

Kalu Ganga Water Supply Expansion Project (1) - 2022

The audit of financial statements of the Kalu Ganga Water Supply Expansion Project (1) for the year ended 31 December 2022 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 19 of Project Memorandum of the Loan Agreement No.SL-P 117 dated 07 July 2017 entered in to between the Democratic Socialist Republic of Sri Lanka and the 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 Programme

According to the Loan Agreement of the Project, then Ministry of City Planning and Water Supply, 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 provide safe water and increase water supply efficiency in the southern area of the Western Province by expanding Kalu Ganga water supply facilities and restructuring water distribution networks, thereby contributing to the improvement of the living conditions of its people. The activities of the Project are implemented under 05 components namely Construction of Intake and Water Treatment Plant, Supply and Laying of Transmission Mains and Distribution Mains, Construction of Ground reservoirs and pumping stations, Supply and laying of secondary Distribution for Millaniya, Supply and laying of balance part of Distribution feeder mains and secondary mains, Supply installation of DMA Equipment. As per the Loan Agreement, the estimated total cost of the Project was Japan Yen 39,067 million equivalent to Rs.55, 349 million and out of that Japan Yen 31,810 million equivalent to Rs.45, 067 million was agreed to be financed by the Japan International Cooperation Agency. The Project had commenced its activities on 01 May 2018 and scheduled to be completed by 30 September 2023.

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 2022, 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 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 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. Comments on Financial Statements

2.1 Accounting Deficiencies

| No | Accounting Deficiency / Audit Issue | Response of the Management | Auditor's Recommendations |
|-----|---|--|--|
| (a) | Contrary to the provisions of paragraph 07 of Sri Lanka Accounting Standards No. 16, the total value of Rs. 12 million thirty three computers, 260 items of furniture and office equipment and 08 air conditioners were accounted as work in progress. | An inventory for all the asset in the project is maintained and all the assets will be capitalized at the end of year 2023 | Should be complied with accounting standards |
| (b) | As per the paragraph 23(a) of LKAS 21, the foreign currency monetary items shall be translated using the closing rate at the end of each reporting period, However the year-end loan balance of the project had been understated by Rs 75.6 million due to non-adjusting with the closing rate. | adjust it as per the Sri Lanka Accounting Standards from year 2023. | Should be complied with accounting standards |

2.2 Non Compliance with Laws, Rules and Regulations

| Reference to the Laws Rules and Regulations | Non Compliance/Audit Issue | Response of the Management | Auditor's Recommendations |
|--|---|---|---|
| Section 9.3 of the Management Circular No.01/2019. | Although the steering committee meetings should be held at least once in two months, no any meeting had been held since beginning of the Project. | Progress review Meetings held as per the requirements. | Should be followed the circular requirement |

3. Physical Performance

3.1 Physical progress of the activities of the Project

| No | Project component | Audit issue | Management Response | Auditor's Recommendations |
|-----|--|---|--|---|
| (a) | Consultancy contract for detailed design and bidding assistance. | i. The loan agreement for this project was signed on 07 July 2017 and according to the implementation plan, the consultancy services contract should be commenced on 01 May 2018 however it had been signed on July 2020. | The signing of the contract was delayed due to the Covid 19 pandemic situation and quarantine. | Action should be taken to regularize the system to achieve the expected targets |

| | | | | |
|-----|---|--|---|---|
| | ii. As per the Loan Agreement, the final disbursement should be made before the August 2025. Accordingly, the balance period as at 31 December 2022 was only 32 months. Therefore a high risk was noticed to complete this Project components as planned. | JICA has temporally suspended the loan disbursements from April 2022 due to the prevailed situation in Sri Lanka. | Action should be taken to achieve the Project objectives without delay. | |
| | iii. As per the original implementation schedule, the construction works which started on June 2020 and needed to completed on September 2023 were on pre-construction stage even as at 31 December 2022. | Presently JICA has temporally suspended the loan disbursements from April 2022. | Action should be taken to expedite the works of the project getting funds from lending Agency or an alternative source. | |
| (b) | Package 1 - Construction of Intake and Water Treatment Plant | According to the original implementation plan, scheduled construction works of this component had to be commenced on June 2020 and completed on September 2023, however the progress had not been shown even as at 31 December 2022. | Presently JICA has temporally suspended the loan disbursements from April 2022. | Action should be taken to expedite the works of the project with funds from any other source. |
| (c) | Package 2 - Supply and Laying of Transmission Mains and Distribution Mains | According to the original implementation plan, construction works of this component had to be commenced on June 2020 and completed on September 2023, however the progresses had not been shown after approving the Engineer estimate. | Presently JICA has temporally suspended the loan disbursements from April 2022. | Action should be taken to expedite the works of the project with funds from any other source. |
| (d) | Package 3 - Construction of Ground reservoirs and pumping stations | As per the original implementation plan construction of this component was scheduled to be completed on September 2023, however it had been on pre-construction stage as at 31 December 2022 and BOQs had been submitted to PMU and Engineer estimate under preparation. | Presently JICA has temporally suspended the loan disbursements from April 2022. | Action should be taken to expedite the works of the project with funds from any other source. |
| (e) | Package 4 - Supply and laying of secondary Distribution for Millaniya | As per the original implementation plan, the construction of this part should be completed on September 2023, however, it had been on pre-construction stage as at 31 December 2022. | Presently JICA has temporally suspended the loan disbursements from April 2022. | Action should be taken to expedite the works of the project. |

- | | | | | |
|-----|---|---|--|---|
| (f) | <p>Package 5 - Supply and laying of balance part of Distribution feeder mains and secondary mains, Supply installation of DMA Equipment</p> | <p>As per the original implementation plan, the construction of this part should be completed on September 2023, however, it had been on pre-construction stage as at 31 December 2022.</p> | <p>Presently JICA has temporally suspended the loan disbursements from April 2022.</p> | <p>Action should be taken to achieve the Project objectives without being delayed</p> |
|-----|---|---|--|---|

3.2 Contract Administration

| Audit Issue | Response of the Management | Auditor's Recommendation |
|---|---|---|
| <p>According to contract conditions 6.5(E), payment for the invoice should be made within 56 days after submission of the invoice, however the bills valued at Rs 294 million submitted by the consultancy contractors had not been paid by 31st December 2022. Therefor those bills were being outstanding for a period of 102-321 days. Further it was observed that there was a risk to pay one percent late payment charges as per special contract conditions 6.6.</p> | <p>JICA has temporally suspended the loan disbursements effect from April 2022 due to the current economic crisis in Sri Lanka. Last disbursement was done by JICA in February 2022 for the bill of November 2021. Since 2021 December, all the balance IPC payments are still pending.</p> | <p>Action should be taken to settle the outstanding bills</p> |

3.3 Matters in Contentious Nature

| Audit Issue | Response of the Management | Auditor's Recommendation |
|--|---|---|
| <p>The mobilization advance of Rs 83.6 million had been paid as at 31 December 2020 to the local consultant and amount of Rs. 50.2 million outstanding balance had been remained with the contractor by the end of the year under review. The value of bills payable to the contractor on the same day was Rs. 99 million. Without having arrangement to settle the above advance, the project had been recommended to suspend the contractor temporarily from 31 December 2022.</p> | <p>JICA temporally suspended the fund disbursements effect from April 2022 due to the present economic crisis in Sri Lanka. Project requested the concerns from the contractor to settle the remaining advance payment from the outstanding bill payment.</p> | <p>Action should be taken to settle advance</p> |