was agreed to be provided by the Government of Sri Lanka. The Project commenced its activities on 03 February 2010 and scheduled to be completed by September 2017. Subsequently, the period of the Project had been extended up to 31 December 2024.

1.3 Opinion

In my opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Project as at 31 December 2023 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 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. Physical Performance

For the purpose of, improve the living environment and water quality of Mahaweli river through better sanitation facilities, the activities of the Project had been implemented under 05 main components, namely Consultancy, Wastewater treatment Plant (Pumping station, Force main, Discharge line, Sludge drying facility), Sewage collection system, Manhole pumping station, Property Connections, Facility of Densely Populated Areas.

2.1 Physical progress of the activities of the Project

Project component	As at 31 December 2023		Audit issue	Management Response	Auditor's Recommendations
	Expected physical performance Percentage	Performance achieved Percentage			
Package 3- Property Connections	100	64	According to the original implementation plan, this part of the project should have been completed by 2017. However, after more than six years of delays the contract was suspended with a physical progress of 64 percent. This contract was planned to provide 11,700 property connections, but only 4,088 properties were connected to the sewer network as of 31 December 2023.	Due to the Government decision not to pay the debt due to the economic crisis in the country, JICA has suspended paying bills to the Contractors from March 2022.	Planned activities should be completed without further delay.

3. Contract Administration

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Although the contractor had claimed an extension of time for completion and associated costs under Claims 1 and 2, the engineer did not agree. As a result, Claims No. 1 and No. 2 were referred to the Dispute Adjudication Board (DAB). The employer did not accept the DAB's decision and issued Dissatisfaction Notices. The contractor submitted a proposal for an amicable settlement in June 2020. Several parties recommended different amounts for the claim: the contractor proposed Rs. 1,745.20 million and Rs. 1,304.69 million, the engineer recommended Rs. 89.36 million, and the Project Management Unit suggested Rs. 791.12 million and Rs. 1,138.31 million. Despite these	Since this contract was awarded through cabinet tender board. The variation was forward to ministry of WS&SID for approval on 29 th December 2021.	Action should be taken to confirm the accuracy of the value by both a Board Variance Committee and a Ministry Variance Committee before any payment is made to the contractor.

varying amounts, without formally verifying the accuracy, completeness, or validity, the Board of Directors gave their concurrence through Board Decision No. 4299(g) dated December 20, 2021, to pay Rs. 1,304.69 million to the contractor.

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| b) | <p>A total of 1,855 meters in length and 48 locations in the sewer network were identified with sagged pipes. Of these 1,520 meters, including 38 locations had been identified as to be required periodic flushing for 2 years, 299 meters, including 8 locations, required frequent flushing once every 6 months and continuously over a period of 100 years, and 36 meters, including 2 locations, were recommended for reconstruction.</p> <p>According to the committee report inadequate bed preparation, inadequate compaction, use of low-grade materials, improper methods of backfilling, poorly connected pipe joints, and bad weather conditions caused the pipes to sag. Therefore it was observed that the pipe sagging was mainly caused by the contractor's errors and lack of proper supervision by the project management unit.</p> <p>However there was no written agreement or memorandum of understanding between the Project Management Unit and the Package 2 contractor regarding the amount of LKR 59.6 million that had been decided to recover from the contractor for the pipe sag defect.</p> | <p>Costs for timely flushing and relaying of sagging pipes. It is informed that there is no need to enter into an agreement with the Package 2 Contractor as the final bill has not been paid yet.</p> | <p>Action should be taken to correct all errors before closing the project.</p> |
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4. Extraneous Activities

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	<p>Due to the Package 3 contract had not being completed as of 31 March 2024, it was observed that polluted water from premises were directly discharged into the Mahaweli River, Mada Ala, and Kandy Lake, causing severe environmental pollution.</p>	<p>The Contract has been suspended temporarily, hence it is not possible to provide property connections.</p>	<p>Actions should be taken to fulfil the objectives of the Project.</p>

- (b) A Land Cruiser Prado, a type of luxury Jeep classified as a sport utility vehicle, was purchased on 2019 using project funds at a cost of Rs. 39 million. Since its importation, the vehicle had not been used for project purposes and Initially, it was used for Ministers staff of the Line Ministry. However, when the Minister changed the vehicle had not been handed over and carried to another Ministry which was not related to the subject since 19 January 2023. Even it was reported several times by the audit the management had not taken action to get returned the vehicle and recover the loses arise from misusing the vehicle.
- The project handed over the Toyota SUV, WP CBG 7386, to the NWSDB, which then transferred it to the ministry as per a board decision dated 04.06.2019
- Action should be taken to prevent the misuse of project assets and recover all losses occurred due to misuse of this vehicle from responsible officers.

5. Matters in Contentious Nature

No	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	According to the information submitted to the audit, 09 lands which had been used for project works and by the audited date of 22 June 2024, only 02 lands out of above had been settled even it has passed 20 years since beginning of the land acquisition/purchase by the project.	Required details regarding this will be submitted by Land division.	Action should be taken to expedite the land acquisition process
(b)	Although the letter No. LAND/CE/KAN/GEN/3833 dated 22 June 2023. Rs.3,277,825 had been assessed as compensation for the acquisition of land for the construction of the main pumping station related to the project, the land owners have submitted an appeal to the Compensation Review Board. Final decision on this regard had not been received	Required details regarding this will be submitted by Land division.	Action should be taken to expedite the land acquisition process