

## **Water Supply and Sanitation Improvement Project – Additional Financing - 2023**

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The audit of financial statements of the Water Supply and Sanitation Improvement Project - Additional Financing 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 Schedule 2, Section I (B) of the Financing Agreement No. 9255 – LK dated 04 September 2021 entered in to between the Democratic Socialist Republic of Sri Lanka and the International Bank for Reconstruction And Development and the Section 07 of Project Operational Manual. 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 the Ministry of Water Supply and recently the Ministry of Water Supply and Estate Infrastructure Development is the Executing and Implementing Agency of the Project. The objectives of the Projects are to increase access to piped water services and improved sanitation in selected districts, to strengthen the capacity of associated institutions, and in case of an Eligible crisis, to respond promptly and effectively. As per the additional Financing agreement, the estimated total cost of the Project was US\$ 42.74 million equivalent to Rs.12,823 million and out of that US\$ 40 million equivalent to Rs.12,000 million was agreed to be financed by International Bank For Reconstruction and Development (IBRD). The project had commenced its activities on 04 September 2021 under additional financing agreement and scheduled to be completed by 31 December 2023 and extended to 30 June 2025.

### **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 2023 and its cash flows for the year then ended in accordance with Generally accepted accounting principles.

### **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 Generally Accepted Accounting principles, and for such internal control as management determines as 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 Noncompliance with laws, rules and regulations

Reference to the Laws Rules and Regulations	Non Compliance/Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
Section 2.3 of the Chapter 2 of Government Procurement Guideline.	The procurement entity had not been confirmed feasibility studies such as social impact assessment, environmental impact assessment before the request to appoint a procurement committee from the National Procurement Agency with regarding the construction work of Septage Treatment Plant in Gampaha District. However Construction work of the treatment plat had been stopped since none receiving the approval from Central environment authority and objections received from the Public. However, contractor had requested Rs.40.2 million for the work done up to date of abandoned. Therefore, cost incurred for the project was uneconomical.	40.2	Draft Environment Assessment Reports has been prepared and World Bank has made its comments as necessary for improvement of the final report. As required by the Central Environmental Authority (CEA), all documents and clarifications has submitted to get approval. Further to above, Gampaha District Co-ordinating Committee granted approval for the proposed project. Subsequently, National Housing Development Authority allocated land in extent of 02 acres within the waste disposal area of Ranpokunagama Housing Scheme.	All clearance should be confirmed as per the guideline before commence of the Procurement and action should be taken against the officers who worked carelessly to utilised project funds in uneconomic way.

## 3. Physical and Financial Performance

### 3.1 Physical and Financial Progress of the Project

Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
Financial Progress of the twelve Projects valued at Rs.2,830 million was lower than the physical progress due to delay in approving and submission of Interim Payment Certificates and variation orders by the contractor.	2,830.37	Agreed the comments. However, 20% advance payment were not included the financial progress. Therefore 20% advance paid amount should be included to the Financial progress.	Advance can't be taken as expenditure until give the approval for payment and reducing the relevant portion of advance. Therefore the process of payment for the certified works should be advanced.

### 3.2 Contract administration

Audit Issue	Management Response	Auditor's Recommendation
(a) With respect to twenty three projects, a considerable delay ranging from 17 days to 244 days was observed due to improper planning of Project duration.	Delay due to bad weather condition, site area was inundated with heavy shower. Pipe laying works has to be hold in paddy field area until harvesting completed. Generally some areas under water log except 2-3 months of the year.	Project works should plan after assessing the environment and other impacts; there for the management is responsible for not monitoring the works to avoid abnormal delays of this project.
(b) Physical progress and financial progress of the Konavil Water Supply Project was 47 percent and 25.94 percent respectively as at 31 March 2024 even the initial expected completion date was 31 December 2023. Only 12.23 kilometers out of planned 69 kilometers were completed due to non-availability of 110 mm PVC pipes as at the date of physical verification made on 05 October 2023. Therefore, expected outcome of project could not be achieved as planned even it has incurred Rs.164.4 million.	Delay due to bad weather condition and pipe laying works has to be hold in paddy field area until harvesting completed.	Management should make sure that the material availability on time for the Project to avoid unnecessary delay.
(c) Procurement had not been conducted for Septage Treatment Plant at Kotawila in Matara District planned to construct at estimated cost of Rs.180 million up to 31 May 2024 even the approval for the Project had been given by the Environmental Authority. Further, National Water Supply and Drainage Board had signed the Memorandum of Understanding with the Urban Council Matara for the plant on 01 September 2022.	Due to limitation of AF funds, Kotawila septage plant construction works cannot be continue the procurement process.	Funds availability for the Project should be ensured at the beginning to avoid unnecessary delays in works.