

Water Supply and Sanitation Improvement Project - 2023

The audit of financial statements of the Water Supply and Sanitation Improvement 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 Schedule II, Section II (C) (3) of the Financing Agreement No. 5685 – LK dated 06 November 2015 and Article 4.09 (b) of the General Conditions of the Credit and Grants of the International Development Association dated 31 July 2010 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. 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 and to strengthen the capacity of associated institutions. The activities of the Project are implemented under 04 components namely, rehabilitation and expansion of urban, rural and estate water supply and sanitation schemes, strengthening of the capacity of the Department of National Community Water Supply, building of sector capacity through training and water quality mapping and Project management and administration. As per the Financing Agreement, the estimated total cost of the Project was US\$ 183.90 million equivalent to Rs.27,590 million and out of that US\$ 165 million equivalent to Rs.24,750 million was agreed to be financed by International Development Association. The balance amount of Rs.2,840 million is expected to be financed by the Government of Sri Lanka and through Community contribution. The project had commenced its activities on 07 December 2015 and scheduled to be completed by 31 December 2020. However, the date of completion of the activities of the Project had been extended up to 31 December 2023.

1.3 Qualified Opinion

In my opinion, except for the effects of the matters described in the para 2 of this report, the financial statements give a true and fair view of the financial position of the Project as at 31 December 2023, financial performance 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 Accounting Deficiencies

The following observations are made.

No.	Accounting Deficiency	Amount Rs. million	Response of the Management	Auditor's Recommendations
(a)	Disbursement amount of Rs.26 million equivalents to USD 78,523 relevant to the direct payment received on 27 December 2023 as per the records of External resource Department had not been recorded in the financial statements as at 31 December 2023. Therefore, World Bank loan amount and work in progress balance had been understated by similar amount.	26	Rs. 26 million amount is confirmed from Treasury on January 2024. This is mistakenly Entered in the accounting system in 2024 Financial Year	All the disbursements should be recorded at the time of transaction happened.
(b)	Revaluation gain relating to the World Bank advance account had been adjusted to separate revaluation gain account instead of World Bank advance account. Therefore, World Bank advance amount of Rs.1,785 million presented as current assets in the financial statements erroneously.	1,785	The dollar rate is revalued by the Central Bank of Sri Lanka at the end of every month and its value is entered to the Central Bank Cash Book and revaluation gain or loss account. Revaluation gain can be expenditure as only the rupee value is relevant in incurring the expenses of the project. Hence the World Bank is shown as a debit balance. After the completion of the project, we will make the related adjustment in the final accounts.	Revaluation gain should be recognized correctly to the World Bank Advance account.
(c)	Amounting to Rs.110 million Journal entry had been passed to correct the interest made on loan in previous years and exchange rate gain of Rs.9,068 million was presented as cash inflows from financing activities in cash flow statements even those are not actual cash inflows to the Project.	110	Rs. 110 million is previous year adjustment. Relevant document attached with here. Rs.9,068 million is showing in Cash flow from non-financial activities in the 2023 Financial Statements.	Non-monetary items should not be included in cash flows which prepared based on direct method.

3. Physical Performance

3.1 Physical progress of the activities of the Project

Component	Delay/ Audit Issue	Reasons for delay	Response of the Management	Auditor's Recommendation
Thirty eight Urban and Rural Water Supply Schemes, Rehabilitation Projects, Public Sanitation, Indigenous Sanitation and School Sanitation projects	Considerable delay ranging from 330 days to 2,158 days was observed in related to thirty eight Projects even after granting extensions ranging from 01 to 07 occasions.	Improper planning of project duration, poor performance of the several contractors, environmental and resettlement issues, COVID- 19 pandemic, economic crisis etc. were affected for the delay.	Almost all those sub – projects have now been substantially completed. Although the said sub – projects at the inception were progressing satisfactorily. Government introduced certain measures to support the contractors in the construction industry; still the delays occurred could not be completely avoided. Under such circumstances, in order to assist the Contactors to overcome such difficulties WASSIP had to accommodate time extensions as appropriate.	Project should be completed within the expected time period.

