

Water Supply and Sanitation Improvement Project – (Additional Financing) - 2024

The audit of financial statements of the Water Supply and Sanitation Improvement Project - Additional Financing for the year ended 31 December 2024 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 Urban Development, Construction and Housing 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 Qualified Opinion

In my opinion, except for the effects of the matters described in the section 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 2024, financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

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 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

Accounting Deficiency	Amount Rs. million	Response of the Management	Auditor's Recommendations
As per the External Resources Department records, the commitment fee incurred and the interest on loan disbursed were Rs.58,830,299 equivalents to US\$ 183,974 and Rs.727,310,466 equivalents to US\$ 2,335,026 respectively. However, It had not been accounted in the Project financial statements of the year under review. As a result, the Work in Progress balance shown in the financial statements had been understated by Rs.786,140,765.	786	According to the State Accounts Guideline No: 04/2024 dated 27 March 2024, this policy has been suspended.	Borrowing cost incurred should be capitalized.

2.2 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 of a procurement committee from the National Procurement Agency to select a contractor for the construction work of Septage Treatment Plant in Attanagalla. However the Construction work of plant had been stopped since none receiving the approval for the	4.7	Since the project was terminated the payment amounting LKR 4,704,789 including VAT was certified and paid within provisions of the Contract.	Government Procurement Guidelines should be followed.

Project from Central environment authority and objections received from the Public. Therefore the amount of Rs.4.7 million paid for the contractor was uneconomical.

3. Physical and Financial Performance

3.1 Delay in completion of the Project

Audit Issue	Amount Rs. million	Response of the Management	Auditor's Recommendations
With respect of twenty two projects, a considerable delay ranging from 240 days to 446 days was observed due to poor performance of the contractors, delay in land clearance, environmental and resettlement issues, delay in contract awarding.	1,962	Delay in water supply for flushing works from NWS&DB, delay in supply of materials issue on land ownership; delay in supply of power to plants .and also bad weather has affected.	Action should be taken to complete the Project at the scheduled time.

3.2 Contract administration

	Audit Issue	Response of the Management	Auditor's Recommendations
(a)	The environmental protection License from relevant authorities for operations of the Septage treatment plant, which constructed at Rs. 171,218,010, had not been obtained by the PMU to ensure project sustainability. Therefore there may be arise legal constraint for the operations of the treatment plant.	Comments had not been received.	Environmental protection License should be taken for proper function of the treatment plant.
(b)	Only 30 per cent or 430 Household connections had been given out of the expected connections 1,580 under the Mahaweligama Water supply Project at the end of the May 2025 and only 33 per cent or 140 million had been spent out of the estimated amount of Rs.427 million due to slow progress. Several Leakages in Rough sand filter valued at	Contractor had supplied majority of pipes at initial stage of the Contract period, however all pipes could not be utilized due to scale down of as, there was objection from residents. Therefore the remaining pipes are planned to handover to Kothmale	Liquidate damages should be charged from the contractor in accordance with the contract agreement.

Rs. 6,003,831 and water storage tank with 80m³ of the Project had been observed at the physical verification. Further amount of Rs. 20,669,420 valued Pipes and Fittings was remaining out of the supplied amount of Rs.46,593,044 as at 20 May 2025 without utilizing. Even though the 8 months had been spent from the completion date of extension, liquidate damages had not been claimed from the contractor as at 20 May 2025.

Pradeshaha Saba for use in the project in future.

- (c) Even though the Nildandahinna Project had been physically completed as at 31 December 2024, the amount of Rs.8,384,817 valued Pipe and fittings were physically available in Contractor's office on the date of physical verification 20 May 2025.
- It was noted that it was not technically feasible without a major pumping system improvement by the NWSDB.
- Action should be taken to protect and hand over the remaining materials on formal way.