3.2 Contract Administration

No.	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Construction works of Rehabilitation of Aranayaka Stage 02 in Kegalle District had not been completed up to January 2024 since the contribution from Community Based Organisation for laying the Pipe between the intake and storage tank had not been done.	Now work almost completed by the community-based organization.	Project should be completed within the expected time period.
(b)	Cost of Rs.1.7 million incurred for Sand filter tank in Kotiyakumbura Project was uneconomical since non-usage of those tanks in the operation.	Project is discussion with CBO to operate the filters and the any additional works required operating the sand filters, community contribution part is to be used.	Sand filter should be used to distribute clean water.
(c)	One contractor had been abandon two rehabilitation of Rural Water Supply Projects in Yatiyanthota DSD and Deraniyagala DSD in Kegalle District since the price escalation of materials on economic conditions of the country. Therefore, cost incurred for these two contracts will be ineffective.	Higher price hick of construction materials due to COVID -19 pandemic and economic crisis. Scope were reduced due to above reason	Contracts should be implemented to utilize the cost incurred.
(d)	Reddeemaliyadda Rural water supply project valued at Rs.26 million and completed in 2019 by distributing water to 250 connections had not been operated more than two years since the water density was 1,805 ppm even the maximum density should be 250 ppm.	This water supply scheme was functioned by community more than three years. Now hardness level of the intake water is increased naturally. Also, along the main road, NWSDB pipe lines are now under operation. Therefore, community requested to connect the CBO pipe system to the NWSDB pipe system and take over the CBO by NWSDB. RSC- UVA of NWSDB is processing to submit the Board paper for approval and after obtain the approval of Board of NWSDB, CBO system will be taken over by NWSDB.	Expedite the process of handing over system to the NWSDB.
(e)	Major Procuremnt of Killinochchi Water Supply Project amount of Rs.599 million had been divided in to sub components without having acceptable reason and contrary to the	Since it was mandatory to complete the sub- projects under the World Bank funded project (WASSIP) within a short time frame, design pertaining to Kilinochchi water supply scheme was done in stages to	Should be Investigated to find the responsible officers for subdivision of activities of the Project and not complying with

paragraph 2.14.1 of Government procurement Guideline. Therefore some components of the Project were completed before completion of other required component since non considering the critical path of the Project and some assets will be impaired before utilization.

expedite the implementation of construction of Works. As when the designs of a particular portion of substantial magnitude were completed, procurement process commenced for the respective package.

the contract conditions.

- (f) Even though the Project was expected to be completed on 31 December 2020 and commenced the loan repayment from that day onwards, it was unable to complete the project as scheduled and extended the project period up to 31 December 2023. However, Loan repayment of Rs.5,080 million equivalent to US\$ 18 million had been done by General Treasury from 2020 onwards. However, the expected results of the Project could not be achieved.
- At the original project closing stage, unexpected COVID -19 pandemic, Economic crisis and import restriction were happen. Based on above reasons, project period were extended. For the implementation of additional financing works, project period were extended up to 31.12.2023.
- Project activities should be expedited to fulfill the expectation of the beneficiaries.
- (g) Community contribution amount of Rs.551 million had not been obtained and recoded in relation to rural water supply new projects & rural water supply rehabilitation projects as per the requirement of Section 38 of the Project Appraisal Documents. At the time of physical inspection, it was observed that the amount of Rs.52 million valuable community contributions for laying pipe in Malayalapuram had not been obtained.
- Considering resettle people issues in Northern province, community contribution were wave off in Killinochchi and Mullathiv districts.
- Should be adhere to the condition of the Project Appraisal document whenever there are no special reasons.
- (h) Contrary to the condition 43 of the contract documents, The Project had paid Rs.19 million to fourteen sub-contractors directly for Killinochchi District Projects.
- The sub-Clause 8.1 of Condition of Contracts, does not prevent the possibility for payments for sub-contractor being made directly by the Employer. It is agreed that Clause 43 does not specify any payments to sub- contractors, but refers to Contractor.
- When make payment to the contractors, conditions of the contract should be followed.

In the case of few sub- contracts referred in the Audit report, WASSIP has agreed to

make payments directly to the sub – contractor/s, but on the recommendation as an exceptional case to make sure that the performance of the sub- contractor/s will make sure that the critical path of activities of the main Contractor is not affected.

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| (i) | Liquidated damages had not been claimed by the Project for the delay in completion of the contract of Septage treatment plant of Killinochchi District valued at 84 million and school sanitation Paranthan Hindu Vidyalaya valued at Rs.2.3 million as per the contract agreement conditions. | Kilinochchi septage plant was constructed in the premises of garbage dumping site of the Pradeshiya Saba. Therefore time to time site was closed due to various disturbances and during the heavy rainy period, access road of the septage plant fully flooded and flood level retain certain period of days. | Should be complied with the contract agreement and action should be taken against who breached the contract conditions. |
| | | Higher ground water table was affected the delay in construction of septic tank in Parantha Hidu Vidyalaya. Therefore, project granted the time extension to contractors. | |
| (j) | Water supply Project work of Mulankawil valued at Rs.236 million out of the total work Rs. 695 million or 33.91 per cent from the total project value had been omitted by the Project and Rs. 29 million for extra work orders and Rs.238 million for special rate schedule work had been added to Project cost even the Project scope drastically changed and without going for a new procurement. | Due to complex nature of Mulankavil wss project and considering site conditions and other reasons a considerable amount of Variations had to be introduced as necessary for the satisfactory completion of the project. Extra works orders result due to exceeding the quantities of certain BOQ items. On the other hand, Special Rate Schedule Works (SSR) results due to change of scope or specification of any BOQ item. Generally when there is SSR, consequently an omission will occur. | Feasibility study should have to be done before make plan and the estimate to avoid unnecessary variations and the cost. |
| (k) | According to the performance report given by the Project, Financial Progress of the fifteen physically completed Projects valued at Rs.2,340 million was ranging from 0 to 66 per cent due to delay in approving the Interim payment certificates (IPC) and the delay in submission of IPC and variation orders by the contractor. | We agree that there had been delays in contractor’s submission of payment applications to WASSIP and also in the issue of IPCs by WASSIP staff due to uncontrollable reasons. | Expedite the settlement procedure to avoid delay charges and commitment charges. |
| (l) | According to the comprehensive strategic plan and Road map included in the Manual of Water and | The construction of STP of Monaragala began in 2020. At present, it is at the commissioning stage. However, the | Requirement had been identified by the Project from the National plan |

Sanitization sector published by the Ministry of Water and Estate Infrastructure Development, no need Septage Treatment Plant for Monaragala, Killinochchi and Mulathivu during the period 2020-2030 as per the source derived from Water Supply and Sanitation Improvement Project. However, Project had invested Rs.345.53 million for Septage treatment plant in those Districts and Septage treatment plant completed in Killinochchi District was not operated since February 2023 due to non-completion of the access road to the plant.

Sanitation Master Plan and the road map were introduced on 19th October 2021. Therefore those, three STP projects were started before introducing the Sanitation Master Plan on the requests made by relevant Local Authorities and after assessing the demands for safe disposal of fecal waste in these urban areas.

2020-2030 There for it should be investigated to why these septage plants developed against the national plan.

The access road for the Kilinochchi STP is in the compilation stage; while compilation, temporary access has been made to transport fecal sludge to the STP.

(m) Out of 24,000 lavatories scheduled to be constructed and revised to 22,000 in the 07 districts during the period of project, only 21,944 lavatories or 91 per cent had been completed, Out of 3,000 planned units of Household plantation sanitation, only 2,390 units or 79 per cent had been completed and only 07 institutional sanitation units or 50 per cent had been completed out of 14 planned at the end of the Project period.

Only 56 individual latrine beneficiaries out of the planned target were dropped due to abandonment of residence and high fluctuation of rates of construction materials. In plantation sub-projects, 547 householders were dropped due to no project funds were released, high cost of materials and some beneficiaries who were under the poverty line. Only 4 units were dropped in Institutional sanitation units, due to the high fluctuation of rates of construction materials.

Achievable target should be established after assessing the real need at the initial stage to avoid unnecessary cost.

(n) As per the initial action plan of the project, 84 special need beneficiary sanitation units of Rs.250,000 each to be constructed in Kegalle, Monaragala and Kilinochchi districts. However, only 48 units or 57 percent had only been constructed in Kegalle and Monaragala district at the end of the Project period and the construction activities in Kilinochchi district had been suspended.

Initially, it has planned to provide sanitation facilities for especial needy persons in Kilinochchi and Mualthive districts also. However, during the project implementation stage, the project realized that the Ministry of Social Services also identified the same beneficiaries to provide sanitation facilities. Therefore, the project took action to drop the persons identified for specially needed sanitation facilities.

Need assessment should be done when planning the Programme to avoid unnecessary cost.

- (o) The project had only achieved 49,423 out of 61,925 or 80 per cent of planned water connections in Urban category 2 and Rural and plantation category and 15,051 water connection out of the 21,702 or 69 per cent planned in Urban category 1 even exceed the 03 months from the Project period even after giving several extensions to the contractors.
- The House connection target, for both rural plantations was 73,682. And house connections progress, as of 31st of May 2024 was 62,767 or the percentage of 85%. The house connections target of the urban water supply project is 21,702 and progress, as up to 31st of May 2024 was 15,358 or the percentage is 71%. The project staff is working together with CBOs/EWHCSs to achieve the house connection targets of rural and Plantation Water Supply schemes. In addition, then NWSDB is conducting mobile services.
- Achievable target should be established at the initial stage to avoid unnecessary cost.

3.3 Observations made on site visits

No.	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Two laboratories with the value of Rs.8 million constructed to test the Water sample of 195 Community Based organizations (CBO) in Udugoda and Kotiyakumbura were not operated as at 31 December 2023 as per the physical inspection and as a result of that, Some CBO's distribute the water without testing the quality from time to time.	All laboratory equipment handed over to NWSDB.	Not fully handed over up to 30 June 2024. Action should be taken to utilize those idle assets.
(b)	Results of the water testing of both treated water and untreated water samples were failed in 04 out of 13 of Rural Water Supply Projects of Kegalle District at the time of audit inspection.	Based on water sample test reports, WASSIP staff continuously aware CBO to take corrective action for improve the drinking water within SLS standard.	Reasons should be found and take necessary action to distribute clean water.

3.4 Issues Related to Human Resources Management

No.	Audit Issue	Response of the Management	Auditor's Recommendation
(a)	Project had deployed 17 employees for positions Engineer, Management Assistant, office assistant, Hydro geologist, Engineering Assistant (Civil), Development Assistant and Accounts Assistant under contract agreement without having approval from the Department of Management Service as per the requirement of Department of Management Service Circulars No.01/2019 of 15 March 2019.	Project has to complete as per scheduled period. But Government restricted the new appointments. For the continuation of the project activities, required staff hired through short term service contracts.	Strictly adhere with the provisions of Circulars.

- (b) The Project Director had been promoted as Deputy General Manager (Western North) of National Water Supply Drainage Board with effect from 05 November 2020 even though he should always be recruited on full time basis in order to ensure effective project management in terms of the Section 2.3.2 of the Circular No.01/2019 of 05 March 2019 of the Department of Management Services.
- No requirement was received from World Bank and Ministry to appoint new Project Director.
- Actions should be taken to appoint a full time Project Director as per the instructions given by the said circular.